



## KMG EP – Acquisition Strategy Review

KMG EP OPEN 2008

## Strategy

KMG EP's strategy was approved by the Board on August 25, 2006.

In accordance with the Development Strategy the main components of the KMG EP's plan for growth are:

### Production growth and reserves replacement

- Exploit the priority rights given by the NC KMG in respect of oil-and-gas assets in Kazakhstan (Article 71);
- Acquisitions in Kazakhstan and abroad;
- Exploration/re-exploration efforts on existing and new fields/blocks.

### Maintain production on existing fields

- Sustain optimal production level from the existing reserve base over the mid-term period;
- The use of enhanced oil recovery techniques.

### Cost and asset rationalization

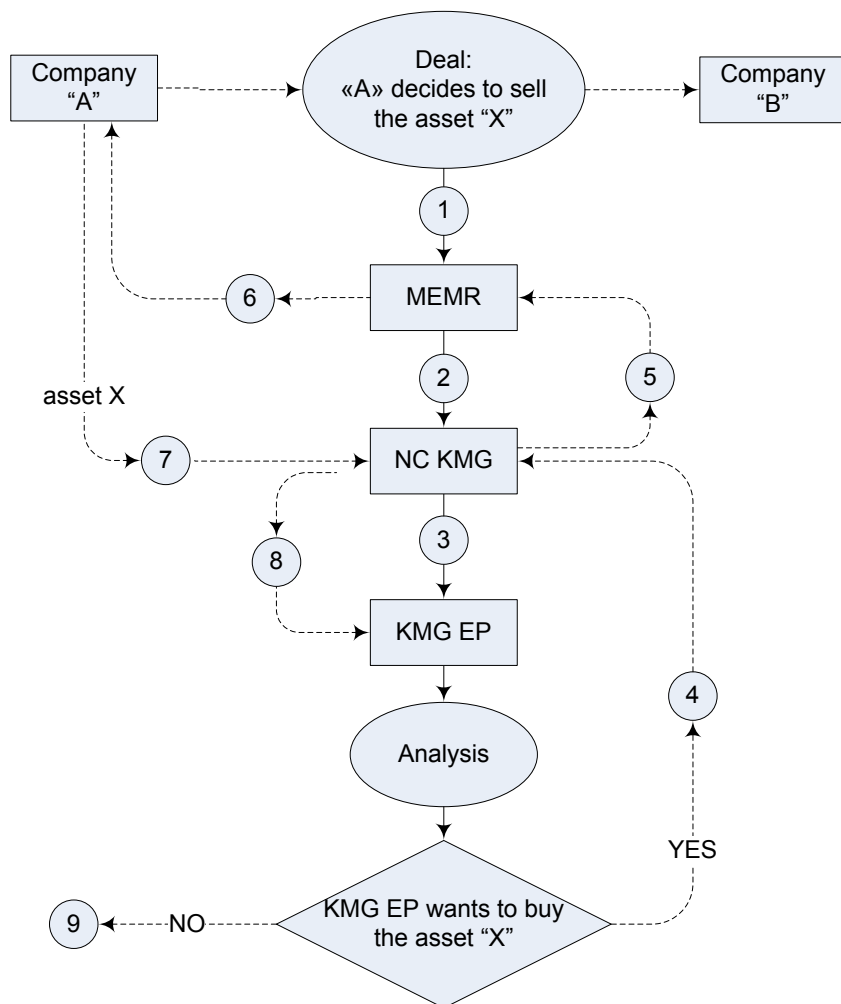
- Optimization of production costs and capex over the mid-term period;
- Asset Optimization programme underway to divest non-core subsidiaries of the Company.

### Environmental improvements

- Policies under implementation to meet international environmental, labor, HR and safety standards.

