

PRESS - RELEASE

JSC KazMunaiGas Exploration Production 1H 2010 Financial results

Astana, August 23, 2010. JSC KazMunaiGas Exploration Production (“KMG EP” or “the Company”) released its condensed consolidated interim financial statements for the six months ended June 30, 2010.

- Operating profit increased by 81% to 103.5bn Tenge (US\$703m)¹ compared to the first six months of 2009, mainly due to higher oil prices.
- In the first six months of 2010 KMG EP made a profit of 100.0bn Tenge (US\$679m) and earnings per share were 1,370 Tenge (US\$1.6 per GDR) compared to 128.8bn Tenge (US\$890m) and earnings per share 1,752 Tenge (US\$2.0 per GDR) of the corresponding period in 2009. The decrease is mainly attributable to a significant foreign exchange gain followed the devaluation of Tenge in February 2009.
- Average Brent price in the first six months of 2010 increased 50% compared to the same period of 2009, from US\$51.68 per barrel to US\$77.29 per barrel.

Commenting on the financial results for the first half of 2010, Kenzhebek Ibrashev, CEO of KMG EP, said: “With improved crude prices the company has increased the level of investments in its core fields and aims to deliver a sustainable production level from existing assets while using its strong balance sheet to pursue longer-term growth strategy”.

Production Highlights

JSC KazMunaiGas Exploration Production (KMG EP or the Company), announces that in the first six months of 2010 it produced 6,283 thousand tonnes of crude oil (257 kbopd) including the Company’s stakes in Kazgermunai (KGM), CCEL and PetroKazakhstan Inc. (PKI)², which is 610 thousand tonnes or 11% more than during the same period of 2009. The increase in production results from the acquisition of 33% stake in PKI, which accounts for 733 thousand tonnes. The operating plan for 2010 including KGM, CCEL and PKI³ remains at the same level of 13.5 million tonnes (274kbopd).

In the first six months of 2010 the Company produced 4,316 thousand tonnes (175 kbopd) of oil at production facilities of Uzenmunaigas and Embamunaigas, which is 107 thousand tonnes or 2% less than for the same period of previous year. The decline in production was mainly caused by the failure to perform well service operations and oilfield equipment repair on time amid a strike by Uzenmunaigas workers over the period from March 4 through March 18.

In the first six months of 2010 KMG EP’s share in production of KGM, CCEL and PKI amounted to 1,967 thousand tonnes (81 kbopd).

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.

² PKI results exclude PKI’s 50% stake in TurgaiPetroleum as per accounting information provided by PKI

³ Operating plan includes PKI’s 50% stake in TurgaiPetroleum.

According to preliminary data, during the first six months of 2010 the Company supplied 4,310 thousand tonnes of crude oil (175 kbopd), excluding the share in supply from KGM, CCEL and PKI. Of this amount 3,459 thousand tonnes (141 kbopd) were exported.

The Company's share in the sales volumes from KGM, CCEL and PKI was 2,306 thousand tonnes of crude oil and oil products (96 kbopd), including 1,686 thousand tonnes (70 kbopd) supplied to export markets. Share in PKI's sales includes resale of crude oil due to contractual obligations for domestic supply.

Financial Highlights

Profit After Tax

Profit after tax (net income) for the first six months of 2010 was 100.0bn Tenge (US\$679m). This represents a 22% decrease from the corresponding period in 2009 which included a large foreign exchange gain made in 2009 as a result of Tenge devaluation, not recurring in 2010.

Revenue

Revenue for the first six months of 2010 increased by 44% to 296.6bn Tenge (US\$2,014m) compared to the same period in 2009. This was due to a 51% increase in the average realised price per tonne, from 44,631 Tenge (US\$42.66 per bbl) to 67,587 Tenge (US\$63.48 per bbl) and a 3% reduction in sales volume. In US dollar terms, revenue increased by 41%.

Operating Expenses

Operating expenses were 193.1bn Tenge (US\$1,311m) for the first six months of 2010, 29% higher compared to the same period in 2009. A significant part of this opex increase is due to higher rent and mineral extraction taxes (MET) resulting from the increased oil price. Excluding rent tax, MET expenses, fines and penalties, operating expenses in the first six months of 2010 increased by 17% in Tenge compared to the same period of 2009. This was driven mainly by an increase in payroll, repairs, maintenance and transportation expenses.

Payroll expenses increase reflects salary indexation from 1 January 2010 and a salary increase at the production units on 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 10% increase of KTO transportation tariffs by Transneft from 1 January 2010.

In US dollar terms operating expenses per barrel excluding taxes and penalties increased by 18% compared to the same period of 2009.

