PRESS - RELEASE

JSC KazMunaiGas Exploration Production
2010 Financial results

Astana, March 03, 2011. JSC KazMunaiGas Exploration Production ("KMG EP" or "the Company") released its consolidated financial statements for the year ended December 31, 2010:

- Average Brent price increased 28% from US$61.7 per barrel to US$79.2 per barrel.
- Operating profit increased 21% to 186.7bn Tenge (US$1,267m)[1] compared with 2009, mainly due to higher oil prices.
- In 2010 KMG EP made a profit after tax of 234.5bn Tenge (US$1,591m) and earned 3,232 Tenge per share (US$3.7 per GDR), which are 12% and 13% higher compared with 209.7bn Tenge (US$1,422m) and 2,871 Tenge per share (US$3.2 per GDR) respectively in 2009. Excluding the significant foreign exchange gain recognized in 2009, profit after tax increased by 72%.

Commenting on the financial results for the year, Kenzhebek Ibrashev, CEO of KMG EP, said:

"2010 was an eventful year, rich with business, operational and financial activity. Strong financial results are the evidence of our ability to benefit from the favorable oil price environment and today's announcement further endorses the success of the Company's acquisition strategy. We remain confident that the business will successfully continue to grow and stregthen in 2011 as planned, consolidating our position as a leader in the Kazakhstan oil & gas sector, through the enhanced effectiveness of operations, cost reductions and exploration."

Production Highlights

In 2010 KMG EP's consolidated production was 13,285 thousand tonnes of crude oil (270kbopd) including the Company's stakes in LLP Kazgermunai JV (KGM), JSC Karazhanbasmunai (CCEL) and PetroKazakhstan Inc. (PKI). The consolidated production for the year is 16% higher than for the same period of 2009 mainly due to the acquisition of a 33% stake in PKI in December 2009.

In 2010 the Company produced 8,766 thousand tonnes (177kbopd) of oil at Uzenmunaigas and Embamunaigas production facilities, which is 196 thousand tonnes (4kbopd) or 2% less than for the same period of last year. Embamunaigas outperformed the production plan by 1%, while Uzenmunaigas produced less than the target by 1%. The decline in production was mainly caused by the failure to perform well-service operations and timely oilfield equipment repairs amid a labour action by Uzenmunaigas workers over the period of 4-18 March, 2010. In addition, in the period from June to September 2010 there were a number of emergency power cuts in the fields, caused by severe weather conditions.

[1] Amounts shown in US dollars ("US$" or " $") have been translated solely for the convenience of the reader at the average rate over the applicable period (average rates: USD/KZT 147.35 – 2010, 147.50 – 2009; period-end rates: USD/KZT 147.40 – 2010, 148.36 – 2009) for information derived from the consolidated statements of income and consolidated statements of cash flows and the end of the period rate for information derived from the consolidated balance sheets.

The Company's export sales volumes, excluding its share in KGM, CCEL and PKI, were 6,860 thousand tonnes (138kbopd) and its domestic sales volumes were 1,783 thousand tonnes (36kbopd).

The Company's share in the production volumes from KGM, CCEL and PKI in 2010 amounted to 4,519[2] thousand tonnes of crude oil (93kbopd).

The Company's share in the sales volumes from KGM, CCEL and PKI was 5,004[2] thousand tonnes of crude oil (103kbopd), including 3,801[2] thousand tonnes (78kbopd) or 76% supplied to export markets.

Profit After Tax

Profit after tax (net income) for 2010 was 234.5bn Tenge (US$1,591m). This represents a 12% growth compared with 2009, which is mainly explained by a 28% increase in oil price and higher share in income of associates and JVs. The growth was partially offset by a large foreign exchange gain of 89.5bn Tenge recognized in 2009 as a result of Tenge devaluation, not recurring in 2010. Excluding the foreign exchange gain/loss profit after tax increased by 72% compared with 2009.

