OPERATING AND FINANCIAL REVIEW

The following document is intended to assist the understanding and assessment of trends and significant changes in the Company's results and financial condition. This review is based on the consolidated financial statements of the Company and should be read in conjunction with those statements and the accompanying notes. All the financial data and discussions thereof are based on consolidated financial statements prepared in accordance with IFRS.

Overview

KazMunaiGas Exploration Production Joint Stock Company ("the Company" or "KMG EP") is engaged in the exploration, development, production, processing, and export of hydrocarbons, and the acquisition of oil and gas assets. The Company's core operations are in oil and gas assets located in the Pre-Caspian, Mangistau and Southern Torgai basins. The Company's majority shareholder is JSC National Company KazMunaiGas (NC KMG), the wholly state-owned joint stock company, which represents the state's interests in the Kazakh oil and gas industry. The Company conducts its core production activities in 47 oil and gas fields, including JSC Ozenmunaigas ("OMG"), which consists of 2 fields, JSC Embamunaigas ("EMG"), which consists of 40 fields and "Kazakh Gas Refinery" LLP which consists of 5 fields. The Company also has a 51% interest in joint venture KS EP Investments BV, 50% in Kazgermunai LLP, CCEL, Ural Group Limited BVI ("UGL") and a 33% interest in its associate PetroKazakhstan Inc.

The Company is carrying out onshore exploration in the areas of Liman, Taisoigan, Karaton-Sarkamys, Uzen-Karamandybas, Novobogatinsk Western, Fedorovskiy block ("UGL"), Karpovskiy Severniy ("KS EP Investments BV"), Temir, Teresken, Zharkamys Eastern -1 ("KMG EP Exploration assets").

The Company's total oil production in Q1 2013, together with the share of its joint ventures and its associate companies, was approximately 3,002k tonnes or 247kbopd. This includes oil derived from its 50% share in JV Kazgermunai LLP, its 50% share in CCEL and its 33% stake in PetroKazakhstan Inc. OMG and EMG produced 158kbopd with a further 37 kbopd from PetroKazakhstan Inc., 33 kbopd from JV Kazgermunai LLP and 19 kbopd from CCEL.

The Operating and Financial Review covers the activities of the abovementioned companies.

Business Environment and Outlook

Macroeconomic factors affecting the Company's financial performance for the year under review include movements in crude oil prices, domestic inflation, and foreign exchange rates, particularly the Tenge-US dollar rate.

Business Environment for Q1 2013

The average Brent price in Q1 2013 was US$112.57 per barrel, which is 5% less than in Q1 2012.

Q1 2013	Q4 2012	Change		Q1 2013	Q1 2012	Change
(US$ /bbl)		%		(US$ /bbl)		%
112.57	110.10	2%	Brent (DTD)	112.57	118.60	-5%

Most of the Company's revenues, financial assets and borrowings are denominated in US dollars, while most of the Company's operating expenses are denominated in Tenge. The Company manages currency risk by reducing or increasing the share of financial instruments denominated in US dollars in its portfolio.

Tenge-US dollar exchange rates and domestic inflation, as measured by the consumer price index ("CPI") were as follows:

Q1 2013	Q4 2012	Change		Q1 2013	Q1 2012	Change
150.67	150.44	0.1%	Average US$ vs KZT	150.67	148.13	1.7%
1.9%	2.1%	-9.5%	CPI	1.9%	1.1%	72.7%
150.84	150.74	0.1%	US$ vs KZT at balance sheet date	150.84	147.77	2.1%

Source: National Bank of Kazakhstan

The Tenge weakened against the US dollar from an average 148.13 KZT/US$ in Q1 2012 to 150.67 KZT/US$ in Q1 2013. The inflation rate in Q1 2013 was 1.9% compared to 1.1% in Q1 2011.

Production Activity

Production of crude oil from core assets in Q1 2013 was 1,928k tonnes which is 1% more than in Q1 2012.

Q1 2013	Q4 2012	Change		Q1 2013	Q1 2012	Change
1,237	1,251	-1%	OMG	1,237	1,236	0%
691	720	-4%	EMG	691	675	2%
1,928	**1,971**	**-2%**	**Total production**	**1,928**	**1,911**	**1%**

As of April 1, 2013, the Company operated a total of 5,998 production and 1,678 injection wells: 3,732 production and 1,222 injection wells at OMG and 2,266 production and 456 injection wells at EMG. Most of the company's existing oil fields are at a mature stage of development, characterized by high water content and declining oil production. In order to mitigate this natural production decline and achieve its production targets the Company engages in production drilling, work-over and enhanced recovery operations.

In Q1 2013 OMG drilled and put into operation 35 wells (26 oil producing, 9 injection), 12 more wells than in Q1 2012. Oil production generated by new wells was 9.6k tonnes compared to 5.7k tonnes in Q1 2012. The workover of 203 wells provided an incremental production of 23.4k tonnes. At the same time, well operations for hydro-fracturing at OMG declined by 3 to a total of 20 while additional production from hydro-fracturing at 8.0k tonnes was 2.0k tonnes less than in Q1 2012.