Cash Flow

Operating cash flow for the first six months of 2010 was 41.0bn Tenge (US\$278m), which is 55% higher than in the same period of 2009.

Capex

Purchases of property, plant and equipment (capital expenditure, not including purchases of intangible assets, as per Cash Flow Statement) in the first six months of 2010 were 26.4bn Tenge (US\$180m) compared to 12.9bn Tenge (US\$72m) in the same period of 2009, representing

105% increase. According to the KMG EP's budget 2010, annual capital expenditure is envisaged at 83.2bn Tenge (US\$555m).

Exploration activity

In the first six months of 2010, the Company completed testing of one exploration well in R-9 block and started construction of two evaluation wells in S. Nurzhanov field, with projected depth 3,500 meters each. In the first six months exploration expenditures were 0.5bn Tenge (US\$3.5m). According to the budget, in 2010 it is planned to drill eight exploration and evaluation wells (including the above mentioned wells in S. Nurzhanov) and it is expected that exploration activity expenditures will be \$4bn Tenge (US\$27m).

Cash and debt

Net cash position⁴ at 30 June 2010 amounted to 558.9bn Tenge (US\$3.8bn) compared to 505,0bn Tenge (US\$3.4bn) as at 31 December 2009.

Cash, cash equivalents and financial assets at 30 June 2010 were 698.6bn Tenge (US\$4.7bn).

As at 30 June 2010, 75% of cash and deposits with banks were denominated in USD and 25% were denominated in Tenge. Cash and deposits with two of the largest Kazakh banks, Halyk and Kazkommertsbank, account for approximately 68% of the financial assets as at 30 June 2010. Interest accrued on deposits with banks for the first six months of 2010 was 19bn Tenge (US\$129m).

Borrowings and obligations were 140bn Tenge (US\$947m) as at 30 June 2010 compared to 138bn Tenge (US\$928m) as at 31 December 2009. Borrowings include 131bn Tenge (US\$890m) of non-recourse debt of KMG PKI Finance related to the acquisition of the 33% stake in PKI.

On July 16, 2010, the Company purchased Bonds issued by NC KMG in the amount of 220 billion Tenge (1.5 billion US Dollars) which carry an annual coupon of 7% and mature in June 2013 as per previously disclosed information.

Fines and Penalties

The Company underwent a comprehensive tax audit by the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan for the 2004 and 2005 years. As a result of the tax audit, 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), of which 16.0bn Tenge (US\$110m) of the amount was for underpaid taxes, 8.0bn Tenge (US\$54m) represented administration penalties and a further 7.8bn Tenge (US\$53m) was for late payment interest. The Company has filed an appeal to the court of first instance, which partially accepted claim of the Company by issuing the Decision on May 24, 2010. According to the Decision the principal tax assessment was reduced to 8.6bn Tenge (US\$59m) and corresponding late payment interest was reduced to 2.6bn Tenge (US\$18m). The Company filed an appeal to the court of second instance, which was not satisfied by the court on July 29, 2010. The Company is planning to appeal the Decision in the court of third instance.

The Company's management maintains that its interpretation of the tax legislation was correct. However, as the outcome of the dispute remains uncertain, the Company made appropriate

⁴ Cash, cash equivalents and other financial assets less borrowings.

provisions in the first half of 2010. As at 30 June 2010 the accrued balance of provision was 12.4 bn Tenge (US\$84m).

Contribution from strategic acquisitions

In the first six months of 2010 the Company recorded a 11.3bn Tenge (US\$76m) gain from its share in **Kazgermunai**. This amount represents 50% of Kazgermunai's net profit of 16.3bn Tenge (US\$110m) and 1.7bn Tenge (US\$12m) deferred income tax benefit adjusted for 5.1bn Tenge (US\$34m) from the effect of purchase price premium amortization and 1.7bn Tenge (US\$11m) deferred income tax amortisation. The financial results of Kazgermunai in the first six months of 2010 were primarily affected by the higher oil price compared to the corresponding period of 2009. In the second quarter KGM accrued additional provision for corporate income and excess profit taxes, related to prior years.

On 28 April 2010 the Company received US\$150m in dividends from Kazgermunai. From the date of the acquisition, dividends received have amounted to US\$800m.

In the first six months of 2010 KMG EP recorded a 7.7bn Tenge (US\$52m) gain from its share in **PKI**. This amount represents 33% of PKI's net profit of 15.9bn Tenge (US\$108m) adjusted for 8.3bn Tenge (US\$56m) from the effect of purchase price premium amortization. In the second quarter PKI accrued additional provision for corporate income and excess profit taxes, related to prior years.

