

PRESS- RELEASE

JSC KazMunaiGas Exploration Production announces its financial results for the year ended December 31, 2008

Astana, 12 March 2009. JSC KazmunaiGas Exploration Production (“KMG EP” or “the Company”) has released today its audited financial results for the year ended December 31, 2008.

- Volume of production, including interests in JV Kazgermunai (“Kazgermunai”) and CCEL (“Karazhanbasmunai”), increased by 12% and amounted to 11.95 million tonnes of oil
- Net profit increased by 54% and amounted to 241.3bn Tenge (US\$2,006m)¹. This led to the increase of the earnings per share from 2,123 Tenge to 3,257 Tenge (from US\$2.89 per one GDR to US\$4.51 per one GDR)
- Additional earnings received from the 50% share in Kazgermunai were 58.8bn Tenge (US\$488.6m)
- Finance income in 2008 amounted to 45.4 bn Tenge, including income from the investment in CCEL of 2.9bn Tenge (US\$23.7m).

Commenting on the financial results for the year 2008, CEO of the Company Askar Balzhanov, said:

“2008 was a record year for KMG EP which saw net profit reaching a new height. This success was the result of the professionalism and dedication of all our staff and management. KMG EP capitalised on the favourable market conditions in the earlier part of the year and then dealt rationally with the economic downturn, whilst still growing our resource base, in the latter part of the year. Given the current market environment, it may be a challenging year ahead. However, the foundations that have been built ensure that KMG EP is well placed to navigate through these uncertain times. ”

Production Highlights

In 2008 the Company produced 11,954 thousand tonnes of oil (240 kbopd). This represents a 12% increase compared with the previous year. The increase is largely due to inclusion of a full year’s production results in 2008 from acquisitions of 50% interests in Kazgermunai and CCEL in April and December of 2007, respectively. Without accounting for the share of production of Kazgermunai and CCEL, 9,470 thousand tonnes of oil were produced in 2008 at the core assets

¹ Figures in US dollars (US\$) are calculated for the readers’ convenience only, at the average exchange rate for the corresponding period or as of the corresponding balance sheet date, as appropriate. Average exchange rates are listed in Appendix to this document.

of the Company (190 kbopd) which is approximately in line with the production level in the previous year.

In 2008 the Company supplied 11,553² thousand tonnes of oil (232 kbopd) to the customers. Out of this amount the Company exported approximately 9,114 thousand tonnes (183 kbopd) including the share in sales volumes of Kazgermunai and CCEL. Without the share in Kazgermunai and CCEL the Company supplied 9,079 thousand tonnes of oil (183 kbopd), including 7,008 thousand tonnes to export markets (141 kbopd). Sales volumes were 5% lower in 2008 compared to 2007. The reduction was caused by reduced margins of export sales due to a significant increase in export customs duty from 11 October 2008, reduced demand from Atyrau refinery and allocation of crude oil supplies by the Ministry of Energy and Mineral resources.

Financial Highlights

Profit after tax (net income) for the full year of 2008 was 241.3bn Tenge (US\$2,006m). This is 54% higher than in 2007. The net income increase is mainly attributable to higher oil prices, growth of net income of Kazgermunai as well as income from investments into CCEL and income from financial investments. These factors were partially offset by introduction and subsequent increase of export customs duty in 2008, increases in royalty tax payments and an increase in operating expenses.

KMG EP's revenues for the full year of 2008 increased by 24% to 605.0bn Tenge (US\$5,029m). This increase was primarily due to an increase in the average realised price of oil by 31% from 49,554 Tenge per tonne (US\$55.93 per barrel) in 2007 to 64,878 Tenge per tonne (US\$74.60 per barrel) in 2008. Revenue in Q4 2008 was 53% down compared with the Q3 2008 due to a significant decline in crude oil prices.

Operating expenses in 2008 were 297.2bn Tenge (US\$2,470m). This is 86.3bn Tenge, or 41%, higher than in 2007. Main factors that caused this increase are the export customs duty introduced in 2008, increased royalty payments that were brought about by the growth in oil price and increased transportation expenses. Without taking into account these three factors, operating expenses increased by 2.5% compared to 2007.

From 17 May 2008 the export supplies from the Company's core assets were subject to the export customs duty, at the rate \$109.91 per tonne (\$14.9 per barrel). From 11 October 2008 the export customs duty was increased to \$203.8 per tonne (\$27.7 per barrel). Application of the export customs duty to the Company's exports was discontinued from the beginning of 2009. At the same time, on 1 January 2009 the New Tax Code of the Republic of Kazakhstan came into force. The review of the main changes to the tax regime in 2009 and the expected impact on the Company's operations is available in the KMG EP's trading update of 25 February 2009.