**Deliver sustainable shareholder returns**

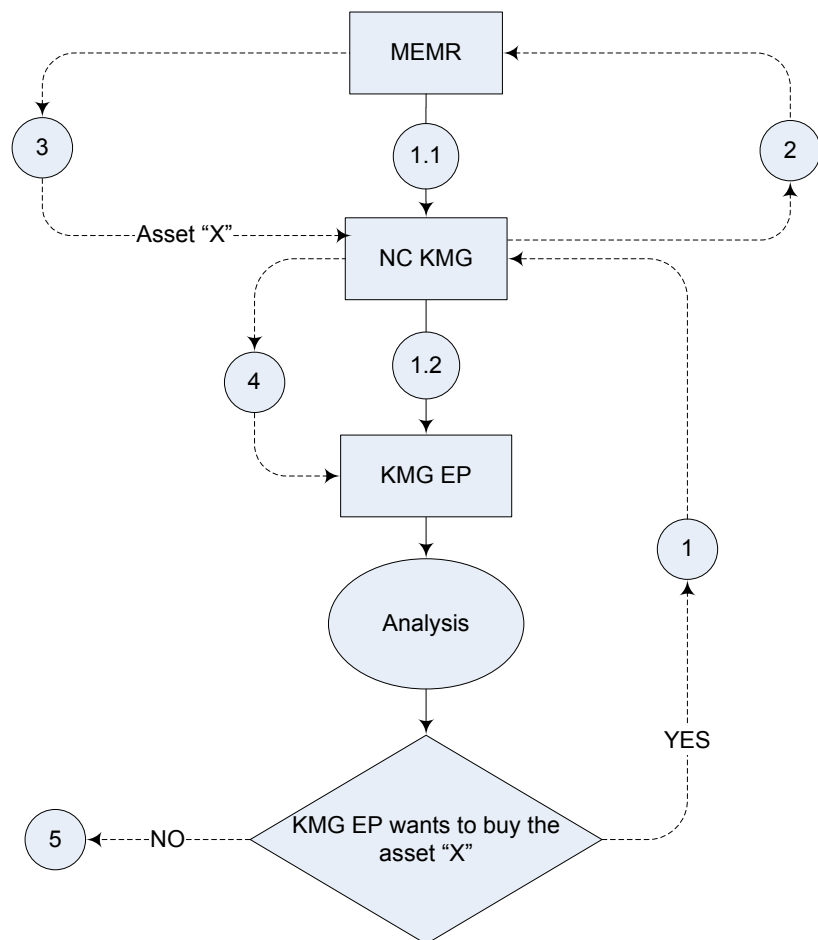
## Preferential rights to acquire onshore upstream assets (Article 71)



**The company “A” decides to sell the asset “X” (existing, licensed) to the company “B”**

- 1 MEMR receives a request or the deal approval in accordance with the Article 71 of the Subsoil Law the State has a priority right for acquiring the asset “X”
- 2 MEMR notifies NC KMG and provides data for analysis and recommendations
- 3 NC KMG notifies KMG EP and provides data for analysis and recommendations
- 4 KMG EP requests NC KMG to acquire the asset “X”
- 5 NC KMG agrees with MEMR on execution the priority right for acquiring the asset “X”
- 6 The company “A” is notified on the State’s execution of its priority right for acquiring the asset “X”
- 7 NC KMG acquires the asset “X” from the company “A”
- 8 KMG EP acquires the asset “X” from NC KMG
- 9 KMG EP notifies MEMR through NC KMG on no interest in the asset “X”. MEMR rejects to apply its priority right. The company “A” can proceed with selling of the asset “X” to the company “B”.