Revenue

The Company's revenue increased by 25% to 609.2bn Tenge (US$4,135m) compared with 2009. This was due to a 30% increase in the average realized price per tonne, from 53,082 Tenge (US$49.78 per bbl) to 69,101 Tenge (US$64.86 per bbl), partially offset by a 3% decrease in sales volume.

Operating Expenses

Operating expenses in 2010 were 422.5bn Tenge (US$2,867m), which is 28% higher compared with 2009. A significant part of the opex increase is due to the higher rent and mineral extraction taxes (MET) resulting from the increased oil price and customs export duty (CED) reintroduced from 16 August 2010. Excluding taxes and CED, operating expenses in 2010 increased by 15% compared with 2009. This was driven mainly by an increase in payroll, repairs and maintenance, transportation expenses, depreciation and amortization.

Increase of payroll expenses reflects salary indexation from the 1st of January 2010 and a salary increase at the production units from June 1, 2010. Growth in repairs and maintenance expenses was due to increased number of repaired wells and higher repair cost per well. Growth in transportation expenses was mainly due to increased volume of transportation through CPC pipeline and a 10% increase of transportation tariffs imposed by Transneft from 1 January 2010. Opex growth was partially offset by lower fines and penalties in 2010 (see details in Fines and penalties section).

Cash Flow

Operating cash flow for 2010 was 115.7bn Tenge (US$785m), which is 22% lower than in 2009. The decrease is mainly due to significant foreign exchange gain incurred in 2009 (partially recognized as cash from operating activity) as a result of Tenge devaluation, not recurring in 2010.

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[2] Including PKI's 50% share in JSC "Turgai-Petroleum" results for 12m 2010

Capex

Purchases of property, plant and equipment (as per Cash Flow Statement) in 2010 were 86.7bn Tenge (US$588m) compared with 43.3bn Tenge (US$294m) in 2009, representing 100% increase. Capex growth is associated with the increase in production drilling from 95 wells in 2009 to 215 wells in 2010 and the increase in exploration drilling from 4 wells in 2009 to 8 wells in 2010.

Exploration activity

In 3Q10 KMG EP discovered an oil accumulation in South-East Novobogat structure of the Liman block. The accumulation is located on the southern slope of the Novobogatinsk Salt Dome 70 km west of Atyrau and is in close proximity to the Novobogatinsk Southeast oil field operated by Embamunaigaz. The Company is currently testing the well and plans to evaluate commercial reserves in 2011.

At the R-9 block the Company completed construction of 2 exploration wells with a depth of 1,600m and 1,850m on Kulsary and Koikara structures, respectively. The wells turned out to be dry and were liquidated. In addition, at the same block KMG EP developed the technical project plan for the field work, processing and interpretation of 3D seismic data of 400 square kilometres and 2D seismic data for 40 kilometres. As a result of the processing and interpretation, post-salt structures with high potential were determined for exploration drilling in 2011-2012.

In the Nurzhanov field KMG EP commenced drilling 3 exploration wells with a total planned depth of 9,000 meters.

In 2010 exploration drilling costs amounted to 3.7bn Tenge (US$25m) compared to 2.0 bn Tenge (US$14m) in 2009.

Cash and debt

Cash and cash equivalents as at 31 December 2010 amounted to 98.5bn Tenge (US$668m) compared with 107.6bn Tenge (US$725m) as at 31 December 2009.

Other financial assets (current and non-current) at 31 December 2010 were 599.6bn Tenge (US$4,068m) compared with 535.1bn Tenge (US$3,607m) as at 31 December 2009. Other financial assets include the debt instrument ("the Bond", see below) issued by National Company "KazMunaiGas" (NC KMG), deposits and other financial instruments.

On 16 July 2010, the Company purchased the Bond issued by NC KMG in the amount of 220 billion Tenge (US$1.5bn) which carry an annual coupon of 7% and will mature in June 2013 as per previously disclosed information. KMG EP recognized 7.1bn Tenge (US$48m) interest income from NC KMG Bonds as of 31 December 2010.