Operating cash flow in 2008 was 163.9bn Tenge (US\$1,362m). This is 5.3% lower than in 2007. The main cause of this is the growth of income tax expense paid and export duty paid, partially offset by higher revenue.

Purchases of property, plant and equipment (capital expenditures, not including purchases of intangible assets) for the full 2008 were 41.9bn Tenge (US\$348.3m). This is approximately at the same level as in 2007. The level of capital investment in 2008 was lower than the company's

² Including royalty paid by Kazgermunai in kind accounted for as domestic sales.

earlier target of 45.2bn Tenge due to the lower volume of exploration and development drilling and less than planned purchase of fixed assets, as well as due to the postponing some of the work on construction of the head office into 2009.

Capital expenditure in 2009 is currently targeted at approximately 40bn Tenge. The budget for operating and capital expenditures is subject to periodic adjustments to reflect changes in oil price, inflation and Tenge exchange rate among other factors. Production in the current year is expected to be at the level of 9.14 mln ton. In 2009 it is planned to reduce development drilling from 162 wells to 70 wells and reduce the level of enhanced oil recovery activities. At the same time the Company is planning to increase exploration expenditures from 2 bn Tenge in 2008 to approximately 3 bn Tenge in 2009. The Company intends to start drilling one subsalt well on R9 exploration block. Exploration programme for other exploration blocks is currently under review.

Dividends paid to the Company's shareholders in 2008 were 39.5 bn Tenge (US\$328.4m) while in 2007 the total amount of paid dividends was 35.7bn Tenge (US\$291.4m).

Foreign exchange gain in 2008 was 696.5m Tenge. This was due to the increase in the part of the Company's assets denominated in US dollars and the simultaneous reduction in dollar-denominated obligations combined with US dollar strengthening with respect to Tenge in 2008, from 120.30 at the beginning of the year to 120.77 at December 31.

The total amount of cash, cash equivalents and financial assets at the end of 2008 was 554.9bn Tenge (US\$4,595m) compared to 402.2bn Tenge (US\$3,343m) at the end of 2007. The total amount of borrowings as at the end of 2008 was 20.4bn Tenge (US\$169.2m) compared to 32.8bn Tenge (US\$273m) at the end of 2007. At the end of 2008 approximately 67% of the Company's financial assets were denominated in US dollars and 33% in Tenge. Finance income on term deposits with banks in 2008 was 39.5bn Tenge (US\$328m) compared to 24.1 bn Tenge in 2007. The main part of financial assets (approximately 77%) was distributed between two large banks – Kazkommercebank and Halyk Bank as at 31 December 2008.

Contribution from Kazgermunai (50% owned by KMG EP)

On 24 April 2007 KMG EP finalised the acquisition of a 50% stake in Kazgermunai. KMG EP recorded 58.8bn Tenge (US\$488,6m) in its net income for the full year ended 31 December 2008 representing its 50% share of Kazgermunai net income for the year adjusted for amortisation of the fair value of Kazgermunai in the amount of 11bn Tenge.

In the fourth quarter of 2008 Kazgermunai's profitability was affected by a decline in oil prices and accrual of environmental provision in the amount of 4.5 bn Tenge (the amount attributable to KMG EP's financial results). In the same quarter Kazgermunai accrued deferred income tax benefit in the amount of 25 bn Tenge calculated based on the changes in the Kazakhstani Tax legislation and primarily attributable to the non-cash tax effect on the IFRS purchase price allocation of acquisition.

In 2008 the total volume of oil production at Kazgermunai (100%) was 3,140 thousand tonnes (66 kbopd). The oil exported by Kazgermunai represented 84% of the total volume of sales.³ KMG EP received US\$325m in dividends from Kazgermunai in 2008, bringing the total amount received to date to USD\$625m..

³ In this calculation royalty paid by Kazgermunai in kind accounted for as domestic sales.

Contribution from CCEL (50% owned by KMG EP)

The Company's balance sheet as at 31 December 2008 reflected the investment in CCEL in the amount of 18.9bn Tenge (US\$156m) as a long-term financial asset. In 2008 KMG EP accrued financial income of 2.9bn Tenge (US\$23.7m) from CCEL.

During 2008 the total volume of the oil produced by CCEL was 1,829 thousand tonnes (33kbopd). The total volume of export for the same period was 88% of total sales.