In Q1 2013 EMG drilled and put into operation 17 oil producing wells, which is 2 wells more than in Q1 2012. Oil production generated by new wells rose to 3.5k tonnes compared to 3k tonnes in Q1 2012. The workover of 65 wells provided an incremental production of 4.5k tonnes.

During the reporting period, capital expenditures totaled to KZT36.9 billion, KZT24.7 billion more than in Q1 2012. Capital expenditures include the cost of drilling of new wells, construction and modernization of production facilities, purchase of fixed and intangible assets and non-production capital expenditures. The increase of capital expenditures in Q1 2013 compared to Q1 2012 was mainly due to the commissioning of the carryover objects in 2012 (KZT11.3 billion) and the payment of advances for the supply of equipment (KZT3 billion). In addition, there is an increase in production drilling (commissioned 52 new wells, 14 wells more than in the Q1 2012) and the construction in accordance with the production program for 2013.

Crude oil production in 2013 from core assets is planned to be 8.1 million tonnes, including 5.3 million tonnes at OMG and 2.8 million tonnes at EMG. In order to ensure this production volume in 2013, the Company is planning to drill 182 oil producing wells and 98 injection wells: 115 production and 93 injection wells at OMG and 67 production and 5 injection wells at EMG. The Company also plans to apply hydraulic fracturing, workover and bottomhole zone treatment at its existing wells as well as bring inactive production wells back into production or reactivating them.

Exploration Activity

In Q1 2013 the Company performed exploration works on the Liman, Taisoigan, Karaton-Sarkamys, Uzen-Karamandybas, Zharkamys East-1, Fedorovskiy and Karpovskiy Severniy blocks.

Exploration works

In Q1 2013 on the Liman block on wells G-6 (pre-drilled producing well) and G-7 (exploration well) with depths of 1,500 m each, applications and terms of reference/specifications for drilling and well surveying have been prepared (geological and engineering survey, well logging, well testing, sampling and sample analysis). The applications are to be submitted to the Central Committee for Exploration and Development of Ministry of oil and gas once the exploration contract is rolled over for the Liman block.
During Q1 2013 drilling of the PR-1 well started in 2012 has been completed. The actual depth was 2500m. Preparation works for seismic surveys is carried out.
In 2012 on the field Novobogat SouthEast accepted balance increase in recoverable oil reserves to the State balance of RK in the amount of 1,909 ktons.

On the Taisoigan block, once the positive results (oil inflow 4m3/day) of repeated test on U-1 well had been obtained, fieldwork seismic works commenced.

During Q1 2013, on the Karaton-Sarkamys block, G&G data for the post-salt part of the block were analyzed and integrated. In the course of the analysis all available 2D and 3D data has been integrated, data for previously drilled post-salt wells on the block has been collected.According to the results of this work will identify the drilling of 2 exploratory wells with projected depths of 3000 and 3350m in the Kenaral and Dosmuhambetovskoe areas.

In Q1 2013 at Uzen-Karamandybas block, preparation works for construction of an exploration well with projected depth of 3,500 m is carried out.

In Q1 2013 on Zharkamys Eastern-1 block, testing of a well RA-2-T carried over from the previous year is carried out. The actual depth was 4502m.
In 2012, as a result of drilling and testing of well RA-1-T it was abandoned, disposal expenses totaled to KZT2 billion.

In Q1 2013 on Karpovskiy Severniy block continued drilling of a well SK-1 with the projected depth of 5600m on Melovaya area carried over from the previous year. As of March 31, 2013 4,999m has been drilled.

In Q1 2013 on Fedorovskiy block completed drilling of a well U-26 carried over from the previous year. The actual depth was 5,300m.

In Q1 2013 at White Bear block well 22/04b-6 was written off following post-well evaluation. Write off costs totaled to KZT6.1 billion.

Appraisal works

In 2012 on the field S.Nurzhanov and Makat Eastern accepted balance increase in recoverable oil reserves to the State balance of RK in the amount of 874 ktons (triassic – 661 ktons, valangine – 213 ktons) and 100 ktons (triassic), respectively.

