

PRESS - RELEASE

JSC KazMunaiGas Exploration Production 2011 financial results

Astana, 2nd March 2012. JSC KazMunaiGas Exploration Production (“KMG EP” or “the Company”) released its consolidated financial statements for the year ended December 31, 2011.

- Revenues increased by 19% to 708bn Tenge (US\$4,832m) compared to 2010 on higher Brent and domestic prices offset by reduced export volumes. Average Brent price in 2011 increased by 41% to US\$111 per barrel from US\$79 per barrel in 2010.
- Net profit in 2011 amounted to 209bn Tenge (US\$1,425m)¹ and earnings per share – 2,950 Tenge (US\$3.4 per GDR), a decrease of 11% and 9%, respectively, compared to 2010.
- The main factors that had a negative impact on KMG EP’s results were production and export decline due to the illegal strike that took place in May-August 2011 and introduction of export duty in 2010 and doubling of its rate in 2011.

Production Highlights

In 2011 KMG EP’s consolidated production was 12,341 thousand tonnes of crude oil (250 kbopd) including the Company’s stakes in LLP Kazgermunai JV (KGM), CCEL (CCEL, Karazhanbasmunai) and PetroKazakhstan Inc. (PKI). This was 944 thousand tonnes or 7% less than in 2010.

Uzenmunaigas (UMG) produced 5,082 thousand tonnes (102kbopd), which is 884 thousand tonnes less than in 2010. Embamunaigas (EMG) produced 2,818 thousand tonnes (57kbopd), which is 18 thousand tonnes more than in 2010, thereby the total volume of the oil produced at production facilities of UMG and EMG in 2011 was 7,900 thousand tonnes (159kbopd), which is 866 thousand tonnes, or 10% less than in 2010. The results were negatively affected by the illegal strike at UMG that took place in May-August 2011 and power cuts throughout the year. The loss of production has mainly impacted on the Company’s export volumes, which in turn was a major reason of Company’s weaker financial results compared to previous year.

Production plans

The Company is currently implementing a number of measures to increase production level at Uzen in the short term and ensure sustainability and efficiency of UMG operating activities going forward.

In early 2012 the Company followed a suggestion by Kazakh authorities to set up two new service subsidiaries which created jobs for approximately 2,000 people previously dismissed from KMG EP and one of its joint ventures. This measure has expanded oil service capacity in Mangistau region and has significantly contributed to social stability in the region thereby facilitating normal

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: USD/KZT 2011 - 146.62, 2010 - 147.35; period-end rates: 2011 - USD/KZT 148.40, 2010 - 147.40).

operations of UMG. Given the social nature of this initiative and the need to take into account the interests of all shareholders, it was agreed after discussions between the Board of directors of KMG EP, the Government, National Wealth Fund Samruk-Kazyna and the National Company KazMunaiGas that the subsidised price applied to most of the crude shipments by KMG EP to Atyrau refinery would be gradually increased during the course of 2012. The resulting economic benefit to KMG EP is estimated to reach 8.5bn Tenge in 2012 which will partly offset the expenditure associated with setting up the two service subsidiaries budgeted in 2012 at 20.6bn Tenge. Further offsets are being considered.

In 2012 the Company intends to implement a number of modernisation projects at Uzen field with the goal to improve efficiency, stability and safety of the field operation. In particular, the plan for 2012 and 2013 envisages construction of two subsurface equipment testing and service centers, two mud preparation units as well as a specialised vehicles service center. The Company will expand utilisation of higher quality pumps and will drill a number of horizontal wells. In addition, the Company will continue implementation of security, surveillance and vehicle monitoring projects.

Also during 2012 the production divisions UMG and EMG will be transformed into separate legal entities (joint stock companies 100% owned by KMG EP). This will give the business units necessary autonomy in the conduct of their operations and will ensure their management's responsibility for the results. (See press-release of February 1, 2012.)

KMG EP management is confident that Uzen field and certain other mature assets offer significant potential in terms of production growth and maintaining stable production levels for years ahead. As previously announced (see press-release of January 9, 2012) the current plan envisages production growth at Uzen from 5.1 million tonnes in 2011 to 5.8 million tonnes in 2012. The combined production of EMG and UMG is expected to increase from 7.9 million tonnes in 2011 to 8.6 million tonnes in 2012. The set of technical and organisational measures being implemented by the Company this year is designed not only to meet these production targets for 2012 but also to achieve sustainable improvements of production practices at the Company's mature assets.

