PRESS - RELEASE

JSC KazMunaiGas Exploration Production
2013 financial results

Astana, 20 February 2014. JSC KazMunaiGas Exploration Production ("KMG EP" or "the Company") announces its consolidated financial results for the year ended 31 December 2013.

- The Company's revenues in 2013 were 816.7bn Tenge (US$5,368m)[1], 2% higher than in 2012. In 2013 average Brent price declined by 3% compared with 2012. Export sales volumes dropped by 1%, whereas domestic sales volumes grew by 20%, which is in line with the Company's obligations for domestic supply.
- Net profit in 2013 was 141.8bn Tenge (US$932m), 12% less than in 2012. This is largely due to increases in taxes, other than on income, of 14% and in production expenses of 15% and due to a decline in income from joint ventures and associates by 25% and finance income by 40%.
- Production expenses in 2013 were 162bn Tenge (US$1,065m), which is 15% higher compared with 2012, mainly due to an increase in employee benefits, repairs and maintenance and energy expenses.

Operational Highlights

KMG EP produced 12,388 thousand tonnes of crude oil (251kbopd), including the Company's stakes in Kazgermunai (KGM), CCEL (CCEL) and PetroKazakhstan Inc. (PKI), which is 197 thousand tonnes or 2% more than in 2012.

Ozenmunaigas JSC (OMG) produced 5,208 thousand tonnes (105kbopd), an increase of 5% compared with 2012. Embamunaigas JSC (EMG) produced 2,841 thousand tonnes (57kbopd), a 1% increase compared with 2012. The total volume of oil produced at OMG and EMG in 2013 was 8,049 thousand tonnes (162kbopd), which is a 4% increase compared with 2012.

The Company's share in production from KGM, CCEL and PKI in 2013 amounted to 4,339 thousand tonnes of crude oil (89kbopd), 2% lower than in 2012, mainly due to 5% lower production at PKI due to the natural decline of production.

In 2013, the Company's combined export sales from OMG and EMG were 6,017 thousand tonnes (119kbopd), or 75% of the total sales volume from core assets. Domestic sales amounted to 1,967 thousand tonnes (39kbopd), or 25% of total sales volume.

The Company's share in the sales from KGM, CCEL and PKI was 4,319 thousand tonnes of crude oil (88kbopd), including 3,829 thousand tonnes (78kbopd), or 89% supplied to export markets.

The Company appointed Miller and Lents Ltd as an independent reserves auditor to conduct the reserves assessment as at 31 December 2013. The Company will provide further update in due course once the reserves report as at 31 December 2013 is released.

[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 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 (average rates for 2013 and 2012 was 152.14 and 149.11 Tenge/US$, respectively; period-end rates at December 31, 2013 and December 31, 2012 was 153.61 and 150.74 Tenge/US$, respectively).

Net Profit for the Period

Net profit in 2013 was 141.8bn Tenge (US$932m), 12% less than in 2012, largely due to increase in taxes, other than on income, and in production costs and to a decline in income from joint ventures and associates and finance income.

Revenues

The Company's revenues in 2013 were 816.7bn Tenge (US$5,368m), 2% higher than in 2012. The decline in Brent price by 3% and 61 thousand tonnes lower export sales were offset by an increase of 330 thousand tonnes from domestic sales and an increase in domestic sales price from 38 to 40 thousand Tenge per tonne.

Taxes other than on Income

Taxes, other than on income, in 2013 amounted to 312bn Tenge (US$2,049m), which is 14% higher compared with 2012, largely due to an increase in the mineral extraction tax (MET) and export customs duty. Export customs duty was raised on 12 April 2013 from US$40 per tonne to US$60 per tonne.

Production Expenses

Production expenses in 2013 were 162bn Tenge (US$1,065m), which is 15% higher compared with 2012 mainly due to an increase in employee benefits, repairs and maintenance and energy expenses.

Employee benefits expenses in 2013 increased by 11% compared with 2012 due to salary indexation for production personnel by 7% in January 2013, and the reclassification of employee expenses as a result of the start of operations activity at the two new service units (the transportation and drilling units). During 2012, most employee benefits of these two new service units were classified as general and administrative expenses.

Repairs and maintenance expenses grew in 2013 by 25% compared with 2012, due to the increase in the number of well workover, well servicing and other types of well operations to increase oil recovery.

