JSC Kazmunaigas Exploration Production ("the Company" or "KMG EP")

Announcement by the Independent Non Executive Directors of KMG EP ("INEDs")

Dividend Payment in respect of the 2016 financial period

Introduction

The Board of KMG EP announced on 12 April its decision to pay a dividend of 289 Tenge per share (US$0.15 per GDR converted at an exchange rate of 311.37) in respect of the financial period ended 31 December 2016. This dividend payment will utilise US$63m of the Company's cash resources and represents a yield of approximately 1.5 per cent on a GDR, based on a closing price of US$10.25 per GDR on 11 April 2017. KazMunayGas National Company ("KMG NC") used its control of the KMG EP board to impose this dividend decision. The INEDs had favoured a higher dividend payment and this announcement sets out their views regarding a suitable dividend payment for 2016.

Background

During the year ended 31 December 2016, the Company's executives made good operational progress and reported a profit after taxation ("PAT") of 132bn KZT (approximately US$385m, converted at the 2016 average exchange rate of 341.8) and generated free cashflow ("FCF") of 98.3bn KZT (approximately US$288m). As at 31 December 2016 the Company held net cash balances of US$3.5bn compared with US$3.2bn at the beginning of the financial period.

In the KMG EP Board discussion concerning a dividend payment relating to 2016, the INEDs drew attention to the recent market experience amongst listed oil and gas companies to maintain dividend payments notwithstanding the challenges that have confronted, and continue to confront, the oil and gas sector. As at 7 April 2017 the dividend yield on the FTSE350 Oil and Gas Producers sector was 6.4 per cent and the dividend yield on the MSCI World Integrated Oil and Gas sector was 4.6 per cent. The INEDs were disappointed, given the current deliberations whether to list KMG NC, that the KMG NC nominees on the Company's board were not receptive to paying a comparable level of dividend yield.

INED dividend recommendation

The INEDs considered that a dividend payment of 1,155 Tenge per share (US$0.62 per GDR) would have been more appropriate against the background of: the Company's strong operational performance; its achieved PAT; its FCF generation; strong balance sheet; and, comparable market dividend yields in the oil and gas sector. The total cost of such a dividend payment (US$249m) would have represented 64.7 per cent of the Company's PAT and 86.5 per cent of its FCF and would have provided a dividend yield of 6.2 per cent. That proposed dividend payment would have left a residual pro forma net cash balance of US$3.27bn as at the financial year end.

The INEDs are aware that consolidation of the Company's cash balance by KMG NC is significantly beneficial to its financial standing, particularly in respect of the covenants governing a number of its bonds. The INEDs consider that, while the vote by KMG NC's directors to continue to maintain very large cash balances in the Company is in the best interests of KMG NC, it is not in the best interests of the Company or shareholders taken as a whole. The INEDs have serious doubts whether the board of an independent oil and gas company, with the Company's financial strength, would have reached a similar dividend payment decision as that announced by the Company.

At the time of the Company's IPO, the board of KMG EP adopted a dividend policy to pay out not less than 15 per cent of PAT. That dividend policy was formulated in the context of a strategy to invest in on and off shore oil and gas assets in the Republic of Kazakhstan, and to pursue an international investment strategy, to create value for shareholders. Since 2010 the Company has been unable to implement that strategy. Accordingly, the INEDs no longer consider that a dividend payout of 15 per cent of PAT remains relevant because the Company has accumulated significant uninvested cash balances. During the three years ended 31 December 2014 (being the most recent years before 2015 when KMG NC used its control of the Company's board to resolve not to pay a dividend on the Company's ordinary shares), the dividend pay-out ratios of PAT were 68.6 per cent, 95.0 per cent and 63.9 per cent, respectively.

Special dividend

For the fourth year in succession the INEDs recommended that a special dividend should be paid in addition to a dividend declared in relation to the results of the relevant financial year. The lack of any significant investment in acquisitions or exploration is the basis for the INEDs' recommendation to return surplus capital to shareholders by way of a special dividend. KMG NC also used its control of the Company's board to rebuff this recommendation.

Notes to Editors

KMG EP is among the top three Kazakh oil producers based on the 2016 results. The overall production in 2016 was 12.2 million tonnes (245 kbopd) of crude oil, including the Company's share in Kazgermunai, CCEL and PKI. The Company's volume of proved and probable reserves excluding shares in the associates, at the end of 2015 was 193 million tonnes (1,409 mmbbl). 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 at its IPO in September 2006.

Forward-looking statements

This document includes statements that are, or may be deemed to be, ''forward-looking statements''. These forward-looking statements can be identified by the use of forward-looking terminology including, but not limited to, the terms ''believes'', ''estimates'', ''anticipates'', ''expects'', ''intends'', ''may'', ''target'', ''will'', or ''should'' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They include, but are not limited to, statements regarding the Company's intentions, beliefs and statements of current expectations concerning, amongst other things, the Company's results of operations, financial condition, liquidity, prospects, growth, potential acquisitions, strategies and as to the industries in which the Company operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that may or may not occur. Forward-looking statements are not guarantees of future performance and the actual results of the Company's operations, financial condition and liquidity and the development of the country and the industries in which the Company operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. The Company does not intend, and does not assume any obligation, to update or revise any forward-looking statements or industry information set out in this document, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved.