

## PRESS RELEASE

### *JSC KazMunaiGas Exploration Production Trading Update*

*Astana, 25 February 2009.* Taking into account various inquiries received by JSC KazMunaiGas Exploration Production (the “Company” or “KMG EP”) in connection with the recent newsflow regarding business environment in which the Company operates, KMG EP provides this trading update.

#### **Economic conditions in Q4 2008**

The fall of the world oil price that had started in the middle of 2008 continued into Q4 2008. The average price for Brent in Q4 2008 was \$54.91/bbl compared with \$114.68/bbl in Q3 2008 and an average of \$110.86/bbl for the first nine months of 2008. In December 2008, the price for Brent moved below US\$40/bbl. From 11 October 2008 until the end of the year, the oil exported from Uzenmunaigas and Embamunaigas was subject to an export duty at the rate of US\$203.8 per tonne (approximately \$28/bbl), compared to the previous rate of US\$109.91 (approximately US\$15/bbl) while production costs in Q4 2008 were higher than in the previous quarter due to seasonal factors and inflation.

As a result of the combination of these factors, profitability in Q4 2008 was significantly lower than in the previous quarter, and negative in certain periods. Among the factors that contributed positively in Q4 2008 were significant financial income from KMG EP’s financial assets, return on investment in CCEL, as well as the Company’s share in the profits of Kazgermunai (50% owned by KMG EP), where, according to the terms of the Kazgermunai’s subsoil use contract, export oil was not subject to the export duty in 2008.

#### **New Tax environment in 2009.**

The New Tax Code of the Republic of Kazakhstan took effect from January 1, 2009. Summary of key changes in the tax environment for KMG EP is provided in the Appendix.

The introduction of the new tax regime, according to the Company’s preliminary calculations, leads to the increase of the tax take (measured as the ratio of the total amount of taxes and the pre-tax profit before all taxes) by around 0.5% to 10%, depending on the oil price. The increase of the tax burden with the growth of the oil price is explained by the use of progressive scales of rent tax and excess profit tax. This estimate assumes for the 2008 tax regime a constant export duty at the actual average rate in 2008 (approx. US\$11/bbl)

As a result of the introduction of the New Tax Code, and in accordance with the IFRS accounting principles, KMG EP will be subject to a one-off non-cash effect from a release of deferred tax liabilities which will be reflected in the 2008 financial results.

Due to the matching between the level of tax and the level of income for the same period, allowed under the New Tax Code, the total tax take in Q1 2009, in absolute terms, will be lower, than in Q4 2008 (including export duty), thus reflecting the current world oil price.

### **Local Currency Fluctuation (Tenge)**

On the 4<sup>th</sup> February 2009 the National Bank of the Republic of Kazakhstan announced that it “considers the new level of exchange rate objectively necessary” and stated that it is possible that “the exchange rate corridor will be around 150 Tenge per USD\$1.00  $\pm$ 3%”.

Since the majority of oil produced is exported and priced in US dollars, the increase of the US dollar rate in relation to Tenge results in an increased amount of revenue expressed in Tenge, which is the Company’s functional currency for the financial statement preparation purposes. At the same time, the significant part of the Company’s operational and capital expenditure also depends on the Tenge exchange rate. Such expenditures include taxes, such as MET and rent tax (calculations of which depend on the world oil price), transportation costs incurred outside the territory of Kazakhstan and the costs of materials, equipment and services, that are not sourced within Kazakhstan.

According to preliminary estimates, the increase to the US\$/Tenge exchange rate of 10 Tenge per US Dollar in relation to the current level of about 150 Tenge per US Dollar would, in the short term, lead to a 6% increase in revenue and approximately 3% increase in operating costs. The actual changes in costs would depend on several factors, including inflation, pricing by various suppliers and the Company’s measures on cost optimisation.

Fluctuations in the exchange rate also impact the value of the Company’s financial assets, expressed in Tenge. As a result of the increase in the US dollar rate in relation to Tenge, the value of the US dollar denominated financial assets of the Company increase accordingly. Under the New Tax Code, this benefit may be subject to taxation at the corporate income tax rate which is in effect in the tax period when the benefit is accrued (20% in 2009).

### **The Company’s financial resources**

As previously reported (20 November 2008), as at 30 September 2008, cash, cash equivalents, and other financial assets net of borrowings, were approximately 530bn Tenge. Approximately two thirds of the financial assets were held in USD, and one third in Tenge. This ratio remained largely unchanged at the year end. It was further disclosed that as at 30<sup>th</sup> September 2008 more than 75% of KMG EP’s financial assets were kept in two banks, – Halyk Bank and Kazkommertsbank, and this also remains unchanged. Assets kept in any other bank, Kazakh or foreign, do not exceed 8% of KMG EP’s financial assets in each of those banks.