In 2013 energy expenses grew by 23% largely due to an increase in the average tariff from January 2013 at OMG by 25% and at EMG by 17%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2013 amounted to 92bn Tenge (US$607m), which is 1% lower than in 2012. Transportation costs increased by 16% compared with 2012 due to an increase in tariffs for the Uzen-Atyrau-Samara route and domestic sales routes of the KazTransOil transportation system, which was offset by a decline in accruals for fines and penalties and other general and administrative expenses.

Exploration Expenses

In 2013, exploration expenses amounted to 13.1bn Tenge (US$86m), compared with 6.1bn Tenge (US$41m) in 2012. In 2013 the Company recognized dry well expenses amounting to 6.2bn Tenge (US$40m) relating to the exploration well drilled on the White Bear block, expenses amounting to 2.9bn Tenge (US$19m) relating to the two exploration wells drilled on the Zharkamys East block and 1.3bn Tenge (US$9m) relating to the two exploration wells drilled at Karaton-Sarkamys block.

Impairment of Assets

As previously reported, in the first quarter of 2013 the management of the Company made a 56bn Tenge (circa US$370m) impairment charge of the recoverable value of JSC "Ozenmunaigas". The impairment charge relates to the increase in export customs duty that occurred on 12 April 2013.

Cash Flows from Operating Activities

Operating cash flow in 2013 was 98bn Tenge (US$647m), which is 36% lower than in 2012, mainly due to higher production expenses, taxes other than on income and increase in accounts receivable. From 1 January 2014, the payment period for oil supplied to Rompetrol (through "KazMunaiGas Trading") increased from 60 to 90 calendar days, which might affect the Company's working capital.

Capex

Capital expenditures[2] in 2013 amounted to 144bn Tenge (US$946m), which is 18% higher compared with 2012 mainly due to the increase in the number of wells drilled from 256 to 311 wells, construction of production facilities, purchase of equipment, and implementation of the modernization programme. In 2013 investment into modernisation programme was 14bn Tenge (US$93m) compared with 9.5bn Tenge (US$63m) in 2012.

Cash and Debt

Cash and cash equivalents as at 31 December 2013 amounted to 119bn Tenge (US$0.8bn) compared with 155bn Tenge (US$1.0bn) as at 31 December 2012.

Other financial assets (current and non-current) at 31 December 2013 were 504bn Tenge (US$3.3bn) compared with 552bn Tenge (US$3.7bn) as at 31 December 2012.

In June 2013, KMG NC fully repaid the Bond with an outstanding principal and accrued interest of 137bn Tenge (US$909m). KMG EP purchased the 222bn Tenge (US$ 1.5bn) NC KMG Bonds in June 2010 with a maturity date of June 24, 2013.

As at 31 December 2013, 82% of cash and financial assets were denominated in foreign currencies and 18% were denominated in Tenge. Finance income accrued on cash and financial assets in 2013 was 20.6bn Tenge (US$135m), compared with 34.5bn Tenge (US$232m) (including the Bond income) in 2012.

Borrowings as at 31 December 2013 were 6.8bn Tenge (US$44m) compared with 7.3bn Tenge (USD$48m) as at 31 December 2012.

The net cash position[3] as at 31 December 2013 was 616bn Tenge (US$4.0bn) compared with 699bn Tenge (US$4.6bn) as at 31 December 2012.

[2] The Company revised its approach to calculation of Capex. Starting from 4Q 2013 the Capex represents amount of additions to property, plant and equipment. Formerly it represented purchases of property, plant and equipment and intangible assets according to Cash Flow Statement.
[3] Cash, cash equivalents and other financial assets (including the Bond) less borrowings as at the end of the reporting period.

Income from associates and joint ventures

In 2013 KMG EP's share of results of associates and joint ventures was 51bn Tenge (US$334m) compared with 67bn Tenge (US$452m) in 2012.

Kazgermunai

In 2013 KMG EP recognised 28bn Tenge (US$187m) of income from its share in KGM. This amount represents 46bn Tenge (US$303m) corresponding to 50% of KGM's net profit net of the 18bn Tenge (US$116m) effect of amortization of the fair value of the licenses and the related deferred tax.

KGM's net profit declined by 1% compared with 2012 mainly due to an increase in export customs duty rate and one-off accruals related to tax audits for 2007-2012 and an ecological audit, which was partially offset by an increase in export sales.

In 2013 KMG EP received US$200m in dividends from KGM.

PetroKazakhstan Inc.