# Preferential rights to acquire unlicensed onshore exploration assets



**KMG EP decides to buy (MEMR decides to sell) the asset “X” (unlicensed block/field).**

- 1 KMG EP conducts technical study of high potential exploration territories in Kazakhstan and in case of discovering area of interest asks NC KMG to initiate direct negotiation with MEMR on acquiring the asset “X”
- 1.1 MEMR notifies NC KMG and provides data for analysis and recommendations
- 1.2 NC KMG notifies KMG EP and provides data for analysis and recommendations
- 2 NC KMG agrees with MEMR on acquisition of the asset “X”
- 3 NC KMG acquires the asset “X” from MEMR without any tender
- 4 KMG EP acquires the asset “X” from NC KMG at fair (market) price
- 5 KMG EP notifies MEMR through NC KMG on no interest in the asset “X”. The asset “X” is offered at open auction

## Acquisitions in 2007: KAZGERMUNAI (KGM), 50%

- Acquisition completed in April 2007;
- KMG EP owns 50% of KGM;
- Price: KZT 118.3 billion (US\$969 million);
- Fields: Akshabulak, Nuraly and Aksai (Kyzilorda region, south-central Kazakhstan);
- High quality reservoir, low production cost;
- Production in 2007: 3 million tonnes (64 kbopd)
- 2P oil reserves\* (01/2008): 37.7 million tonnes (287 million bbl\*\*)
- 2007 Dividends (KMG EP's share):  
- US\$ 375 million

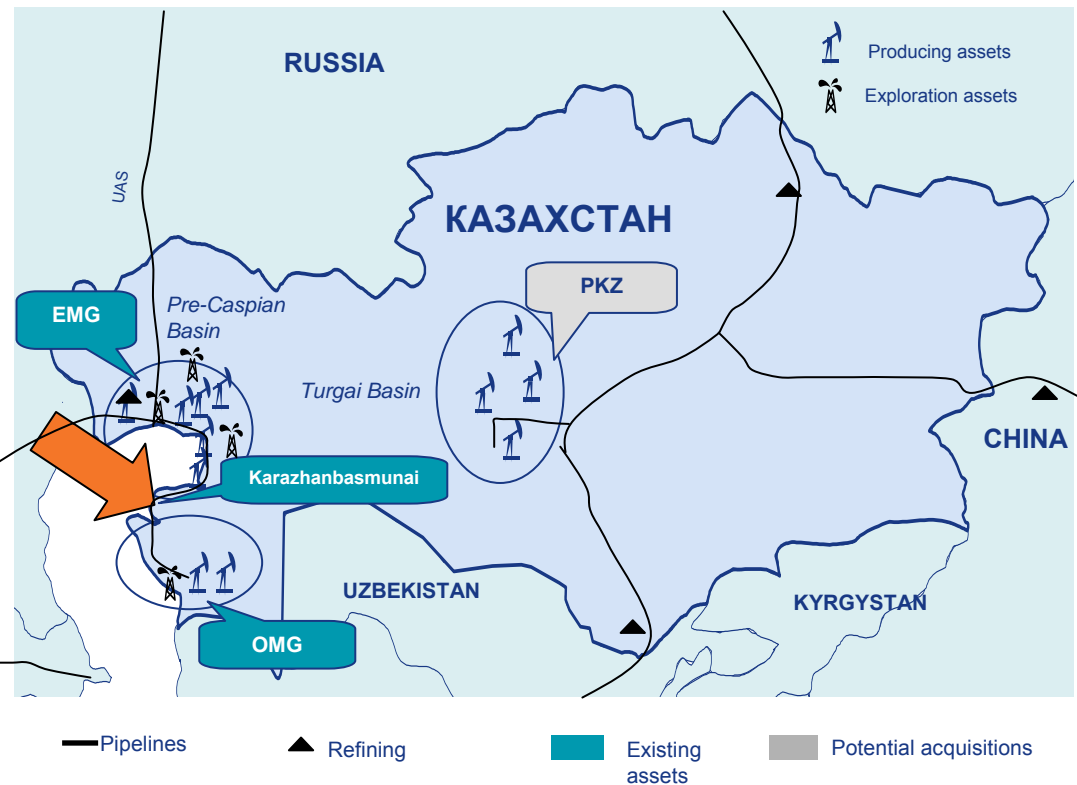


**Consolidated average annual impact of the acquisition:**  
**- Production increase + 15.8%, 2P reserves addition + 7.86%**

\* Data provided by Kazgermunai  
 \*\* conversion coefficient| - 7.62:

## Acquisitions in 2007: KARAZHANBASMUNAI (KBM), 50%

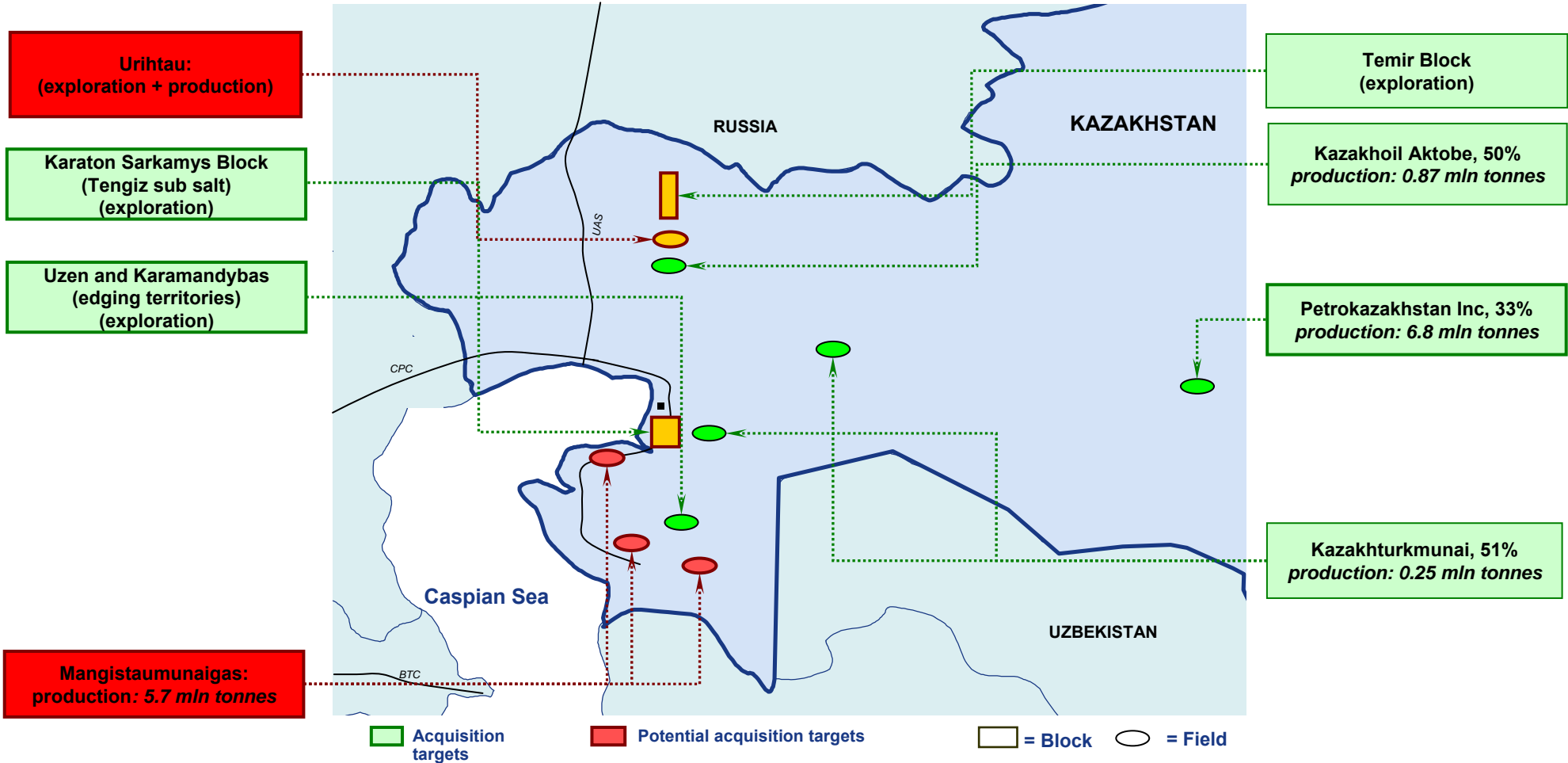
- Acquisition completed in December 2007;
- KMG EP owns 50% of KBM;
- Acquisition payment:
  - US\$ 150 million cash with annual priority return of \$26.2 million;
  - US\$ 780 million plus interest to be passed through to CITIC from future cash flows of KBM, without recourse to KMG EP's assets at a rate LIBOR +1.45%;
- Production in 2007: 1.9 million tonnes (42 kbopd);
- 2P oil reserves (01/2008): 69.8 million tonnes (466 million bbl);



**Consolidated average annual impact of the acquisition:**  
**- Production increase + 10%, 2P reserves addition + 14.5%**

\* Data provided by Karazhanbasmunai  
 \*\* conversion coefficient| - 6,68:

# Potential acquisition targets onshore in Kazakhstan



Production: Petrokazakhstan, Mangystaumunaigas, Kazakhoil Aktobe and Kazakhturkmunai for 2007

## PETROKAZAKHSTAN (PKI), 33%

- In July 2006 NC KMG purchased 33% shares in PKI for US\$1.4 billion (upstream and downstream assets);
- PKI holds 11 licenses on fields in South Turgai Basin in Central Kazakhstan;
- Main producing assets:
  - ✓ PKZ Kumkol (100%)
  - ✓ Turgai Petroleum (50%)
  - ✓ Kazgermunai (50%)
- Production in 2007: 6.8 million tonnes (144 kbopd);
- Net Income in 2007: US\$ 1 464 million\*
- KMG EP and NC KMG are negotiating over the purchase of 33% in PKZ (upstream assets). Closing date of the deal depends on:
  - Issues related the risks identified during Due Diligence
  - Impact from the new tax code that is supposed to come in force on Asset value

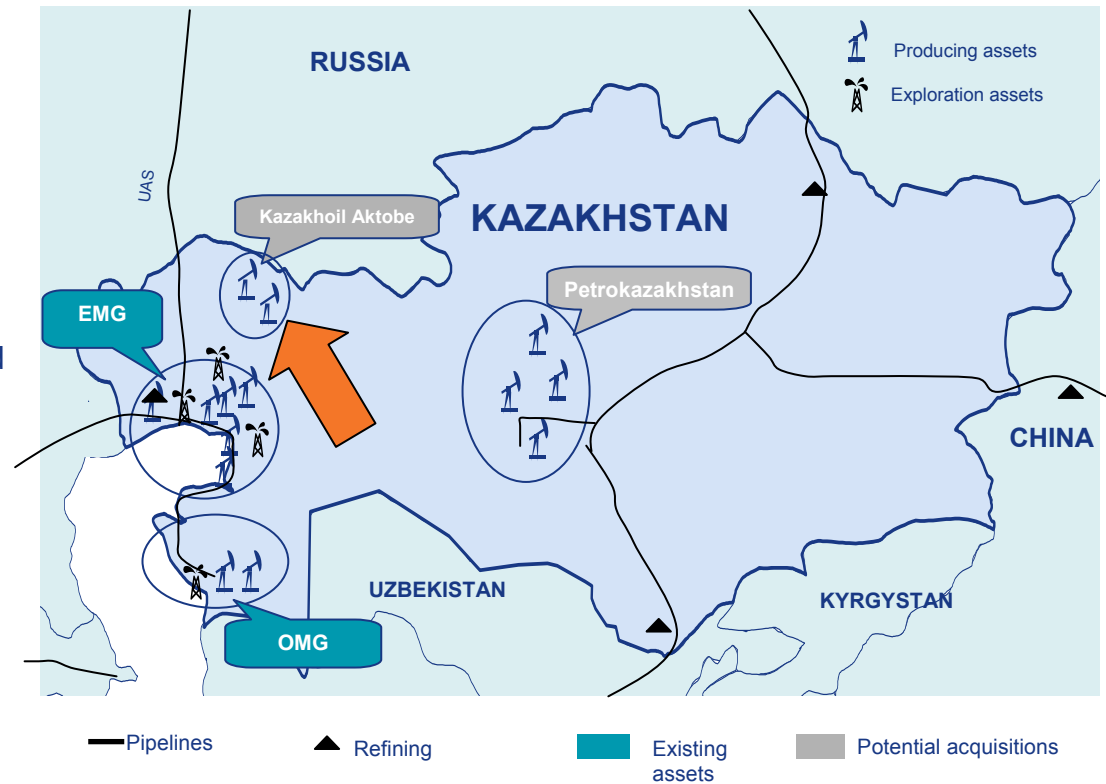


\* PKI 2007 audited report



## KAZAKHOIL AKTOBE, 50%

- KMG EP plans to purchase 50% of Kazakhoil Aktobe
- Fields under development: Alibekmola and Kozhasai in Aktubinsk region
- Shareholders of Kazakhoil Aktobe LLP:
  - 50% NC KMG
  - 50% Caspian Investments Resources Ltd (subsidiary of Lukoil Overseas and Mittal Investments)
- Key indicators:
  - Production in 2007 – 869.2 thousand tonnes
  - Oil reserves ~ 37.6 million tonnes (C1)\*



\* KMG EP's Preliminary study of Kazakhoil Aktobe

## KAZAKHTURKMUNAI, 51%

- KMG EP plans to purchase 51% of Kazakhturkmunai
- Fields under development: West Elemes, NE Saztobe, SW Saztobe, West Saztobe and Tasym; and 2 fields in Turgai Basin of Aktubinsk region: Southern Karatobe and Laktibay.
- Shareholders of Kazakhturkmunai:
  - 51% NC KMG;
  - 49% TPAO (Turkish National Petroleum Company)
- Key indicators:
  - Production in 2007 – 252.4 thousand tonnes