As recently reported in the press at the beginning of February 2009, during a press-conference the Chairman of the Board of Directors of BTA Bank, Arman Dunaev, confirmed that BTA Bank refused to conduct certain payments on behalf of some of the National Companies. He also confirmed that such action was a result of the instructions received from management of Samruk-Kazyna government holding company (currently a major shareholder of BTA Bank) to support the bank.

Some of KMG EP’s February 2009 payments, to the total amount of 17bn Tenge, have been accepted for payment but delayed by BTA Bank. KMG EP is currently holding consultations with the management of BTA Bank in order to establish the exact limits of these delays.

The total sum of the Company’s financial assets held in BTA Bank is approximately 43.6bn Tenge. The current situation does not preclude KMG EP from conducting its business operations as normal and timely fulfilment of its obligations.

According to the announced strategy of the Company, the accumulated funds are intended mainly for long-term investment projects directed at the growth of KMG EP as the largest oil producing company in Kazakhstan (majority owned by the State through NC KMG). Such projects include possible acquisitions of producing assets in Kazakhstan and abroad, receiving exploration licenses and conducting exploration activities on new blocks.

KMG EP has conducted extensive work on the realisation of its strategy of acquiring new assets. The Company has prepared certain proposals and terms on exploration and producing assets, including those in the possession of NC KMG or those that may be acquired by NC KMG in the near future. Various proposals from KMG EP are with NC KMG and the Company will update the shareholders in due course.

A portion of funds currently available to the Company is being used for the buy-back of shares, in accordance with the decision of the Board of Directors on 8 October 2008. As at 23 February 2009 the Company had purchased its own shares and GDRs to the amount of approximately US\$34.6m. The Board of Directors intends to discuss the realisation of the buy-back programme at its next meeting.

#### **NOTES TO EDITORS**

KMG EP is the second largest oil and gas producing company in Kazakhstan. The overall production from its main assets in 2007 was 9,530 thousand tonnes of crude oil; exported 7,354 tonnes. The total volume of proved and probable reserves, as at the end of 2007, was 240 mmt (1.8bn bbl) and over 2bn. bbl including the relevant proportion of reserves at its subsidiaries. In 2007, KMG EP acquired 50% of shares in Kazgermunai and CCEL (owns Karazhanbasmunai). The Company's shares are listed on Kazakhstan Stock Exchange and the GDRs are listed on London Stock Exchange. The Company raised approximately US\$2bn in its IPO in September 2006. In 2008, the Standard & Poor's has increased the Company's CGR from 5+ to 6 and approved the Company's credit rating at BB+.

#### **Appendix.**

#### **Summary of changes in tax environment from January 1, 2009, that may have a material impact on KMG EP's operations:**

- The Law envisages a phased reduction in the rate of Corporate Income Tax ("CIT") from 30% in 2008 to 20% in 2009, 17.5% in 2010 and 15% from 2011 and onwards.

- New Mineral Extraction Tax has been introduced ("MET"). The rate of MET depends on production levels of crude oil and gas in each individual contract on subsoil use. The tax base for calculation of MET is the volume of extracted crude oil per contract. The tax base is determined by the world prices of crude oil (specifically, Brent and Urals). With regard to the oil supplied to refineries in Kazakhstan territory, the tax base is the actual final purchase price paid by the refineries and the applicable MET rate is 50% of the base rate of MET. In total, MET payments for the subsoil use contracts of KMG EP compared to the previously applied system of royalties (stabilised rates as per terms of contracts) will be significantly higher. The MET rates introduced in 2009 will be increased in each of the subsequent two years by 1%, concurrent with the phased reduction in CIT.

- The new 'rent tax' is replacing the previously existing export customs duty ("ECD"). The total payments will be determined by the value of exported crude oil, with the reference to the world prices of crude oil (specifically, Brent and Urals). The major difference between the rent tax and the ECD is that the former is paid in arrears for each quarter, which ensures the matching between the level of taxation and the level of economic benefits received from exports.

- There were changes to the calculation of Excess Profit Tax ("EPT") that is imposed on net profits. EPT is calculated separately for each subsurface use contract and is charged when the revenue from crude oil sales exceeds the level of permissible deductions by more than 25%. As an incentive for the replacement of fixed assets, capital expenditure related to petroleum operations may be included in deductions instead of depreciation for the purposes of the EPT calculation. The tax rate is based on incremental progressive scale and depends on the level of the received net profit. Therefore, the relative importance of EPT is reduced at current world oil prices but could become more significant should oil prices increase.

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