

PRESS - RELEASE

JSC KazMunaiGas Exploration Production 2014 Financial Results

Astana, 3 March 2015. JSC KazMunaiGas Exploration Production (“KMG EP” or “the Company”) announces its consolidated financial statements for the year ended 31 December 2014.

- Revenue in 2014 was 846bn Tenge (US\$4,722m)¹, a 4% increase compared with 2013, mainly due to an increase in the average domestic sales price by 20% and higher export price in Tenge (because of an 18% increase in the average Tenge-US dollar rate), partly offset by lower export volumes. Total revenue and other income including the share of results of associate and joint ventures of 60bn Tenge (US\$336m) and finance income of 21bn Tenge (US\$116m) was 927bn Tenge (US\$5,174m), 4% more than in 2013.
- Production expenses in 2014 were 212bn Tenge (US\$1,183m), a 31% increase compared with 2013 mainly due to increased employee benefit expenses.
- Net profit for 2014 was 47bn Tenge (US\$263m), a 67% decrease compared to 2013, largely due to a significant impairment charge in relation to JSC Ozenmunaigas recognized in Q4 2014. The Company also recorded 53bn Tenge (US\$296) foreign currency translation difference, thus total comprehensive income, net of tax was 100bn Tenge (US\$559m).

Production Highlights

In 2014 KMG EP, including its stakes in Kazgermunai (KGM), CCEL (CCEL) and PetroKazakhstan Inc. (PKI), produced 12,328 thousand tonnes of crude oil (250kbopd), which is 60,000 tonnes (less than 1%) lower compared to 2013.

Ozenmunaigas JSC (OMG) produced 5,328 thousand tonnes (107kbopd), an increase of 2% compared to 2013. Embamunaigas JSC (EMG) produced 2,823 thousand tonnes (57kbopd), slightly less than was produced in 2013. The total volume of oil produced by OMG and EMG in 2014 was 8,151 thousand tonnes (164kbopd), a 1% increase compared to production in 2013.

The Company’s share in production from CCEL, KGM and PKI in 2014 amounted to 4,177 thousand tonnes of crude oil (85kbopd), 4% lower than in 2013, mainly due to 8% and 3% lower production at PKI and KGM, respectively, because of the natural decline in production.

Crude oil sales

In 2014, the Company’s combined export sales from OMG and EMG were 5,571 thousand tonnes (110kbopd) or 70% (2013: 75%) of the total sales volume. Domestic sales amounted to 1,967 thousand tonnes (39kbopd) or 25% (2013: 25%) of total sales volume. Furthermore, 447 thousand tonnes of crude oil (9 kbopd) were shipped between September and December 2014 to Russia to fulfill obligations under the counter-oil supply agreement between the Government of Kazakhstan

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 2014 and 2013 were 179.12 and 152.14 Tenge/US\$, respectively; period-end rates at December 31, 2014 and December 31, 2013 were 182.35 and 153.61 Tenge/US\$, respectively).

and the Russian Government. Sales volumes shipped to Russia are specified by the Ministry of Energy of Kazakhstan and so far the Company has not received the approved schedule for deliveries to Russia in 2015.

The Company's share in the sales from CCEL, KGM and PKI was 4,166 thousand tonnes of crude oil (85kbopd), including 1,944 thousand tonnes (40kbopd) supplied to export markets, or 47% of total sales volume. This is 4% less than 4,318 thousand tonnes (88kbopd) sold in 2013, of which 3,828 thousand tonnes (78kbopd) or 89% was exported.

Net Profit for the Period

Net profit in 2014 was 47bn Tenge (US\$263m) compared to 142bn Tenge (US\$932m) in 2013 largely due to a significant impairment charge in Q4 2014 partly offset by foreign exchange gain in Q1 2014. The Company also recorded 53bn Tenge (US\$296) foreign currency translation difference, thus total comprehensive income, net of tax was 100bn Tenge (US\$559m).

In Q4 2014 the Company had a net loss of 195bn Tenge (US\$1,094m) largely due to the impairment of JSC Ozenmunaigas by of 228 billion Tenge (US\$1,274m), described in more detail below, as well as a decline in oil price.

Impairment Charge

As previously announced, in the first quarter of 2014, a 27bn Tenge (US\$162m) impairment charge related to JSC "Ozenmunaigas" was made. The impairment charge related primarily to an increase in employee benefits and an increase in export customs duty from US\$60 to US\$80 per tonne, effective from April 2014.

In Q4 2014, due predominantly to declining crude oil prices, management of the Company has carried out a formal assessment of the recoverable amount of its assets. As a result, an additional impairment loss of 228 billion Tenge (US\$1,274m), related to JSC "Ozenmunaigas", was recognized which effectively reduced the carrying value of the assets of JSC "Ozenmunaigas" to nil at December 31, 2014.

Foreign Exchange Gain

In the first quarter of 2014 a foreign exchange gain of 108bn Tenge (US\$637m) was recognized resulting from the Tenge devaluation in February 2014.

On 11 February 2014, the National Bank of Kazakhstan (NBK) made a decision to abandon its support of the Tenge, reducing foreign exchange interventions and efforts to control the exchange rate of the Tenge. To prevent destabilisation of the financial markets and the economy as a whole, NBK established a Tenge-US dollar fluctuation band at 185 Tenge per US dollar plus or minus 3 Tenge, thus continuing the bank's policy of smoothing exchange rate spikes and short-term volatility. In September 2014, NBK expanded the Tenge-Dollar fluctuation band to 185 Tenge per US Dollar plus 3 Tenge and minus 15 Tenge.

Revenue

The Company's revenue in 2014 was 846bn Tenge (US\$4,722m), a 4% increase compared to 2013. This was mainly due to an increase in the average domestic sale price from 40,000 Tenge per tonne in 2013 to 48,000 Tenge per tonne in 2014 and also to the higher realized export price in Tenge as a result of an 18% increase in the average Tenge-US dollar exchange rate due to the Tenge devaluation in February 2014. Despite an increase in average realized export prices, export revenue

declined by 1% in 2014 as export volumes were reallocated to Russia to fulfill obligations under the counter-oil supply agreement between the Government of Kazakhstan and the Russian Government.

Taxes other than on Income

Taxes, other than on income, in 2014 were 328bn Tenge (US\$1,832m), which is 5% higher than in 2013. This was largely due to an increase in export customs duty in April 2013 from US\$40 per tonne to US\$60 per tonne and a second increase from US\$60 per tonne to US\$80 per tonne in April 2014, as well as the 18% higher average Tenge-US dollar exchange rate, which was partly offset by lower rent tax caused by lower export volumes.

Production Expenses

Production expenses in 2014 were 212bn Tenge (US\$1,183m), 31% higher than in 2013, mainly due to higher expenses for production personnel employee benefits.

Expenses for employee benefits in 2014 increased by 41% compared to 2013. This was largely due to an indexation of salary for production personnel by 7% in January 2014, the introduction of a Unified System of Wages for production employees from April 2014 and a 10% increase in wages related to the devaluation of the Tenge from April 2014 in addition to one-off bonuses for milestone events in 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2014 were 103bn Tenge (US\$573m), which is 11% higher than in 2013. This was largely due to an increase in transportation expenses and higher expenses for employee benefits. Transportation costs increased by 11% due to the increase of Kaztransoil (KTO) domestic and export tariffs, higher transportation expenses on the Caspian Pipeline Consortium (CPC) route, resulting from the transportation of larger volumes, and the increase in the average Tenge and the US dollar exchange rate, as the CPC tariff is denominated in US dollars. KTO tariffs on domestic routes increased by 50% from January 2014 and on export routes by 20% on average from April 2014.

Cash Flows from Operating Activities

Operating cash flows in 2014 was 196bn Tenge (US\$1,096m) compared with 98bn Tenge (US\$647m) in 2013 mainly as a result of improved collection of trade receivables in second half of 2014. As at 31 December 2014, trade and other receivables declined to 57bn Tenge (US\$310mn) compared to 153bn Tenge (US\$997mn) for the same period in 2013.

Capex

Capital expenditure² in 2014 was 128bn Tenge (US\$715m), which is 11% less compared to 2013 as a result of a decrease in construction expenses and reduced fixed assets investments partly offset by an increase in production drilling expenses due to increase in drilling cost per well. In 2014 the Company drilled 297 wells compared to 311 wells in 2013.

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 the Cash Flow Statement.

Cash and Debt

Cash and cash equivalents as at 31 December 2014 amounted to 180bn Tenge (US\$1.0bn) compared to 119bn Tenge (US\$0.8bn) as at 31 December 2013. Other financial assets as at 31 December 2014 were 554bn Tenge (US\$3.0bn) compared to 504bn Tenge (US\$3.3bn) as at 31 December 2013.

As at 31 December 2014, 94% of cash and financial assets were denominated in foreign currencies and 6% were denominated in Tenge. Finance income accrued on cash, financial, and other assets in 2014 was 21bn Tenge (US\$116m) compared to 21bn Tenge (US\$135m) in 2013, mainly due to income from NC KMG Bond in 2013.