Crude oil sales

The Company's export sales and domestic sales volumes from the Uzenmunaigas and Embamunaigas production facilities in 2011 were 5,758 thousand tonnes (116kbopd) and 1,898 thousand tonnes (38kbopd), respectively.

The Company's share in the production volumes from KGM, CCEL and PKI amounted to 4,442 thousand tonnes of crude oil (91kbopd), which is 78 thousand tonnes or 2% less than in 2010 in line with production plans of these companies.

The Company's share in the sales volumes from KGM, CCEL and PKI was 4,848 thousand tonnes of crude oil (100kbopd), including 3,795 thousand tonnes (78kbopd) or 78% supplied to export markets. PKI sales volumes include sales of refined products produced from crude oil purchased under swap arrangements with third parties.

Net Profit for the Period

Profit after tax (net income) in 2011 was 209bn Tenge (US\$1,425m). This represents an 11% decline compared to 2010, which is mainly explained by production and export decline and increase in operating taxes partly offset by an increase in oil price.

Sales of Crude Oil and Refined Products

The Company's sales of crude oil and refined products in 2011 increased by 19% compared to 2010 and amounted to 708bn Tenge (US\$4,832m). This was due to a 34% increase in the average realized price, from 69,101 Tenge per tonne (US\$64.86 per barrel) to 92,535 Tenge per tonne (US\$87.29 per barrel) partly offset by reduced export volumes due to decreased production.

Taxes other than on Income

Taxes, other than on income, in 2011 were 284bn Tenge (US\$1,937m), which is 58% higher compared to 2010. The increase is due to the higher applicable tax rates as a result of the higher oil price, as well as reintroduction of crude oil customs export duty (CED) on 16th August 2010 at US\$20 per tonne and its subsequent increase to US\$40 per tonne from 1st January 2011. This was partially offset by reduced production and export volumes.

Production Expenses

Production expenses in 2011 were 117bn Tenge (US\$801m), which is 6% higher compared to 2010. A significant part of the production cost increase is due to an increase in payroll which reflects salary increase at the production units in the second half of 2010 and salary indexation from 1st January 2011.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2011 were 100bn Tenge (US\$683m), which is 9% higher compared to 2010, mainly due to increases in fines and penalties, as well as an increase in sponsorship expenditures partly offset by lower transportation expenses caused by the production decrease.

The increase in fines and penalties was mainly due to recognition of the penalty as a result of 2004-2005 tax audit dispute, the fine for late payment of export customs duty of 2009 and environmental fine accrual (please see press-releases on first half and 9 months 2011 financial results dated 5 September and 14 November 2011 for details).

The environmental fine of 2.6bn accrued in 1Q 2011 is related to gas flaring at Prorva group of fields when it was not feasible to obtain the required regulatory permissions in time. The Company is contesting the matter in the court. The gas flaring permissions for the remainder of 2011 were obtained in March 2011.

Growth in sponsorship expenditures was mainly due to construction of social infrastructure and financial aid to Uralsk to recover from the floods in the region.

Cash Flows from Operating Activities

Operating cash flow in 2011 was 148bn Tenge (US\$1,011m) compared to 116bn Tenge (US\$785m) in 2010, mainly due to the increase in oil price, decrease in the amount of paid income tax and lower spending on working capital build-up.

Capex

Purchases of property, plant and equipment and intangible assets (as per Cash Flow Statement) in 2011 were 105bn Tenge (US\$716m), including 8.2bn Tenge (US\$56m) on exploratory drilling.

This is 19% higher compared to 2010, mainly due to an increase in production drilling from 215 wells in 2010 to 237 wells in 2011 and an expansion of the exploration activities².

Additionally the Company made further investment in Ural Group Limited (UGL) in the form of a loan granted in several tranches during May-December 2011 amounting 1.9bn Tenge (US\$13m).

Total expenditures on exploration activities, including operating expenses, planned for 2012 is 31bn Tenge (US\$208m at 148.5 KZT/USD rate).

Cash distribution to stockholders

On 5 May, 2011 KMG EP declared 57bn Tenge (US\$386m) as dividends for the year 2010, of which 34bn Tenge (US\$235m) attributable to the National Company “KazMunaiGas” (NC KMG) was offset against an outstanding amount of the debt instrument (“the Bond”, see below in “cash and debt”) issued by the NC KMG.

In 2011 the Company spent 12.8bn Tenge (US\$87m) to buy back 727,063 preferred shares. Since the beginning of the preferred shares buy-back program in 23 February 2010 to 31 December 2011, the Company spent 37bn Tenge (US\$253m) to buy 2,073,276 preferred shares (50% of all preferred shares issued).

On 11 October, 2011 KMG EP commenced its common shares (Shares) and depositary receipts (GDR) buyback programme. Under the buyback programme the Company has the option to purchase its shares listed on the Kazakhstan Stock Exchange and GDRs listed on the London Stock Exchange up to an aggregate value of US\$300 million. The programme will end before 31 December 2012. In 2011 the Company spent 56mn Tenge (US\$0.4m) to buy 3,831 shares and US\$20m to buy 1,279,749 GDRs.

Cash and Debt

Cash and cash equivalents as at 31 December 2011 amounted to 207bn Tenge (US\$1.4bn) compared to 99bn Tenge (US\$0.7bn) as at 31 December 2010.

Other financial assets (current and non-current) at 31 December 2011 were 511bn Tenge (US\$3.4bn) compared to 600bn Tenge (US\$4.1bn) as at 31 December 2010. Other financial assets include the NC KMG Bond, deposits, and other financial instruments. As at 31 December 2011 the outstanding amount of the Bond was 188bn Tenge (US\$1,267m). KMG EP recognized 14.1bn Tenge (US\$96m) interest income from NC KMG Bond in 2011.

As at 31 December 2011, 73% of cash and financial assets (including the Bond) were denominated in foreign currency and 27% were denominated in Tenge. Interest accrued on deposits in banks in 2011 was 10.3bn Tenge (US\$70m).

Borrowings were 88bn Tenge (US\$593m) as at 31 December 2011 compared to 122bn Tenge (US\$831m) as at 31 December 2010. Borrowings include 79.8bn Tenge (US\$538m) of non-recourse debt of KMG PKI Finance B.V. related to the acquisition of the 33% interest in PKI. As per the terms of the deal, on 5 July 2011 the Company paid principal and accrued interest related to this debt in the amount of 34bn Tenge (US\$234m) and 4.7bn Tenge (US\$32m) respectively.

² For more detailed information on exploration activities please refer to Operating and Financial Review.

Net cash position³ at 31 December 2011 amounted to 629bn Tenge (US\$4.2bn) compared to 576bn Tenge (US\$3.9bn) as at 31 December 2010.

Income from Strategic Acquisitions

In 2011 KMG EP's share of results of associates and joint ventures was 84bn Tenge (US\$575m) compared to 57bn Tenge (US\$384m) in 2010. The financial results of associates and joint ventures in 2011 were primarily driven by the higher oil price compared to 2010.

Kazgermunai

In 2011 KMG EP recognised a 38bn Tenge (US\$262m) income from its share in KGM. This amount represents 50% of KGM's net profit of 46bn Tenge (US\$314m) and a 1.0bn Tenge (US\$7m) deferred income tax benefit net of 8.7bn Tenge (US\$59m) from the effect of purchase price premium amortization.

In 2011 KGM's net income increased by 47% compared to 2010 due to higher oil price, optimization of the structure of crude oil supplies and purchases for the purposes of meeting domestic supply requirements. This was partly offset by accrual of fines related to customs export duty (CED) on crude oil exported in December 2008 and reintroduction of CED on crude oil on 16th August 2010 and its subsequent increase to US\$40 per tonne from 1st January 2011.

In 2011 the Company received dividends from KGM in the amount of 36.6bn Tenge (US\$250m).

PetroKazakhstan Inc.

In 2011 KMG EP recognised a 46bn Tenge (US\$312m) income from its share in PKI. This amount represents 33% of PKI's net profit of 57bn Tenge (US\$391m) net of 12bn Tenge (US\$79m) from the effect of purchase price premium amortization.

PKI's net income increased by 17% in the reported period compared to 2010 mainly due to higher oil price and consolidating of 50% of the results of JSC "Turgai Petroleum" in the reported period (for more details refer to KMG EP's press-release of 20 August 2010).

In 2011 the Company received dividends from PKI in the amount of 53bn Tenge (US\$363m), 80% of this amount is directed to blocked account as security for the repayment of the long term debt of KMG PKI Finance B.V.

CCEL

As of 31 December 2011 the Company has recognised the amount of 19.5bn Tenge (US\$131m) as a receivable from CCEL, a jointly controlled entity with CITIC Group. The Company has accrued 3.0bn Tenge (US\$20m) of interest income in 2011 related to the US\$26.87m annual priority return from CCEL. Remaining US\$6.7m was recognised as reduction of receivable from CCEL.

The consolidated financial statements for the year ended 31 December 2011, the notes thereto and the operating and financial review for the period are available on the Company's website (www.kmgep.kz).

³ Cash, cash equivalents and other financial assets (including the Bond) less borrowings.

APPENDIX⁴
Consolidated Statement of Comprehensive Income

Tenge thousands

	For the year ended December 31,	
	2011	2010
Revenue	721,194,169	609,242,398
Share of results of associates and joint ventures	84,276,312	56,641,838
Finance income	28,843,487	38,039,785
Other income	–	21,471,195
Total revenue and other income	834,313,968	725,395,216
Production expenses	(117,465,026)	(110,747,524)
Selling, general and administrative expenses	(100,173,285)	(92,276,532)
Exploration expenses	(5,985,224)	(2,072,263)
Depreciation, depletion and amortization	(45,494,136)	(35,486,128)
Taxes other than on income	(284,027,851)	(179,709,999)
Loss on disposal of fixed assets	(4,043,980)	(2,200,613)
Finance costs	(7,222,511)	(7,495,555)
Foreign exchange gain / (loss)	2,690,153	(3,459,449)
Profit before tax	272,592,108	291,947,153
Income tax expense	(63,661,222)	(57,445,263)
Profit for the year	208,930,886	234,501,890
Exchange difference on translating foreign operations	1,977,626	(560,821)
Other comprehensive income \ (loss) for the year, net of tax	1,977,626	(560,821)
Total comprehensive income for the year, net of tax	210,908,512	233,941,069
EARNINGS PER SHARE		
Basic and diluted	2.95	3.23

⁴ 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

<i>Tenge thousands</i>	As at December 31,	
	2011	2010
ASSETS		
Non-current assets		
Property, plant and equipment	338,860,081	297,508,553
Intangible assets	26,638,032	15,185,859
Investments in joint ventures	116,526,247	96,737,910
Investments in associates	133,228,381	139,952,442
Receivable from a jointly controlled entity	18,138,239	19,153,089
Loan receivable from a joint venture	8,494,019	–
Other financial assets	188,802,605	221,825,818
Deferred tax asset	9,450,148	8,408,967
Other assets	19,591,820	13,858,297
Total non-current assets	859,729,572	812,630,935
Current assets		
Inventories	22,651,421	18,779,936
Income taxes prepaid	9,970,659	5,945,507
Taxes prepaid and VAT recoverable	22,737,975	20,583,791
Prepaid expenses	12,055,210	27,815,083
Trade and other receivables	84,125,802	65,529,767
Receivable from a jointly controlled entity	1,361,055	1,203,834
Other financial assets	321,889,708	377,800,956
Cash and cash equivalents	206,511,923	98,519,680
Total current assets	681,303,753	616,178,554
Total assets	1,541,033,325	1,428,809,489
EQUITY		
Share capital	198,451,861	214,081,197
Other capital reserves	2,123,886	1,739,901
Retained earnings	1,083,749,222	931,455,065
Other components of equity	14,354,200	12,376,574
Total equity	1,298,679,169	1,159,652,737
LIABILITIES		
Non-current liabilities		
Borrowings	33,033,898	62,286,045
Deferred tax liability	2,049,181	1,829,852
Provisions	37,845,571	35,625,247
Total non-current liabilities	72,928,650	99,741,144
Current liabilities		
Borrowings	54,931,227	60,194,818
Mineral extraction tax and rent tax payable	50,908,398	46,054,359
Trade and other payables	48,680,153	47,304,799
Provisions	14,905,728	15,861,632
Total current liabilities	169,425,506	169,415,608
Total liabilities	242,354,156	269,156,752
Total liabilities and equity	1,541,033,325	1,428,809,489