Results of Operations

The Company prepares financial statements in Tenge. The amounts shown in US dollars are included solely for the convenience of the information user at the average exchange rate over the respective period for the consolidated statement of comprehensive income and the consolidated cash flow statement and at the closing rate for the consolidated statement of financial position. See “Business Environment and Outlook

Key Figures

Q1 2013	Q4 2012	Change		Q1 2013	Q1 2012	Change
(KZT millions, unless otherwise stated)				(KZT millions, unless otherwise stated)		
202,185	**192,528**	**5%**	**Revenue**	**202,185**	**206,853**	**-2%**
42,801	35,785	**20%**	Production expenses	42,801	31,367	**36%**
22,058	19,190	**15%**	Selling, general and administrative expenses	22,058	19,668	**12%**
76,239	55,329	**38%**	Taxes other than on income	76,239	75,181	**1%**
6,620	1,047	**532%**	Exploration expenses	6,620	1,298	**410%**
12,400	13,977	**-11%**	Depreciation, depletion and amortization	12,400	12,570	**-1%**
57,164	77,012	**-26%**	Impairment of property, plant and equipment	57,164	56	**102012%**
656	1,381	**-53%**	Loss on disposal of fixed assets	656	152	**331%**
(15,753)	**(11,193)**	**41%**	**Profit from operations**	**(15,753)**	**66,561**	**-124%**
(660)	**(12,013)**	**-95%**	**Net income / (loss)**	**(660)**	**75,218**	**-101%**
3,016	2,467	**22%**	Production expenses (KZT per bbl) (1)	3,016	2,230	**35%**
20.02	16.40	**22%**	Production expenses (USD per bbl) (1)	20.02	14.80	**35%**
36,913	31,803	**16%**	Capital expenditure (2)	36,913	12,210	**202%**

(1) Converted at 7.36 barrels per tonne of crude oil.
(2) According to purchases of PPE and intangible assets in interim condensed consolidated statement of cash flows for the period ending March 31, 2013 (see Company website for a copy)

Transport Routes

The Company delivers its crude oil using three principal routes: to export markets via the pipeline owned by Caspian Pipeline Consortium (CPC) and via the Uzen-Atyrau-Samara pipeline (UAS) owned by KazTransOil JSC (in Kazakhstan) and the domestic market, as outlined in the following table:

Q1 2013	Q4 2012		Q1 2013	Q1 2012
		Exports sales via UAS		
1.1	0.90	Volume of crude oil (in million tonnes)	1.1	0.8
55%	48%	% total crude oil sales volume	55%	41%
65%	56%	% total sales value of crude oil	65%	48%
		Exports sales via CPC		
0.4	0.56	Volume of crude oil (in million tonnes)	0.4	0.7
20%	30%	% total crude oil sales volume	20%	36%
25%	35%	% total sales value of crude oil	25%	44%
		Domestic sales		
0.5	0.40	Volume of crude oil (in million tonnes)	0.5	0.5
25%	22%	% total crude oil sales volume	25%	23%
10%	9%	% total sales value of crude oil	10%	8%

The relative profitability of the two export routes depends on the quality of oil in the pipeline, the prevailing international market prices and the relevant pipeline tariffs. Specifically, CPC tends to be the more advantageous route owing to the higher quality of crude oil in the CPC pipeline in a higher price oil environment, even after taking into account quality bank payments. It should be noted that the volume of crude oil that can be shipped through the pipelines has to be agreed with the Ministry of Oil and Gas of the Republic of Kazakhstan (MOG); the Company's ability to allocate export volume to different pipelines is, therefore, limited.

Revenue

The following table shows sales volumes and realized prices:

Q1 2013	Q4 2012	Change		Q1 2013	Q1 2012	Change
(KZT millions, unless otherwise stated)		%		(KZT millions, unless otherwise stated)		%
			Export sales of crude oil			
			UAS pipeline			
128,958	105,461	22%	Net sales	128,958	98,483	31%
1,086	899	21%	Volume (in thousand tonnes)	1,086	796	37%
118,735	117,369	1%	Average price (KZT/tonne)	118,735	123,782	-4%
109.00	107.91	1%	Average price (US$/bbl) (1)	109.00	115.58	-6%
			CPC pipeline			
49,102	66,850	-27%	Net sales	49,102	88,631	-45%
404	556	-27%	Volume (in thousand tonnes)	404	700	-42%
121,679	120,309	1%	Average price (KZT/tonne)	121,679	126,559	-4%
111.70	110.61	1%	Average price (US$/bbl) (1)	111.70	118.17	-5%
178,060	172,311	3%	Total sales of crude oil-exported	178,060	187,114	-5%
			Domestic sales of crude oil			
20,448	16,077	27%	Net domestic sales of crude oil	20,448	16,584	23%
505	401	26%	Volume (in thousand tonnes)	505	457	10%
40,507	40,111	1%	Average price (KZT/tonne)	40,507	36,286	12%
37.18	36.87	1%	Average price (US$/bbl) (1)	37.18	33.88	10%
			Total sales			
198,508	188,388	5%	Total net sales of crude oil	198,508	203,698	-3%
1,994	1,855	8%	Total volume (in thousand tonnes)	1,994	1,953	2%
99,531	101,556	-2%	Average price (KZT/tonne)	99,531	104,302	-5%
91.37	93.37	-2%	Average price (US$/bbl) (1)	91.37	97.39	-6%
3,677	4,140	-11%	Other sales	3,677	3,155	17%
202,185	**192,528**	**5%**	**Total revenue**	**202,185**	**206,853**	**-2%**

Export – UAS Pipeline

Sales of crude oil exported via the UAS pipeline in Q1 2013 increased by 31% to KZT129 billion due to an increase in exported crude oil volumes via UAS by 37%, which was offset by the decrease in the average realized price by 4% from KZT123,782 to KZT118,735 per tonne. The growth in sales volumes via UAS is related to an increase in export quotas by the Ministry of Oil and Gas.