The full version of the audited consolidated financial statements for the year 2008, with accompanying notes, as well as operating and financial review for the year 2008 will be available on the Company's website: www.kmgep.kz

Appendix

Key operating and financial indicators of KMG EP for the full year of 2008⁴

Summary of Consolidated Statements of Income

<i>Tenge Millions, except as</i>	Three months		Year ended December 31,	
	ended December 31,		2008	2007
	2008	2007	2008	2007
Revenue	85,457	148,137	604,993	486,975
Operating expenses	(100,023)	(58,582)	(297,167)	(210,834)
Profit(loss) from operations	(14,565)	89,555	307,826	276,140
Finance income	13,526	6,117	45,375	27,336
Finance expenses	(856)	(1,128)	(3,147)	(6,093)
Foreign exchange gain (loss)	2,806	(554)	696	(8,043)
Gain on sale of subsidiaries	—	—	—	860
Share of result of associates	19,372	8,537	57,624	17,430
Profit before tax and minority interest	20,283	102,526	408,374	307,630
Income tax expense (benefit)	2,457	(48,888)	(167,092)	(150,511)
Profit for the period	22,740	53,639	241,282	157,119
EARNINGS PER SHARE, Tenge per share				
Attributable to:				
Equity holders of the Company	307	725	3,257	2,123

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

Summary of Consolidated Statement of Cash Flows

<i>Tenge Millions</i>	year ended December 31,	
	2008	2007
	audited	audited
Net cash generated from operating activities	163,855	172,961
Cash flows from investing activities		
Purchases of property, plant and equipment (PPE)	(41,892)	(40,095)
Purchase of held-to-maturity financial assets, net	(91,556)	(138,310)
Disposal of subsidiaries, net of cash disposed	–	10,347
Purchases of a joint venture	(1,816)	(137,158)
Loan repayments received from related parties	2,036	97,540
Interest received	44,724	13,546
Sales (purchases) of available-for-sale financial	98,005	(145,077)
Net cash provided used in investing activities	140,540	(164,679)
Proceeds from borrowings	30	1,995
Repayment of borrowings	(312)	(8,175)
Dividends paid to Company's shareholders	(39,505)	(35,705)
Interest paid and other	(968)	(3,089)
Net cash used in financing activities	(40,978)	(44,974)

Summary of Condensed Consolidated Balance Sheets

<i>Tenge Millions</i>	December 31,	December 31,
	2008	2007
	audited	audited
ASSETS		
Non-current assets	402,852	379,699
Current assets	616,949	472,153
Total assets	1,019,532	851,852
EQUITY		
Share capital	259,725	259,366
Other equity	1,309	581
Retained earnings	586,059	386,495
Total equity	847,093	646,442
LIABILITIES		
Non-current liabilities	44,249	70,077
Current liabilities	128,190	135,333
Total liabilities	172,439	205,410
TOTAL EQUITY AND LIABILITIES	1,019,532	851,852

The following tables show the Company's realised sales prices adjusted for oil and oil products transportation and other expenses for the 12 months ended December 31, 2008 and 2007.

	2008			
	UAS	CPC	DOMESTIC	TTL
	(US\$/bbl)			
Benchmark end-market quote ⁽⁴⁾	94.08	98.44	-	-
Realised price ⁽⁵⁾	90.09	91.77	20.50	74.60
Export customs duty	11.22	11.22	-	8.66
Transportation	7.38	7.79	0.94	6.00
Sales commissions	0.07	0.07	-	0.05
Adjusted realised price	71.42	72.69	19.56	59.89

	2007			
	UAS	CPC	DOMESTIC	TTL
	(US\$/bbl)			
Benchmark end-market quote ⁽⁴⁾	69.53	73.02	-	-
Realised price ⁽⁵⁾	65.75	70.61	18.93	55.93
Export customs duty	-	-	-	-
Transportation	6.13	6.89	0.83	5.07
Sales commissions	0.07	0.07	-	0.05
Adjusted realised price	59.55	63.65	18.10	50.81

⁴ The following quotes used as the base for the market prices: Urals (FOB Odessa) UAS pipeline and CPC blend (FOB Novorossisk) on CPC.

⁵ Coefficient of 7,23 barrels per tonne is used

Reference information

	2008	2007
Average exchange rate \$/KZT	120.29	122.55
US\$/KZT at balance sheet date	120.77	120.30

Coefficient barrels to tones for KMG EP crude	7.36
Coefficient barrels to tones for Kazgermunai crude	7.70
Coefficient barrels to tones for CCEL crude	6.68

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NOTES TO EDITORS

KMG EP is the second largest oil producer in Kazakhstan with over 11 95 mmt (240 kbopd) of crude oil production in 2008. There was 241 mmt (1.8bn bbl) of proved and probable reserves at the end of 2008 (over 2 bn bbl including interests in Kazgermunai and CCEL at the end of 2007). In 2007 KMG EP acquired 50% interest in JSC Kazgermunai and holding company CCEL (that owns “Karazhanbasmunai”). The Company’s shares are listed on the Kazakh Stock Exchange and the GDRs are listed on the London Stock Exchange. The Company raised over US\$2bn as a result of its IPO in September of 2006. International rating agency Standard & Poor’s (S&P) increased the Corporate Governance Score of KMG EP from CGS 5+ to CGS 6 and confirmed its «BB+» corporate credit rating in November 2008.

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