As at 31 December 2010, 81% of cash and financial assets (including the Bond) were denominated in USD and 19% were denominated in Tenge. At the reporting date 22% of the financial assets and cash were held with two Kazakh banks, Kazkomertzbank and Halyk bank compared with 75% at the same date of 2009. According to KMG EP's treasury policy amendments adopted in 2010, the amount of financial assets held with Kazkomertzbank and Halyk bank is being gradually decreased. As of the end of 2010 this amount was 151.6bn Tenge (US$1bn). Interest accrued on deposits in banks in 2010 was 27.6bn Tenge (US$187m).

Borrowings and obligations were 122.5bn Tenge (US$831m) as at 31 December 2010 compared with 137.7bn Tenge (US$928m) as at 31 December 2009. Borrowings include 114.3bn Tenge (US$776m) of non-recourse debt of KMG PKI Finance B.V. related to the acquisition of the 33% stake in PKI.

Net cash position[3] at 31 December 2010 amounted to 575.7bn Tenge (US$3,905m) compared with 505.0bn Tenge (US$3.4bn) as at 31 December 2009.

Fines and Penalties

Tax audit

As a result of the tax audit for the years 2004 and 2005, which was commenced in 2007 and completed in August of 2009, the tax authorities have provided a tax assessment to the Company of 32bn Tenge (US$217m).

The Company is appealing the Decision in the Supreme Court of the Republic of Kazakhstan. As at 31 December 2010 5.9bn Tenge (US40m) have been accrued for similar matters for the periods not covered by tax audit 2006 through to the December 31, 2010 (see details in the Company's press-release on 9M10 financial results).

Customs claim

On August 18, 2009 the customs committee of the Republic of Kazakhstan presented a claim to the Company of 17.6bn Tenge (US$119m) for underpaid export customs duty (including the principal of 15.3bn Tenge and the late payment interest of 2.3bn Tenge).

The Company is planning to appeal this matter to the Supreme Court of Kazakhstan. Management of the Company believes that they will ultimately prevail in this matter and therefore no amounts have been accrued in the consolidated financial statements for the year ended December 31, 2010 (see details in the Company's press-release on 9M10 financial results).

Contribution from strategic acquisitions

In 2010 KMG EP's share in income of the associates and JVs was 56.6bn Tenge (US$384m) compared with a loss of 2.5bn Tenge (US$17m) in 2009.

Kazgermunai

In 2010 KMG EP recognised a 22.6bn Tenge (US$153m) income from its share in KGM. This amount represents 50% of KGM's net profit of 31.6bn Tenge (US$214m) and 4.4bn Tenge (US$30m) deferred income tax benefit net of 10.2bn Tenge (US$69m) from the effect of purchase price premium amortization and 3.2bn Tenge (US$22m) deferred income tax amortisation. The financial results of KGM in 2010 were primarily affected by the higher oil price compared with 2009 results. The decrease of KGM's net income in 4Q10 compared with 3Q10 is due to additional accrual of the corrected excess profit tax amount for 2010.

In the period of 2010 the Company received 47.8 bn Tenge (US$325m) in dividends from KGM. From the date of the acquisition, dividends received have amounted to US$975m, which exceeds US$971m paid for its 50% stake.

[3] Cash, cash equivalents and other financial assets (including the Bond) less borrowings.

PetroKazakhstan Inc.

In 2010 KMG EP recognised a 34.2bn Tenge (US$232m) income from its share in PKI. This amount represents 33% of PKI's net profit of 38.8bn Tenge (US$263m) and a 33% gain on the repurchase of 50% share in JSC "TurgaiPetroleum" (TP) in the amount of 13.2bn Tenge (US$90m) net of 13.5bn Tenge (US$92m) from the effect of purchase price premium amortization and one-off adjustment on fair value of inventory of 4.3bn Tenge (US$29m). In 4Q10 Chinese National Petroleum Corporation Exploration and Development Limited (CNPC E&D), which owns 67% in PKI, made a US$441m contribution to the share capital of PKI related to the repayment of the loan originated with the purpose of compensation payment for the benefit of Lukoil Overseas Kumkol B.V. (Lukoil). The compensation payment to Lukoil was related to the dispute resolution regarding the use of Lukoil's preemption right to purchase 50% stake in TP in 2005. The Company was held harmless in respect of any liability in relation to the payment of the compensation or any loss relating to such liability, and retained its 33% interest. Consequently, the Company recognised in 2010 the resulting gain of 21,5bn Tenge (US$146m) within "Other income".