Borrowings as at 31 December 2014 were 7.2bn Tenge (US\$40m), compared to 6.8bn Tenge (USD\$44m) as at 31 December 2013.

The net cash position³ as at 31 December 2014 amounted to 727bn Tenge (US\$4.0bn) compared to 616bn Tenge (US\$4.0bn) as at 31 December 2013.

Share of results of associate and joint ventures

In 2014, KMG EP's share of results of associate and joint ventures was 60bn Tenge (US\$336m) compared to 51bn Tenge (US\$334m) in 2013.

In 2014, KMG EP received US\$407m in dividends including US\$250m and US\$157m from KGM and PKI respectively. Additionally, KMG EP received US\$27m in annual priority return from CCEL.

Kazgermunai

In 2014, KMG EP recognised 42bn Tenge (US\$233m) of income from its share in KGM. This amount represents 45bn Tenge (US\$253m) corresponding to 50% of KGM's net profit, net of the 3.6bn Tenge (US\$20m) impact from amortization of the fair value of licenses and the related deferred tax.

KGM's net profit in US dollars in 2014 declined by 16% compared to 2013. This was largely due to reallocation of export volumes to domestic market and the increase in the export customs duty rate from US\$40 to US\$60 per tonne from April 2013 and from US\$60 to US\$80 per tonne from April 2014, which was partly offset by lower fines and penalties in 2014.

PetroKazakhstan Inc.

In 2014, KMG EP recognised 22bn Tenge (US\$121m) of income from its share in PKI. This amount represents 27bn Tenge (US\$153m) corresponding to 33% of PKI's net profit, net of the 5.7bn Tenge (US\$32m) effect of amortization of the fair value of the licenses.

In 2014, PKI's net profit in US dollars decreased by 4% compared to 2013. The decrease is mainly due to 8% decrease in production volume, reallocation of export volumes to the domestic market as well as increase in the export customs duty rate from US\$40 to US\$60 per tonne from April 2013 and from US\$60 to US\$80 per tonne from April 2014, which was partly offset by lower fines and penalties in 2014.

³ Cash, cash equivalents and other financial assets less borrowings

CCEL

As of 31 December 2014, the Company had 18.3bn Tenge (US\$101m) as a receivable from CCEL, a jointly controlled entity with CITIC Resources Holdings Limited. The Company has accrued 3.0bn Tenge (US\$17m) of interest income in the 2014 related to the US\$26.87m annual priority return from CCEL.

Tax and environmental audits

As at 31 December 2014 the Company had several claims related to tax and environmental matters outstanding. More detailed information is provided in the consolidated financial statements for the year ended 31 December 2014.

Tax audit for 2006-2008. As a result of the limited scope tax audit conducted in February 2014 the final notification of 2006-2008 tax audit was issued by the Tax Committee of the Ministry of Finance in March 2014. Total tax assessments have amounted to 12.1 billion Tenge (US\$68m).

Cassation panel procedure required the Company to pay 12.1 billion Tenge in order to have the right to appeal to the Supreme Court by July 2015. The Company is planning to appeal to the Supreme Court of the Republic of Kazakhstan within the stated period and correspondingly paid the above amount in October of 2014.

Tax audit for 2009-2012. In September 2014 a complex tax audit covering the period of 2009-2012 was started. On December 26, 2014 and December 30, 2014 the Company received notifications for the above mentioned period with respect to local taxes related to JSC Ozenmunaigas and JSC Embamunaigas, respectively. The tax authorities have claimed to pay 0.9 billion Tenge (US\$5.2m) of various local taxes and administrative fines and late payment fees. As of the date of these financial statements the Company has not received final notification, yet.

Value-added-tax (VAT). In 2012 as part of the creation of new subsidiaries on the basis of the production branches of the Company the Company's production assets were sold to JSC "Ozenmunaigas" and JSC "Embamunaigas". This sale was subject to VAT according to Kazakh tax legislation. The VAT paid to the tax authorities upon completion of the reorganization was recorded as VAT recoverable in the financial accounts of both JSC "Ozenmunaigas" and JSC "Embamunaigas". Upon various tax audits of the subsidiaries' accounts the tax authorities determined that the amounts paid were non recoverable.

The Company disagreed with this interpretation of the VAT law and is planning to appeal the above decision. Management believes that the Company will be successful in recovering the VAT and has not provided for any allowances on these amounts as at December 31, 2014.