Consolidated Statement of Cash Flows

Tenge thousands

	For the year ended December 31,	
	2011	2010
Cash flows from operating activities		
Profit before tax	272,592,108	291,947,153
Adjustments to add / (deduct) non-cash items		
Depreciation, depletion and amortization	45,494,136	35,486,128
Other income	–	(21,471,195)
Share of result of associates and joint ventures	(84,276,312)	(56,641,838)
Loss on disposal of property, plant and equipment (PPE)	4,043,980	2,200,613
Impairment of PPE and intangible assets	2,438,923	16,194
Dry well expense on exploration and evaluation assets	2,586,223	1,103,615
Recognition of share-based payments	407,779	309,987
Forfeiture of share-based payments	(23,794)	(49,809)
Unrealised foreign exchange gain on non-operating activities	(2,306,422)	(73,832)
Other non-cash income and expense	5,869,493	916,338
Add finance costs	7,222,511	7,495,555
Deduct finance income relating to investing activity	(28,843,487)	(38,039,785)
Working capital adjustments		
Change in other assets	(817,081)	630,450
Change in inventories	(4,821,587)	(3,463,525)
Change in taxes prepaid and VAT recoverable	(2,104,701)	(11,312,224)
Change in prepaid expenses	15,839,095	(6,351,679)
Change in trade and other receivables	(18,486,630)	(18,377,144)
Change in trade and other payables	(3,600,176)	10,918,152
Change in mineral extraction and rent tax payable	4,854,039	9,877,060
Change in provisions	6,343,762	3,500,215
Income tax paid	(74,201,433)	(92,926,111)
Net cash generated from operating activities	148,210,426	115,694,318
Cash flows from investing activities		
Purchases of PPE	(92,759,829)	(86,679,884)
Proceeds from sale of PPE	753,447	139,497
Purchases of intangible assets	(12,217,536)	(1,572,033)
Acquisition of share in a joint venture	(23,906,835)	–
Loans provided to a joint venture	(1,923,356)	–
Dividends received from joint ventures and associates	89,794,595	94,458,518
Purchase of investments in debt instruments of NC KMG	–	(221,543,183)
Interest received from investment in debt instruments of NC KMG	13,005,528	7,691,113
Sale of financial assets held-to-maturity	56,836,304	146,680,715
Loan repayments received from related parties	3,939,718	3,959,137
Acquisition of subsidiary, net of cash acquired	(8,799,170)	(8,614,935)
Interest received	9,602,749	33,988,614
Net cash generated from / (used in) investing activities	34,325,615	(31,492,441)
Cash flows from financing activities		
Share buy back	(15,762,657)	(24,531,975)
Repayment of borrowings	(35,219,073)	(14,614,702)
Dividends paid to Company's shareholders	(19,287,040)	(48,235,969)
Interest paid	(4,665,302)	(5,852,024)
Net cash used in financing activities	(74,934,072)	(93,234,670)
Net change in cash and cash equivalents	107,601,969	(9,032,793)
Cash and cash equivalents at the beginning of the year	98,519,680	107,626,368
Exchange gains / (losses) on cash and cash equivalents	390,274	(73,895)
Cash and cash equivalents at the end of the year	206,511,923	98,519,680

The following tables show the Company's realised sales prices adjusted for oil and oil products transportation and other expenses for the year ended December 31, 2011 and 2010.

2011 (US\$/bbl)	UAS	CPC	Domestic	Average
Benchmark end-market quote ⁵	111.26	111.26	-	n/a
Sales price	106.06	109.98	26.28	87.96
Quality bank	-	(9.65)	-	(2.82)
Premium of bbl difference	(0.08)	9.32	-	2.30
Realised price⁶	105.98	109.65	26.28	87.44
Rent tax	24.51	24.57	-	18.45
Export customs duty	5.20	5.20	-	3.91
Transportation	7.75	7.56	1.38	6.08
Sales commissions	0.07	0.07	-	0.05
Adjusted realised price	68.45	72.25	24.90	58.94

2010 (US\$/bbl)	UAS	CPC	Domestic	Average
Benchmark end-market quote ⁵	79.18	79.18	-	n/a
Sales price	75.35	78.70	21.43	65.50
Quality bank	-	(6.98)	-	(2.06)
Premium of bbl difference	(0.18)	6.09	-	1.41
Realised price⁶	75.17	77.81	21.43	64.85
Rental tax	13.17	13.21	-	10.47
Export customs duty	0.65	0.76	-	0.55
Transportation	7.32	7.62	1.58	6.20
Sales commissions	0.07	0.07	-	0.06
Adjusted realised price	53.96	56.15	19.85	47.58

Reference information	2011	2010
Average exchange US\$/KZT rate	146.62	147.35
End of period US\$/KZT rate	148.40	147.40
Coefficient barrels to tonnes for KMG EP crude		7.36
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

⁵ The Brent (DTD) quoted price is used as benchmark

⁶ Average realized price 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 2011 was 12.3mt (an average of 250 kbopd) of crude oil, including the Company's share in Kazgermunai, CCEL and PKI. The total volume of proved and probable reserves, as at the end of 2010 was 232mt (1.7bn bbl), including shares in the associates - about 2.2bn 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. The international rating agency, Standard & Poor's (S&P), confirmed KMG EP's "BBB-" corporate credit rating in December 2011 and "GAMMA-6" rating in September 2011.

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