(1) Average sales price under financial statement (realized price), converted at 7.23 barrels per tonne of crude oil.

Export – CPC Pipeline

In Q1 2013 sales of exported crude oil via the CPC pipeline decreased by 45% to KZT49 billion in comparisons with Q1 2012. This is due to a 42% decrease in volume exported via CPC and a 4% decrease in the average realized price from KZT126,559 to KZT121,679 per tonne. The drop in sales volumes via CPC is related to a change in export quotas by the Ministry of Oil and Gas.

Domestic Market – Sales of Crude Oil

Domestic sales of crude oil in 2012 increased by 23% to KZT20 billion, compared to Q1 2012, due to a 12% increase in the average sales price and an increase in sales volume by 10%.

The following table shows the Company's realized sales prices (netback analysis) adjusted for crude oil transportation and other expenses:

Q1 2013	Q4 2012	Change		Q1 2013	Q1 2012	Change
(US$/bbl)				(US$/bbl)		
			UAS			
112.57	110.10	2%	Benchmark end-market quote[1]	112.57	118.60	-5%
108.94	107.92	1%	Sales price	108.94	115.22	-5%
0.08	0.10	-20%	Premium of bbl difference	0.08	0.37	-78%
109.02	**108.02**	**1%**	**Realized price**	**109.02**	**115.59**	**-6%**
(24.77)	(22.85)	8%	Rent tax	(24.77)	(26.09)	-5%
(5.54)	(6.12)	-9%	Export customs duty	(5.54)	(5.52)	0%
(8.97)	(8.94)	0%	Transportation	(8.97)	(7.78)	15%
-	-	0%	Sales commissions	-	(0.07)	-100%
69.74	**70.11**	**-1%**	**Netback price**	**69.74**	**76.13**	**-8%**
			CPC			
112.57	110.10	2%	Benchmark end-market quote[1]	112.57	118.60	-5%
110.19	109.44	1%	Sales price	110.19	116.53	-5%
(7.74)	(7.73)	0%	Quality bank	(7.74)	(8.03)	-4%
9.14	8.55	7%	Premium of bbl difference	9.14	9.57	-4%
111.59	**110.26**	**1%**	**Realized price**	**111.59**	**118.07**	**-5%**
(24.77)	(21.94)	13%	Rent tax	(24.77)	(26.09)	-5%
(5.07)	(4.66)	9%	Export customs duty	(5.07)	(5.08)	0%
(7.56)	(6.36)	19%	Transportation	(7.56)	(7.21)	5%
-	-	0%	Sales commissions	-	(0.07)	-100%
74.19	**77.30**	**-4%**	**Netback price**	**74.19**	**79.62**	**-7%**
			Domestic			
37.18	36.87	1%	Sales price	37.18	33.90	10%
(1.80)	(0.87)	107%	Transportation	(1.80)	(1.08)	67%
35.38	**36.00**	**-2%**	**Netback price**	**35.38**	**32.82**	**8%**
62.17	**64.89**	**-4%**	**Average Netback price**	**62.17**	**67.24**	**-8%**

The difference between the benchmark quote and the realized price of sales mainly comprises freight expenses and averaging effects. Averaging effects usually appear because of the difference between the average mean of the quoted price on the sale date and the average published price over the whole period. This difference may be significant on account of the high volatility of oil prices.

(1) The Brent (DTD) quoted price is used as benchmark

Production expenses

The following table presents a breakdown of the Company's production expenses (in KZT millions):

Q1 2013	Q4 2012	Change %		Q1 2013	Q1 2012	Change %
23,419	22,687	3%	Employee benefits	23,419	19,253	22%
3,698	4,102	-10%	Materials and supplies	3,698	3,372	10%
4,161	3,589	16%	Energy	4,161	2,859	46%
3,410	7,361	-54%	Repairs and maintenance	3,410	2,113	61%
1,320	1,581	-17%	Transportation service	1,320	1,223	8%
342	143	139%	Processing expenses	342	112	205%
4,685	(4,738)	-199%	Change in crude oil balance	4,685	1,024	357%
1,766	1,060	67%	Other	1,766	1,411	25%
42,801	**35,785**	**20%**		**42,801**	**31,367**	**36%**

Production expenses in Q1 2013 increased by 36% or KZT11.4 billion compared to Q1 2012. This is primarily due to increased expenses for employee benefits, change in crude oil balance, energy and repairs and maintenance.

Employee benefits expenses for Q1 2013 increased by 22% compared to Q1 2012 mainly due to a 7% indexation increase in basic salaries for production personnel from January 2013 according to the collective agreement, as well as the start of production activity at two new service units UBR and UTTiOS. During Q1 2012 the employee benefit expenses of these new service units of KZT1.1 billion were classified as administrative expenses, while during Q1 2012 the these expenses were classified as production expenses.

Change in crude oil balance in Q1 2013 compared to Q1 2012 was due to the fact that the Company sold crude oil by 73ktons more than produced (due to residual volumes from previous periods).

Energy expenses increased by 46% in Q1 2013 mainly due to the increase in tariffs: at OMG by 43% from 7.23 to 10.34 Tenge/kwatt., and at EMG by 27% from 14.10 to 17.87 Tenge/kwatt.

Repairs and maintenance expenses in Q1 2013 increased by 61% compared to Q1 2012, mainly due to the increased number of workover operations from 51 to 123 well operations according to the production program.

Selling, general and administrative expenses

The following table presents a breakdown of the Company's selling, general and administrative expenses (in KZT millions):

Q1 2013	Q4 2012	Change %		Q1 2013	Q1 2012	Change %
15,015	13,443	12%	Transportation expenses	15,015	13,064	15%
3,002	1,481	103%	Employee benefits	3,002	4,313	-30%
214	521	-59%	Sponsorship	214	5	4136%
1,847	93	1890%	Fines and penalties	1,847	233	692%
203	713	-72%	Consulting and audit services	203	162	25%
1,004	1,004	0%	Management fees and commissions	1,004	1,237	-19%
152	585	-74%	Repairs and maintenance	152	61	148%
621	1,350	-54%	Other	621	593	5%
22,058	**19,190**	**15%**		**22,058**	**19,668**	**12%**

Selling, general and administrative expenses increased in Q1 2013 by 12% or KZT2.4 billion compared to Q1 2012. This is primarily due to increase in fines and penalties, transportation expenses and sponsorship, but was partially offset by decreased expenses for employee benefits.

The growth in transportation expenses is explained by the greater proportion of export by UAS route. The growth of crude oil sales via UAS route is related to increase in quotas by MOG. In addition, in December 2012 the tariff for transportation by UAS route through the RK territory increased by 15% and through the Russian Federation by 7%.

The increase in fines and penalties is due to the fine accrued for the principal of environmental tax in the amount of KZT1.3 billion as a result of tax a audit relating to environmental tax payments for 2010-2011 (the main issue being an excess disposal of waste). This is discussed in more detail in the consolidated financial statements for the period ended March 31, 2013 (Note 19).

Sponsorship expenses in Q1 2013 increased mainly due to impairment of social facilities to the total amount of KZT1 billion. For further details please refer to section: Social projects.

Employee benefits expenses for Q1 2013 decreased by 30% compared to Q1 2012 mainly due to the start of production activity at UBR and UTTiOS, as noted above.

Taxes other than on income

The following table presents a breakdown of the Company's taxes other than on income (in KZT millions):

Q1 2013	Q4 2012	Change %		Q1 2013	Q1 2012	Change %
41,195	36,733	12%	Rent tax	41,195	43,619	-6%
20,068	7,240	177%	Mineral extraction tax	20,068	21,477	-7%
8,989	9,382	-4%	Export customs duty	8,989	8,870	1%
1,246	1,210	3%	Property tax	1,246	867	44%
4,522	498	809%	Environmental tax	4,522	63	7049%
219	266	-18%	Other taxes	219	285	-23%
76,239	**55,329**	**38%**		**76,239**	**75,181**	**1%**

Taxes other than on income in Q1 2013 increased by 1% or KZT1.1 billion compared to Q1 2012. This is primarily due to increased expenses for environmental taxes, which was partially offset by a decrease in mineral extraction tax and rent tax.

Environmental taxes include an accrual of KZT 4.4 billion as a result of the tax audit for 2010-2011 years. This is discussed in more detail in the consolidated financial statements for the period ended March 31, 2013 (Note 19).

Rent tax expenses in Q1 2013 decreased by 6% in comparison with Q1 2012 due to 1% lower export sales volumes and the 5% decrease in crude oil market price.
The decrease in Mineral Extraction Tax expenses in Q1 2013 compared to Q1 2012 is due to the higher domestic sales in Q1 2013. The MET base for oil used for domestic sales is lower as it is based on cost of sales, compared with a higher MET for export, which is based on Brent prices.

Impairment of property, plant and equipment

Previously an impairment charge of KZT75 billion was made in respect of OMG in the Consolidated Financial Statements for the year ended December 31, 2012. Management of the Company has made an additional impairment charge of KZT56 billion in respect of OMG in the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2013. The additional impairment charge relates primarily to the increase in export customs duty from US$ 40 per ton to US$60 per ton that occurred on 12 April 2013. A deferred tax benefit of KZT11 billion has resulted from the additional impairment charge.

Share of Income in Associate and Joint Ventures

	Q1 2013	Q1 2012	Change	Change in %
	(KZT millions, unless otherwise stated)			
Share of income from JV Kazgermunai LLP	10,399	12,843	(2,444)	-19%
Share of income from PetroKazakhstan Inc.	10,047	13,064	(3,017)	-23%
Share of income from UGL, KS EP Investments BV	254	(160)	414	-259%
Share of Income in Associate and Joint Ventures	**20,700**	**25,747**	**(5,047)**	**-20%**

The Company's income from its share in associate and joint ventures in Q1 2013 decreased to KZT20.7 billion compared with KZT25.7 billion in Q1 2012. The share of income from JV Kazgermunai LLP was KZT10.4 billion and PetroKazakhstan Inc. was KZT10.05 billion. As both Kazgermunai and PetroKazakhstan oil production was lower in Q1 2013 in comparisons with Q1 2012. Moreover, the market price of crude oil decreased in Q1 2013 compared with Q1 2012.

For further details please refer to section: Overview of Associate and Joint Ventures Operations.

Income Tax Expense

Q1 2013	Q4 2012	Change %		Q1 2013	Q1 2012	Change %
(KZT millions, unless otherwise stated)				**(KZT millions, unless otherwise stated)**		
9,682	6,302	54%	Profit before tax	9,682	93,849	-90%
(11,018)	1,890	-683%	Profit before tax (net of JV's results)	(11,018)	68,101	-116%
10,342	18,315	-44%	Income tax	10,342	18,631	-44%
107%	**291%**	**-63%**	Effective tax rate	**107%**	**20%**	**438%**
-94%	**969%**	**-110%**	Effective tax rate (net of JV's results)	**-94%**	**27%**	**-443%**

The main reason for income tax expense being significantly lower in Q1 2013 than in Q1 2012 is that a deferred tax benefit of KZT11 billion arose from the additional impairment charge made in Q1 2013.

Profit for the Period

As a result of the factors mentioned above, in Q1 2013 the Company's net loss for the period was KZT0.7 billion.

Overview of Associate's and JVs Operations

JV Kazgermunai LLP

JV Kazgermunai LLP's (Kazgermunai) key financial and operational indicators are shown below:

Q1 2013	Q4 2012	Change		Q1 2013	Q1 2012	Change
637,613	640,181	0%	Revenue, US$ thousands	637,613	574,694	11%
(353,116)	(369,387)	-4%	Operating expenses, US$ thousands	(353,116)	(269,835)	31%
(585)	63	-1029%	Finance cost, US$ thousands	(585)	(661)	-11%
(99,029)	(157,188)	-37%	Income tax expense, US$ thousands	(99,029)	(107,127)	-8%
184,883	113,669	63%	Net income, US$ thousands	184,883	197,071	-6%
(13,950)	(27,926)	-50%	Capital expenditure, US$ thousands	(13,950)	(9,769)	43%
781	820	-5%	Crude oil production, th. tonnes	781	802	-3%
778	796	-2%	Crude oil sales, th. tonnes	778	773	1%
109	116	-5%	Export via Aktau	109	126	-13%
669	681	-2%	Export via Kazakh-Chinese pipeline	669	409	64%
-	-	0%	Domestic market	-	238	-100%

Kazgermunai oil production in Q1 2013 was 781k tonnes (50% share of Company is 390.5k tonnes), 3% less than in Q1 2012.

Growth of revenue in Q1 2013 compared to Q1 2012 was due to all sales being to the export market, as Kazgermunai did not carry out shipments to the domestic market in accordance with the quotas of MOG.

Operating expenses in Q1 2013 were higher than in Q1 2012 due to the increase in transportation expenses, rent tax, MET and export customs duty.

Capital expenditures for the period were KZT2.1 billion (US$13.9 million), which is KZT4.2 billion (US$27.8 million) more than in Q1 2012. Increase of capital expenditures is related to increase in volumes of exploitation drilling.

The Company's share in income from the Kazgermunai included in the consolidated financial statements of the Company for Q1 2013 is KZT10.4 billion (US$ 69 million), which is 19% or KZT2.4 billion (US$ 16 million) less than in Q1 2012.

PetroKazakhstan Inc.

PetroKazakhstan Inc.'s key financial and operational indicators are shown below:

Q1 2013	Q4 2012	Change		Q1 2013	Q1 2012	Change
958,093	947,013	1%	Revenue, US$ thousands	958,093	1,084,325	-12%
(589,663)	(635,222)	-7%	Operating expenses, US$ thousands	(589,663)	(572,439)	3%
(4,719)	(5,388)	-12%	Finance income/(cost), US$ thousands	(4,719)	(5,617)	-16%
(138,327)	(265,326)	-48%	Income tax expense, US$ thousands	(138,327)	(175,462)	-21%
225,385	41,077	449%	Net income, US$ thousands	225,385	330,807	-32%
(83,713)	(50,610)	65%	Capital expenditure, US$ thousands	(83,713)	(68,712)	22%
1,315	1,352	-3%	Crude oil production, th. tonnes	1,315	1,424	-8%
1,319	1,292	2%	Crude oil sales, th. tonnes	1,319	1,405	-6%
437	464	-6%	Export via KCP (PKKR 100%)	437	318	37%
39	40	-2%	Export via KCP (Kolzhan 100%)	39	32	22%
7	2	239%	Export via KCP (PKVI 100%)	7	-	100%
335	340	-2%	Export via KCP (KGM 50%)	335	205	64%
55	58	-5%	Export Aktau (KGM 50%)	55	63	-13%
53	45	16%	Export Uzbekistan (TP 50%)	53	39	34%
110	134	-18%	Export via KCP(TP 50%)	110	126	-13%
284	209	36%	Domestic sales - thousand tonnes	284	622	-54%

Crude oil production of PetroKazakhstan Inc. in Q1 2013 was 1,315k tonnes (giving the Company a 33% share of 434k tonnes), 8% less than in Q1 2012. The decline in production was due to planned deposit reserve depletion of mature fields.

Decrease in revenue by 12% in Q1 2013 compared with Q1 2012 mainly due to the decline in world oil prices and a decrease in total production and sales volumes.

The decrease in sales of crude oil and oil products to the domestic market was due to lack of oil replacement in Q1 2012. As a result, PetroKazakhstan Inc. supplied the domestic market from its own volumes. Starting from April 2012, LLP "PetroSun" supplied oil to the domestic market to fulfill the obligations of PetroKazakhstan Inc.

Decrease in income tax expense is mainly due to increase in deductions for depreciation and the decrease in crude oil market prices.

Capital expenses in Q1 2013 were KZT12.6 billion (US$83.7 million), which is 22% more than in Q1 2012. The increase in capital expenditures is due to an increase of expenses for the import of equipment (equipment for gas turbines and substations of power supply system) in the Q1 2013 for more than KZT3 billion (US$ 20 million) and also due to increase in volumes of exploitation drilling.

For Q1 2013 the Company recognized share in income from its investment in PetroKazakhstan Inc. (33% share) of KZT10.05 billion (US$ 67 million), which is 23% or KZT3 billion (US$ 21 million) less than in Q1 2012.

CCEL

CCEL's key financial and operational indicators are shown below:

Q1 2013	Q4 2012	Change		Q1 2013	Q1 2012	Change
384,600	341,320	13%	Revenue, US$ thousands	384,600	378,969	1%
(298,939)	(247,744)	21%	Operating expenses, US$ thousands	(298,939)	(280,985)	6%
(3,473)	(4,580)	-24%	Finance cost, US$ thousands	(3,473)	(5,042)	-31%
(19,152)	(18,070)	6%	Income tax expense, US$ thousands	(19,152)	(32,194)	-41%
63,036	70,927	-11%	Net income, US$ thousands	63,036	60,748	4%
(7,167)	(17,089)	-58%	Capital expenditure, US$ thousands	(7,167)	(8,532)	-16%
499	511	-2%	Crude oil production, th. tonnes	499	495	1%
527	480	10%	Crude oil sales, th. tonnes	527	509	4%
274	207	33%	Export via Novorossiysk	274	327	-16%
196	215	129%	Export via Primorsk	196	129	52%
57	58	-2%	Domestic market	57	53	9%

Crude oil production of CCEL in 2012 was 499 tonnes (50% share of the Company amounted to 249.5k tonnes), 1% more than in Q1 2012.

The 6% increase in operating expenses compared to Q1 2012 is mainly due to an increase of tariffs for energy, an increase in labor costs as a result of salary indexation in 2013, and an increase of expenses for depreciation.

The decrease in income tax expense relates to a decrease in profit before tax in Q1 2013 of 20% compared to Q1 2012, as well as changes in the effective tax rate, which in Q1 2012 was 34.64% but 23.29% in Q1 2013.

In Q1 2013 capital expenditures were KZT1.1 billion (US$7.2 million), which is 16% less than in Q1 2012.

The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Company recognizes in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total Maximum Guaranteed Amount

As of March 31, 2013 the Company has KZT18.9 billion (US$124 million) as a receivable from CCEL, a jointly controlled entity with CITIC Group. The Company has accrued KZT0.6 billion (US$4.3 million) of interest income in Q1 2013 related to the US$26.87 million annual priority return from CCEL.