The total amount of dividends received from PKI since acquisition in December 2009 reached 46.7bn Tenge (US$317m), of which 80% were restricted for repayment of KMG PKI Finance BV debt as per the terms of the deal.

CCEL

As of 31 December 2010 the Company has recognised the amount of 20.4bn Tenge (US$138m) as a receivable from CCEL, a jointly controlled entity with CITIC Group. The Company has accrued 3.1bn Tenge (US$21m) of interest income for the period of 2010 related to the US$26.87m annual priority return from CCEL.

NBK LLP (NBK)

The contribution of NBK to KMG EP's consolidated production in 2010 was 258 tonnes. The exploration license of NBK was extended from September 2010 to September 2012.

SapaBarlauService LLP (SBS)

The exploration license of SBS was extended from November 2010 to November 2012.

Outlook for 2011

Production in 2011 at Uzenmunaigas and Embamunaigas is expected to be 9,100 thousand tonnes (183 kbopd), which is 4% higher compared with 2010. According to preliminary estimates consolidated production in 2011 is expected to increase 2% up to 13.5 million tonnes including KMG EP's share in KGM, CCEL and PKI.

The annual plan on shipments to domestic market from Core fields in 2011 is expected at the level of 1.9 million tonnes (38kbopd).

The Company's Budget for 2011 was based on the oil price of US$65 per barrel which is in line with the Government's macroeconomic forecast and the oil price assumption used by the Company's parent, National Company KazMunayGas.

In 2011 the Company is planning to spend about 106.4bn Tenge (US$709m) on capital expenditure, which is 23% more than in 2010, due to increased production and exploration drilling, including first subsalt well at “Zharkamys East-1” oilfield at LLP “SapaBarlauService” (“SBS”), as well as the implementation of the associated gas utilisation program.

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The consolidated financial statements for the year ended 31 December 2010 with Notes are available on the Company’s website (www.kmgep.kz).

APPENDIX[4]

Key operating and financial indicators of KMG EP for the year ended 31 December 2010

Consolidated Statement of Comprehensive Income

Tenge (000s)

	Notes	For the year ended December 31, 2010	2009
Revenue		609,242,398	485,493,479
Operating expenses		(422,493,059)	(330,605,629)
Profit from operations		**186,749,339**	**154,887,850**
Finance income		38,039,785	46,758,905
Finance costs		(7,495,555)	(3,241,289)
Foreign exchange (loss) / gain		(3,459,449)	89,534,814
Other income		21,471,195	–
Share of result of associates and joint ventures		56,641,838	(2,467,551)
Profit before tax		**291,947,153**	**285,472,729**
Income tax expense		(57,445,263)	(75,745,829)
Profit for the year		**234,501,890**	**209,726,900**
Exchange difference on translating foreign operations		(560,821)	13,013,592
Other comprehensive (loss) / income for the year, net of tax		**(560,821)**	**13,013,592**
Total comprehensive income for the year, net of tax		**233,941,069**	**222,740,492**
EARNINGS PER SHARE			
Basic and diluted		3.23	2.87

[4] Rounding adjustments have been made in calculating some of the financial information included in the Appendix. As a result, figures shown as total in some tables may not be exact arithmetic aggregations of the figures that precede them.