In 2013, KMG EP recognised 22bn Tenge (US$145m) of income from its share in PKI. This amount represents 27bn Tenge (US$177m) corresponding to 33% of PKI's net profit net of the 5bn Tenge (US$31m) effect of amortization of the fair value of the licenses.

PKI's net profit declined by 40% compared with 2012 mainly due to a natural decline of production at PKI, lower sales of refined products and an increase in export customs duty and one-off accruals of fines and penalties related to tax and ecological audits.

In 2013 KMG EP received US$219m in dividends from PKI.

CCEL

As of 31 December 2013, the Company had 17.2bn Tenge (US$112m) as a receivable from CCEL, a jointly controlled entity with CITIC Resources Holdings Limited. The Company has accrued 2.8bn Tenge (US$18.1m) of interest income in 2013 related to the US$26.87m annual priority return from CCEL.

Tax and environmental audits

As at 31 December 2013 the Company has several claims related to tax and environmental matters. More detailed information is provided in the consolidated financial statements for the year ended 31 December 2013.

Tax audit for 2006-2008. As a result of 2006-2008 tax audit the tax authorities estimated 16.9bn Tenge (US$112m) of additional taxes payable. The Company is currently in the process of appealing the audit results in the Tax Committee of the Ministry of Finance. During 2013 the tax authorities' assessments was reduced by 1,8bn Tenge (US$12m). As a result, existing tax provisions as at 31 December 2013 were reduced to 14,6bn Tenge (US$96m).

Mineral Extraction Tax. Tax authorities issued a notification to the Company regarding the 8.8bn Tenge (US$58m) payable for discrepancies identified in the data reported in the Company's Mineral Extraction Tax returns and the data supplied by the Ministry of Oil and Gas of the Republic of Kazakhstan for the period from 2009 to 2012. The Company disagrees with the above notification and has provided the written explanations of its position. The tax authorities have not yet audited the Company on this matter and hence no tax assessment was done yet. Should the tax authorities audit the Company and assess additional MET liabilties, the Company will definitely appeal such assessment. The Company management believes that the Company will be successful in its appeal and no provisions in relation to this matter have been made in the consolidated financial statements as at 31 December 2013.

PetroKazakhstanKumkolResources JSC (PKKR) tax audit. As a result of the tax audit for 2009-2012 of PKKR (100% subsidiary of PKI Inc.) tax authorities issued notification for environmental emissions for 10.7bn Tenge (US$69m) and related fines and penalties for 8.8bn Tenge (US$57m). PKKR disagrees with the tax audit results and is planning to file an appeal. PKI management assessed the risk of unfavourable outcome of this claim as probable and recognized a provision for 19.4bn Tenge (US$126m) in its financial statements (KMG EP's 33% share 6.4bn Tenge (US$41.7m). PKI management believes that PKKR has a strong position on any other potential claims as a result of tax audit for 2009-2012.

Ozenmunaigas Environmental Audit 2011-2012. Following an inspection that covered the period from August 2011 to November 2012 JSC "Ozenmunaigas" received a notification to pay 59.3bn Tenge (US$392m) in fines for environmental damages. JSC "Ozenmunaigas" believes that the act was illegal and the calculations were not reliable, and therefore filed an appeal. The Company believes that JSC "Ozenmunaigas" will successfully appeal the results of the inspection and the related fines, and therefore no provision has been accrued for this claim as at 31 December 2013.

Ozenmunaigas environmental audit 2012-2013. As a result of an inspection during the second half of 2013 JSC "Ozenmunaigas" received a notification from the Department of Ecology of Mangystau Region to pay 212.6bn Tenge in fines for environmental damage caused by the disposal of excessive waste to the environment. JSC "Ozenmunaigas" disagrees with this notification and is currently taking appropriate action to appeal the claim. The Company management believes that JSC "Ozenmunaigas" has a strong position in this regard, as the inspection grossly violated the laws of the Republic of Kazakhstan in relation to the procedure for the inspection process. The Company believes that it can successfully appeal the results of the inspection, and therefore no provision has been made for this claim as at 31 December 2013.

Embamunaigas environmental audit. As a result of an ecological inspection in June-July 2013 JSC "Embamunaigas" received a report stating that gas utilization on three oilfields was not being handled in accordance with the approved technological development plans. To prevent the suspension of the development of the fields JSC "Embamunaigas" received a positive conclusion on adjusted development plans from Committee for Environmental Regulation. All fields are currently operating in accordance with the development plans, and there is no longer any outstanding litigation related to this matter.