On 15 July 2010, KMG EP received dividends from PKI in the amount of US\$16.5m. As a result, the total amount of dividends received from PKI since acquisition in December 2009 reached US\$99m.

The Company has recognised the amount of 22.8bn Tenge (US\$154m) as a **receivable from CCEL**, a jointly controlled entity. The Company has accrued 1.5bn Tenge (US\$10m) of interest income for the first six months of 2010 related to the US\$26.87m annual priority return from CCEL.

The condensed consolidated interim financial statements for the six months ended June 30, 2010 are available on the Company's website (www.kmgep.kz).

APPENDIX⁵

Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

Tenge (000s)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue	150,548,503	123,475,611	296,605,166	206,630,713
Operating expenses	(101,682,169)	(86,400,856)	(193,110,245)	(149,591,334)
Profit from operations	48,866,334	37,074,755	103,494,921	57,039,379
Finance income	10,173,030	11,843,824	20,863,493	23,843,516
Finance costs	(1,979,406)	(460,889)	(3,943,942)	(970,537)
Unrealised loss of crude oil derivative	–	(4,491,457)	–	(4,491,457)
Foreign exchange gain/(loss)	1,402,862	(3,685,204)	(2,837,109)	97,886,291
Share of result of associates and joint ventures	6,716,784	(4,080,166)	18,848,047	(5,130,679)
Profit before tax	65,179,604	36,200,863	136,425,410	168,176,513
Income tax expense	(16,824,533)	(15,446,757)	(36,391,304)	(39,410,822)
Profit for the period	48,355,071	20,754,106	100,034,106	128,765,691
Exchange difference on translating foreign operations	99,524	(633,665)	(581,671)	14,104,004
Other comprehensive income for the period, net of tax	99,524	(633,665)	(581,671)	14,104,004
Total comprehensive income for the period, net of tax	48,454,595	20,120,441	99,452,435	142,869,695
EARNINGS PER SHARE				
Basic	0.66	0.29	1.37	1.75
Diluted	0.64	0.27	1.33	1.72

⁵ 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.

Condensed Consolidated Interim Statement of Financial Position

Tenge (000s)

	June 30, 2010	December 31, 2009
	Unaudited	Audited
ASSETS		
Non-current assets		
Property, plant and equipment	266,831,769	257,739,303
Other financial assets	967,300	797,931
Receivable from jointly controlled entity	19,665,090	20,268,928
Intangible assets	2,034,903	2,276,745
Investments in associates and joint ventures	237,762,572	254,147,918
Deferred tax asset	9,028,592	10,265,537
Other assets	11,803,531	7,291,870
Total non-current assets	548,093,757	552,788,232
Current assets		
Inventories	16,093,932	15,525,704
Taxes prepaid and VAT recoverable	18,912,414	9,969,965
Prepaid and deferred expenses	26,042,994	21,595,622
Receivable from jointly controlled entity	3,092,516	1,082,100
Trade and other receivables	58,231,994	49,710,916
Other financial assets	612,326,101	534,288,078
Cash and cash equivalents	85,257,469	107,626,368
Total current assets	819,957,420	739,798,753
Total assets	1,368,051,177	1,292,586,985
EQUITY		
Share capital	232,036,321	238,546,914
Other capital reserves	1,554,424	1,474,089
Retained earnings	796,987,280	747,820,751
Other components of equity	12,355,724	12,937,395
Total equity	1,042,933,749	1,000,779,149
LIABILITIES		
Non-current liabilities		
Borrowings	91,326,442	92,023,143
Provisions	36,751,570	35,319,443
Total non-current liabilities	128,078,012	127,342,586
Current liabilities		
Borrowings	48,363,365	45,650,017
Income taxes payable	–	21,138,596
Mineral extraction and rent tax payable	40,589,174	36,177,299
Trade and other payables	31,428,037	33,651,462
Dividends payable	48,939,765	750,797
Provisions	27,719,075	27,097,079
Total current liabilities	197,039,416	164,465,250
Total liabilities	325,117,428	291,807,836
Total liabilities and equity	1,368,051,177	1,292,586,985

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

Tenge (000s)