Consolidated Statement of Financial Position

Tenge (000s)

	Notes	As at December 31, 2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment		297,508,553	255,993,908
Intangible assets		15,185,859	4,022,140
Investments in joint ventures		96,737,910	122,424,309
Investments in associates		139,952,442	131,723,609
Receivable from a jointly controlled entity		19,153,089	20,268,928
Other financial assets		221,825,818	797,931
Deferred tax asset		8,408,967	10,265,537
Other assets		13,858,297	7,291,870
Total non-current assets		**812,630,935**	**552,788,232**
Current assets			
Inventories		18,779,936	15,525,704
Taxes prepaid and VAT recoverable		26,529,298	9,969,965
Prepaid expenses		27,815,083	21,595,622
Trade and other receivables		65,529,767	49,710,916
Receivable from a jointly controlled entity		1,203,834	1,082,100
Other financial assets		377,800,956	534,288,078
Cash and cash equivalents		98,519,680	107,626,368
Total current assets		**616,178,554**	**739,798,753**
Total assets		**1,428,809,489**	**1,292,586,985**
EQUITY			
Share capital		214,081,197	238,546,914
Other capital reserves		1,739,901	1,474,089
Retained earnings		931,455,065	747,820,751
Other components of equity		12,376,574	12,937,395
Total equity		**1,159,652,737**	**1,000,779,149**
LIABILITIES			
Non-current liabilities			
Borrowings		62,286,045	92,023,143
Deferred tax liability		1,829,852	–
Provisions		35,625,247	35,319,443
Total non-current liabilities		**99,741,144**	**127,342,586**
Current liabilities			
Borrowings		60,194,818	45,650,017
Income taxes payable		–	21,138,596
Mineral extraction and rent tax payable		46,054,359	36,177,299
Trade and other payables		47,304,799	34,402,259
Provisions		15,861,632	27,097,079
Total current liabilities		**169,415,608**	**164,465,250**
Total liabilities		**269,156,752**	**291,807,836**
Total liabilities and equity		**1,428,809,489**	**1,292,586,985**

Consolidated Statement of Cash Flows

Tenge (000s)

	Notes	For the year ended December 31, 2010	2009
Cash flows from operating activities			
Profit before tax		291,947,153	285,472,729
Adjustments to add / (deduct) non-cash items			
Depreciation, depletion and amortization		35,486,128	31,155,359
Other income		(21,471,195)	–
Share of result of associates and joint ventures		(56,641,838)	2,467,551
Settlement of crude oil under the terms of a pre-export financing agreement		–	(10,830,585)
Loss on disposal of property, plant and equipment (PPE)		2,200,613	2,547,437
Impairment / (Reversal of impairment) of PPE		16,194	(590,558)
Dry well expense on exploration and evaluation assets		1,103,615	–
Recognition of share-based payments		309,987	248,106
Forfeiture of share-based payments		(49,809)	(164,690)
Unrealised foreign exchange gain on non-operating activities		(73,832)	(7,993,206)
Other non-cash income and expense		916,338	2,673,712
Add finance costs		7,495,555	3,241,289
Deduct finance income relating to investing activity		(38,039,785)	(46,758,905)
Working capital adjustments			
Change in other assets		630,450	(4,352,007)
Change in inventories		(3,463,525)	(1,282,335)
Change in taxes prepaid and VAT recoverable		(11,312,224)	(2,818,233)
Change in prepaid expenses		(6,351,679)	(13,762,247)
Change in trade and other receivables		(18,377,144)	(9,697,855)
Change in trade and other payables		10,918,152	(6,558,436)
Change in mineral extraction and rent tax payable		9,877,060	36,177,299
Change in provisions		3,500,215	5,670,976
Income tax paid		(92,926,111)	(115,686,180)
Net cash generated from operating activities		**115,694,318**	**149,159,221**
Cash flows from investing activities			
Purchases of PPE		(86,679,884)	(42,844,814)
Proceeds from sale of PPE		139,497	1,221,183
Purchases of intangible assets		(1,572,033)	(497,033)
Contribution to the capital of a joint venture		–	(3,043,907)
Dividends received from joint ventures and associates		94,458,518	3,768,250
Purchase of investments in debt instruments of NC KMG		(221,543,183)	–
Interest received from investment in debt instruments of NC KMG		7,691,113	–
Sale / (purchase) of financial assets held-to-maturity		146,680,715	(242,838,804)
Loan repayments received from related parties		3,959,137	5,028,216
Acquisition of subsidiary, net of cash acquired		(8,614,935)	459,646
Interest received		33,988,614	26,046,200
Net cash used in investing activities		**(31,492,441)**	**(252,701,063)**
Cash flows from financing activities			
Purchase of treasury shares		(24,531,975)	(21,392,129)
Repayment of borrowings		(14,614,702)	(6,352,778)
Dividends paid to Company's shareholders		(48,235,969)	(46,108,343)
Interest paid		(5,852,024)	(109,083)
Net cash used in financing activities		**(93,234,670)**	**(73,962,333)**
Net change in cash and cash equivalents		(9,032,793)	(177,504,175)
Cash and cash equivalents at beginning of the year		107,626,368	285,131,743
Exchange losses on cash and cash equivalents		(73,895)	(1,200)
Cash and cash equivalents at end of the year		**98,519,680**	**107,626,368**