Embamunaigas gas flaring. On 23 January 2014, JSC "Embamunaigas" received a notification in the amount of 37.2bn Tenge in fines for environmental damage caused by violations of ecology law, including emissions from associated gas flaring. The Company is currently taking appropriate action to appeal the claim. The Company believes that it can successfully appeal the results of the inspection and the related fines. Therefore no provision has been made for this claim as at 31 December 2013.

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The consolidated financial statements for the year ended 31 December 2013 and the operating and financial review for the period is available on the Company's website (www.kmgep.kz).

APPENDIX

Consolidated Statement of Comprehensive Income

Tenge million

	For the year ended December 31,	
	2013	**2012**
Revenue	816,712	797,170
Share of results of associate and joint ventures	50,866	67,442
Finance income	20,577	34,528
Total revenue and other income	**888,155**	**899,140**
Production expenses	(162,035)	(140,362)
Selling, general and administrative expenses	(92,360)	(93,088)
Exploration expenses	(13,125)	(6,104)
Depreciation, depletion and amortization	(47,144)	(53,747)
Taxes other than on income	(311,688)	(274,171)
Impairment of property, plant and equipment	(60,099)	(77,012)
Loss on disposal of property, plant and equipment	(4,475)	(3,189)
Finance costs	(8,085)	(7,231)
Foreign exchange gain, net	11,216	9,513
Profit before tax	**200,360**	**253,749**
Income tax expense	(58,531)	(92,926)
Profit for the year	**141,829**	**160,823**
Exchange difference on translating foreign operations	4,500	3,655
Other comprehensive income for the year, net of tax	**4,500**	**3,655**
Total comprehensive income for the year, net of tax	**146,329**	**164,478**
EARNINGS PER SHARE – Tenge thousands		
Basic and diluted	2.08	2.32

Consolidated Statement of Financial Position

Tenge million

	As at December 31,	
	2013	**2012**
ASSETS		
Non-current assets		
Property, plant and equipment	350,675	325,520
Intangible assets	12,064	19,584
Investments in joint ventures	88,967	89,252
Investments in associate	107,095	118,959
Receivable from a jointly controlled entity	13,222	14,326
Loans receivable from joint ventures	18,402	13,150
Other financial assets	21,711	1,085
Deferred tax asset	34,356	31,968
Other assets	19,542	17,200
Total non-current assets	**666,034**	**631,044**
Current assets		
Inventories	27,422	25,058
Income taxes prepaid	43,684	17,806
Taxes prepaid and VAT recoverable	72,169	56,257
Mineral extraction and Rent tax prepaid	1,967	8,073
Prepaid expenses	22,067	15,539
Trade and other receivables	153,219	101,168
Receivable from a jointly controlled entity	3,969	3,895
Loans receivable from joint ventures	3,933	–
Other financial assets	482,006	550,556
Cash and cash equivalents	119,036	154,705
Total current assets	**929,472**	**933,057**
Total assets	**1,595,506**	**1,564,101**
EQUITY		
Share capital	162,969	162,952
Other capital reserves	2,482	2,474
Retained earnings	1,185,815	1,154,335
Other components of equity	22,509	18,009
Total equity	**1,373,775**	**1,337,770**
LIABILITIES		
Non-current liabilities		
Borrowings	4,291	4,848
Deferred tax liability	881	–
Provisions	34,203	36,927
Total non-current liabilities	**39,375**	**41,775**
Current liabilities		
Borrowings	2,503	2,462
Provisions	20,067	17,319
Income taxes payable	29,341	32,103
Mineral extraction tax and rent tax payable	61,956	50,417
Trade and other payables	68,489	82,255
Total current liabilities	**182,356**	**184,556**
Total liabilities	**221,731**	**226,331**
Total liabilities and equity	**1,595,506**	**1,564,101**