  - Oil reserves ~ 7.4 million tonnes (C1)\*



\* KMG EP's Preliminary study of Kazakhturkmunai

# Strategic outlook: growth priorities

- The main goal of KMG EP is a steady growth of the shareholders value
- KMG EP aspires to reach the growth by increasing its reserves and production, increasing profitability of its existing assets as well as development of new business directions

Kazakhstan		International Expansion	Business Diversification
<b>Onshore</b>	<b>Offshore</b>	<p><b>Neighbouring countries:</b> Turkmenistan, Russia</p> <p><b>Turkmenistan:</b></p> <ul style="list-style-type: none"> <li>➤ Political support</li> <li>➤ Essential growth potential associated with possible commercialization of gas reserves and export routes diversification</li> <li>➤ Knowledge of region and methodology</li> <li>➤ Entering offshore</li> </ul> <p><b>Non-FSU countries:</b> the most logical way of development – joint projects</p> <ul style="list-style-type: none"> <li>➤ Entering international markets jointly with strategic partner;</li> <li>➤ Getting progressive experience in managing international projects and access to state-of-the-art technologies</li> </ul>	<p><b>Evaluation of a possibility of participation in downstream business</b></p>
<p><b>KMG EP – is the main onshore upstream operator</b></p> <p>Consolidation of producing and exploration assets</p> <ul style="list-style-type: none"> <li>➤ Acquisition of NC KMG stakes</li> <li>➤ Acquisitions via Article 71</li> <li>➤ Conducting exploration activities and acquisition of new high potential exploration areas</li> </ul>	<p><b>KMG EP – strategic partner – investor of NC KMG (KMT)</b></p> <p>Gradual acquisition of stakes in high potential offshore projects</p> <ul style="list-style-type: none"> <li>➤ Significant potential of growth in reserves and production in mid and long-term forecast</li> <li>➤ Getting essential experience in conducting offshore operations</li> <li>➤ NC KMG – controls offshore projects</li> </ul>		