The following tables show the Company's realised sales prices adjusted for oil and oil products transportation and other expenses for the year ended 31 December 2010 and 2009.

	2010			
	UAS	CPC	Domestic	Average
	(US$/bbl)			
Benchmark end-market quote[5]	79.18	79.18	-	-
Sales price	75.35	78.70	21.43	65.50
Quality bank	-	-6.98	-	-2.06
Premium of bbl difference	-0.18	6.09	-	1.41
Realised price[6]	**75.17**	**77.81**	**21.43**	**64.85**
Rental tax	13.82	13.97	-	11.01
Transportation	7.32	7.62	1.58	6.20
Sales commissions	0.07	0.07	-	0.06
Adjusted realised price	**53.96**	**56.15**	**19.85**	**47.58**

	2009			
	UAS	CPC	Domestic	Average
	(US$/bbl)			
Benchmark end-market quote[7]	60.71	61.02	-	-
Sales price	59.26	58.32	17.65	50.06
Quality bank	-	-5.68	-	-1.28
Premium of bbl difference	0.09	4.93	-	0.99
Realised price[8]	**59.35**	**57.57**	**17.65**	**49.77**
Rental tax	7.94	7.29	-	6.05
Transportation	7.32	7.15	1.30	5.96
Sales commissions	0.06	0.06	-	0.05
Adjusted realised price	**44.03**	**43.07**	**16.35**	**37.71**

	For the year ended December 31	
Reference information	**2010**	**2009**
Average exchange rate US$/KZT	147.35	147.50
US$/KZT at balance sheet date	147.40	148.36

Coefficient barrels to tones for KMG EP crude	7.36
Coefficient barrels to tones for KGM crude	7.70
Coefficient barrels to tones for CCEL crude	6.68
Coefficient barrels to tones for PKI crude	7.75

[5] The following quoted prices are used as benchmarks: 2010 – Brent (DTD), first half 2009- Urals (RCMB) for UAS and CPC blend (CIF) for CPC, second half 2009 – Brent (DTD).
[6] Average realized price by financial report converted at 7.23 barrels per tonne of crude oil

NOTES TO EDITORS

KMG EP is among the top three Kazakh oil and gas producers. The overall production in 2010 was 13.3mt (an average of 270kbopd) of crude oil, including the Company's share in Kazgermunai, CCEL, PKI and NBK. The total volume of proved and probable reserves, as at the end of 2010 was 232mt (1.7bn bbl), including shares in the associates - about 2.2 bn barrels. The Company's shares are listed on the Kazakhstan Stock Exchange and the GDRs are listed on The London Stock Exchange. The Company raised over US$2bn in its IPO in September 2006. The International rating agency Standard & Poor's (S&P) confirmed KMG EP's "BB+" corporate credit rating in July 2010 and "GAMMA-6" rating in November 2010.

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