Consolidated Statement of Cash Flows

Tenge million

	For the year ended December 31,	
	2013	**2012**
Cash flows from operating activities		
Profit before tax	200,360	253,749
Adjustments to add / (deduct) non-cash items		
Depreciation, depletion and amortization	47,144	53,747
Share of result of associate and joint ventures	(50,866)	(67,442)
Loss on disposal of property, plant and equipment (PPE)	4,475	3,189
Impairment of PPE	60,099	77,012
Dry well expense on exploration and evaluation assets	10,971	4,321
Recognition of share-based payments	145	354
Forfeiture of share-based payments	(137)	(4)
Unrealised foreign exchange gain on non-operating activities	(5,533)	(6,835)
Other non-cash income and expense	7,898	420
Add finance costs	8,085	7,231
Deduct finance income	(20,577)	(34,528)
Working capital adjustments		
Change in other assets	376	101
Change in inventories	(549)	(2,267)
Change in taxes prepaid and VAT recoverable	(16,436)	(33,519)
Change in prepaid expenses	(6,525)	(3,577)
Change in trade and other receivables	(51,906)	(16,599)
Change in trade and other payables	(20,371)	13,925
Change in mineral extraction and rent tax payable	11,128	(8,564)
Change in provisions	(1,805)	10,663
Income tax paid	(77,544)	(96,498)
Net cash generated from operating activities	**98,432**	**154,879**
Cash flows from investing activities		
Purchases of PPE	(140,402)	(99,240)
Proceeds from sale of PPE	582	1,054
Purchases of intangible assets	(8,628)	(8,874)
Loans provided to the joint ventures	(11,252)	(5,081)
Dividends received from joint ventures and associate, net of withholding tax	64,138	114,207
Interest received from investment in Debt Instruments of NC KMG	4,734	11,280
Proceeds from repayment of investment in Debt Instruments of NC KMG	135,243	−
Purchase of financial assets held to maturity	(78,520)	(85,257)
Proceeds from sale of other financial assets	−	5,546
Repayments of loans receivable from related parties	4,088	7,657
Proceeds from disposal of subsidiary	−	3,601
Interest received	7,130	2,976
Net cash used in investing activities	**(22,887)**	**(52,131)**
Cash flows from financing activities		
Share buy back	−	(36,203)
Repayment of borrowings	(1,079)	(81,406)
Dividends paid to Company's shareholders	(109,979)	(33,971)
Interest paid	−	(2,975)
Net cash used in financing activities	**(111,058)**	**(154,555)**
Net change in cash and cash equivalents	(35,513)	(51,807)
Cash and cash equivalents at the beginning of the year	154,705	206,512
Exchange gain on cash and cash equivalents	(156)	−
Cash and cash equivalents at the end of the year	**119,036**	**154,705**

The following tables show the Company's realised sales prices adjusted for oil transportation and other expenses for the year ended December 31, 2013.

2013 (US$/bbl)	UAS	CPC	Domestic
Benchmark end-market quote	108.7	108.7	-
Quality bank	-	(7.6)	-
Price differential	(2.1)	(0.8)	-
Realised price	**106.6**	**100.3**	**36.8**
Rent tax	(23.9)	(24.9)	-
Export customs duty	(7.3)	(6.9)	-
Transportation	(9.1)	(7.4)	(1.8)
Netback	**66.3**	**61.1**	**35.0**
Premium of bbl difference	-	8.3	-
Effective netback incl. premium of bbl difference	**66.3**	**69.4**	**35.0**

2012 (US$/bbl)	UAS	CPC	Domestic
Benchmark end-market quote	111.7	111.7	-
Quality bank	-	(7.4)	-
Price differential	(2.9)	(1.9)	-
Realised price	**108.8**	**102.4**	**35.5**
Rent tax	(23.5)	(23.6)	-
Export customs duty	(5.6)	(4.9)	-
Transportation	(7.9)	(7.0)	(1.0)
Netback	**71.8**	**66.9**	**34.5**
Premium of bbl difference	-	8.0	-
Effective netback incl. premium of bbl difference	**71.8**	**74.9**	**34.5**

Reference information	2013	2012
Average exchange US$/KZT rate	152.14	149.11
End of period US$/KZT rate	153.61	150.74
Coefficient barrels to tonnes for KMG EP crude (production)		7.36
Coefficient barrels to tonnes for KMG EP crude (sales)		7.23
Coefficient barrels to tonnes for Kazgermunai crude		7.70
Coefficient barrels to tonnes for CCEL crude		6.68
Coefficient barrels to tonnes for PKI crude		7.75

Notes to editors

KMG EP is among the top three Kazakh oil and gas producers. The overall production in 2013 was 12.4mt (an average of 251kbopd) of crude oil, including the Company's share in Kazgermunai, CCEL and PKI. The Company's total consolidated volume of proved and probable reserves including shares in the associates, as at the end of 2012 was 204 mt (1.5bn bbl), out of which 148 mt (1.1bn bbl) relates to Ozenmunaigas and Embamunaigas. 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 "BBB-" corporate credit rating in May 2013.

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