	Six months ended June 30,	
	2010	2009
Cash flows from operating activities		
Profit before income tax	136,425,410	168,176,513
Adjustments to add (deduct) non-cash items		
Depreciation, depletion and amortisation	16,389,840	15,153,080
Share of result of associates and joint ventures	(18,848,047)	5,130,679
Settlement of crude oil under the terms of a pre-export financing agreement	–	(7,100,384)
Unrealized loss of crude oil derivative instrument	–	4,491,457
Loss on disposal of property, plant and equipment (PPE)	562,441	401,926
Impairment of PPE (reversal of impairment)	395,569	(544,784)
Recognition of share-based payments	80,023	141,199
Forfeiture of share-based payments	(5,320)	(146,113)
Unrealised foreign exchange loss (gain) on non-operating activities	2,238,543	(43,692,752)
Other non-cash income and expense	338,562	403,637
Add finance costs	3,943,942	970,537
Deduct interest income relating to investing activity	(20,863,493)	(23,843,516)
Working capital adjustments		
Change in other assets	(4,511,661)	(1,156,220)
Change in inventories	(557,655)	22,413
Change in taxes prepaid and VAT recoverable	(4,432,593)	(2,495,968)
Change in prepaid expenses	(4,522,176)	(1,642,425)
Change in trade and other receivables	(8,650,327)	(35,403,637)
Change in trade and other payables	(2,118,293)	(8,871,978)
Change in mineral extraction and rent tax payable	4,411,875	27,632,716
Change in provisions	836,932	9,775,457
Income tax paid	(60,128,183)	(80,881,460)
Net cash generated from operating activities	40,985,389	26,520,377
Cash flows from investing activities		
Purchases of PPE	(26,447,472)	(12,929,110)
Proceeds from sale of PPE	20,277	1,090,135
Contribution to the charter capital of the joint venture	–	(580,044)
Dividends received from joint ventures and associates	34,109,060	–
(Purchase) sale of financial assets held-to-maturity, net	(67,310,681)	28,710,851
Interest received	3,371,417	9,168,873
Net cash (used in) generated from investing activities	(56,257,399)	25,460,705
Cash flows from financing activities		
Purchase of treasury shares	(6,546,233)	(14,148,562)
Repayment of borrowings	(487,198)	(3,990,103)
Dividends paid to Company's shareholders	(74,217)	(50,411)
Interest paid	–	(91,745)
Net cash used in financing activities	(7,107,648)	(18,280,821)
Net change in cash and cash equivalents	(22,379,658)	33,700,261
Cash and cash equivalents at beginning of the year	107,626,368	285,131,743
Exchange gains on cash and cash equivalents	10,759	806,746
Cash and cash equivalents at end of the period	85,257,469	319,638,750

The following tables show the Company's realised sales prices adjusted for oil and oil products transportation and other expenses for the six months ended June 30, 2010 and 2009.

	1H 2010			
	UAS	CPC	Domestic	Average
	(US\$/bbl)			
Benchmark end-market quote ⁶	77.29	77.29	-	-
Sales price	73.28	76.54	20.52	64.05
Quality bank	-	(6.49)	-	(1.87)
Premium of bbl difference	(0.18)	5.66	-	1.29
Realised price⁷	73.10	75.72	20.52	63.48
Rental tax	12.68	12.67	-	10.18
Transportation	7.48	7.22	1.50	6.17
Sales commissions	0.07	0.07	-	0.06
Adjusted realised price	52.86	55.75	19.02	47.07

	1H 2009			
	UAS	CPC	Domestic	Average
	(US\$/bbl)			
Benchmark end-market quote ⁶	50.67	51.50	-	-
Sales price	49.42	50.08	17.26	43.42
Quality bank	-	(6.83)	-	(1.74)
Premium of bbl difference	0.13	4.15	-	0.98
Realised price⁷	49.55	47.40	17.26	42.66
Rental tax	5.02	5.02	-	4.03
Transportation	5.90	7.59	0.84	5.31
Sales commissions	0.06	0.06	-	0.05
Adjusted realised price	38.57	34.73	16.42	33.27

Reference information	For the six months ended June 30 2010	
	2010	2009
Average exchange rate US\$/KZT	147.26	144.69
US\$/KZT at balance sheet date	147.46	150.41
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	
Coefficient barrels to tones for PKI crude	7.75	

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⁶ The following quoted prices are used as benchmarks: first half 2010 – Brent (DTD), first half 2009- Urals (RCMB) for UAS and CPC blend (CIF) for CPC.

⁷ 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 2009 was 11.5mmt (an average of 232kbopd) of crude oil, including the Company's share in Kazgermunai and CCEL. The total volume of proved and probable reserves, as at the end of 2009 was 234mt (1.7bn bbl), excluding the relevant proportion of reserves at Kazgermunai, CCEL and PKI; including the share of reserves from Kazgermunai, CCEL and PKI the 2P reserves were 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. In December 2009, the International rating agency Standard & Poor's (S&P) assigned the Company a "GAMMA-6" rate and confirmed KMG EP's "BB+" corporate credit rating in July 2010.

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