Social projects

	Q1 2013	Q1 2012	Change %
	(KZT millions, unless otherwise stated)		
Employment project (UBR and UTTiOS)			
UBR	2,055	1,040	98%
UTTiOS	1,476	490	201%
	3,531	**1,530**	**131%**
Sponsorship			
Sponsorship and charity	214	5	4128%
	214	**5**	**4128%**
Obligation from exploration and production licenses			
Social programs fund	486	415	17%
Training costs	104	95	10%
	590	**510**	**16%**
Impairment of social objects	**953**	**56**	**1590%**
Total	**5,288**	**2,101**	**152%**

Social responsibility is one of the priorities in the activities of KMG EP. Since its establishment, the Company has allocated significant funds for the construction of sports centers, summer camps, reconstruction of schools and hospitals, repairing roads in the Atyrau and Mangistau regions.

In 2012 two service units - UBR and UTTiOS were created to ensure the employment of around 2000 people in the Mangistau region. In Q1 2013 the Company has incurred KZT3.5 billion of operating expenses at UBR and UTTiOS, including KZT2.9 billion as an employee benefit expense and KZT0.6 billion for materials, supplies and other expenses. In addition, the Company has invested KZT0.6 billion to continue construction of rotational camps, production facilities and purchase of special transport and other equipment, to support the operations at UBR and UTTiOS.

In Q1 2013 the Company has spent KZT0.2 billion for sponsorship and charity. Most of this was to finance social funds, support war veterans, organize sport events and local community events.

Obligations from exploration and production licenses are arising from contracts for subsoil use and include the social programs fund and the commitment to train personnel. In Q1 2013, social expenses of the Company in the execution of contractual obligations amounted to KZT0.6 billion, including the training of specialists in the amount of KZT0.1 billion and social programs in the amount of KZT0.5 billion.

Impairment of social objects is mainly related to construction of social objects in the regions of the Company’s activity.

Liquidity and Capital Resources

Summary of Cash Flows

The Company's liquidity requirements arise principally from the need to finance its existing operations (working capital), the need to finance investment (capital expenditure) and to realize its growth targets via acquisitions. The management believes that the Company has adequate liquidity to meet its obligations and pursue investment opportunities.

Q1 2013	Q4 2012	Change %		Q1 2013	Q1 2012	Change %
(KZT millions, unless otherwise stated)				(KZT millions, unless otherwise stated)		
30,174	59,800	-50%	Net cash generated from operating activities	30,174	67,643	-55%
(10,811)	33,630	-132%	Net cash used in investing activities	(10,811)	(53,192)	-80%
(268)	(11,166)	-98%	Net cash (used in) from financing activities	(268)	(7,777)	-97%

In Q1 2013 net cash generated from operating activities was KZT30.2 billion, KZT37.5 billion less than in Q1 2012. The change is mainly due to lower crude oil prices in comparison with Q1 2012, as well as an increase of tax payments, compared to the Q1 2012. In addition, the increase in operating expenses, such as employee benefit expenses, increase in electricity tariffs, and increase of cost for repairing wells decreased cash generated from operating activities.

Net cash outflow from investing activities amounted to KZT10.8 billion in Q1 2013. The decrease in outflow was mainly due to a KZT68.7 billion decrease in held to maturity deposits in the amount of. This change was partially offset by an increase in capital expenditures of KZT24.7 billion.

Net cash outflows from financing activities in Q1 2013 were KZT0.3 billion. The decrease in comparisons with Q1 2012 was mainly associated with repurchase of treasury shares in Q1 2013 for KZT6.6 billion.

Operating cash flow before working capital

Q1 2013	Q4 2012	Change %		Q1 2013	Q1 2012	Change %
62,163	82,344	-25%	Operating cash flow before working capital (KZT millions)	62,163	80,351	-23%

Operating cash flow before working capital decreased by 23% in Q1 2013 compared to Q1 2012 mainly due to lower crude oil prices and higher operating expenses during Q1 2013 in comparison with Q1 2012.

Borrowings

The table below shows the Company's net cash:

	As at March 31, 2013	As at December 31, 2012	As at March 31, 2012	March to December change
	(KZT millions, unless otherwise stated)			%
Current portion	2,464	2,462	55,169	0%
Non-current portion	4,692	4,848	32,838	-2%
Total borrowings	**7,156**	**7,310**	**88,007**	**-2%**
Cash and cash equivalents	173,816	154,705	213,032	12%
Other current financial assets	524,460	550,556	367,108	-5%
Non-current financial assets	3,062	1,085	187,831	182%
Total financial assets	**701,338**	**706,346**	**767,971**	**-1%**
US$-denominated cash and financial assets, %	**81%**	**78%**	**77%**	**4%**
Net cash	**694,182**	**699,036**	**679,964**	**-1%**

As of March 31, 2013 total borrowings were KZT7.2 billion. On July 5, 2012 the Company fully repaid remaining KZT 80 billion principal and KZT3 billion accrued interest of the KMG PKI Finance notes.

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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.