Total recoverable VAT related to the sale of assets to JSC "Ozenmunaigas" and JSC "Embamunaigas" in the amount of 46.6 billion Tenge was reclassified from current assets to long-term asset and discounted at 7.93% for the period of 18 months being the average time during which tax issues were resolved historically.

PetroKazakhstanKumkolResources JSC (PKKR) tax audit. As a result of the complex tax audit the Tax department assessed additional taxes of 10 billion Tenge (US\$56m). After several claims and counterclaims the Tax department decreased the assessment by excluding corporate income tax, excess profit tax and related penalties.

As part of complex tax audit for 2009-2012, on January 13, 2014 the Tax department issued a separate notification for environmental emissions and related fines and penalties for 19.4 billion Tenge (US\$106m). PKKR disagreed with the thematic tax audit results and filed a claim with the Tax Committee of the Ministry of Finance. PKI management assessed the risk of unfavourable outcome of this claim as probable and recognized a provision for 19.4 billion Tenge in its 2013 consolidated financial statements. In October 2014 PKKR received notification decreasing initial

assessment for 4.2 billion Tenge. As a result PKKR reversed 4.2 billion Tenge and related fine in amount of 1.6 billion Tenge from general and administrative expenses in 2014.

Embamunaigas Gas flaring. On January 23, 2014 the Company received a notification from the Department of Ecology of Atyrau Region to pay a fine of 37.2 billion Tenge for environmental damage caused by violations of ecology law, including associated gas flaring. The total amount was determined as a result of an inspection that covered the period 2008 to 2013.

The Company disagreed with this notification and appealed the claim of the Department of Ecology of Atyrau Region. On June 3, 2014 the Company received the final assessment with reduced amount of ecological damages and the liability to pay 2.0 billion Tenge (US\$11m). The amount was accrued and paid during in June 2014.

The consolidated financial statements for the year ended 31 December 2014, the notes thereto, 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,	
	2014	2013
Revenue	845,770	816,712
Share of results of associate and joint ventures	60,191	50,866
Finance income	20,762	20,577
Total revenue and other income	926,723	888,155
Production expenses	(211,900)	(162,035)
Selling, general and administrative expenses	(102,568)	(92,360)
Exploration expenses	(2,127)	(13,125)
Depreciation, depletion and amortization	(59,485)	(47,144)
Taxes other than on income	(328,211)	(311,688)
Impairment of property, plant and equipment	(256,683)	(60,099)
Loss on disposal of property, plant and equipment	(4,221)	(4,475)
Finance costs	(8,952)	(8,085)
Foreign exchange gain, net	108,997	11,216
Profit before tax	61,573	200,360
Income tax expense	(14,535)	(58,531)
Profit for the year	47,038	141,829
Foreign currency translation difference	53,078	4,500
Other comprehensive income for the period to be reclassified to profit and loss in subsequent periods	53,078	4,500
Total comprehensive income for the year, net of tax	100,116	146,329
 EARNINGS PER SHARE – Tenge thousands		
Basic and diluted	0.69	2.08

Consolidated Statement of Financial Position

Tenge million

	As at December 31,	
	2014	2013
ASSETS		
Non-current assets		
Property, plant and equipment	156,436	350,675
Intangible assets	10,855	12,064
Investments in joint ventures	95,177	88,967
Investments in associate	116,054	107,095
Receivable from a jointly controlled entity	13,808	13,222
Loans receivable from joint ventures	25,738	18,402
Other financial assets	18,567	21,711
Deferred tax asset	84,067	34,356
VAT recoverable	42,300	–
Other assets	15,472	19,542
Total non-current assets	578,474	666,034
Current assets		
Inventories	26,357	27,422
Income taxes prepaid	23,916	43,684
Taxes prepaid and VAT recoverable	37,831	72,169
Mineral extraction and Rent tax prepaid	2,581	1,967
Prepaid expenses	30,011	22,067
Trade and other receivables	56,570	153,219
Receivable from a jointly controlled entity	4,658	3,969
Loans receivable from joint ventures	7,692	3,933
Other financial assets	535,513	482,006
Cash and cash equivalents	180,245	119,036
Total current assets	905,374	929,472
Total assets	1,483,848	1,595,506
EQUITY		
Share capital	163,004	162,969
Other capital reserves	2,355	2,482
Retained earnings	1,098,170	1,185,815
Other components of equity	75,587	22,509
Total equity	1,339,116	1,373,775
LIABILITIES		
Non-current liabilities		
Borrowings	4,218	4,291
Deferred tax liability	569	881
Provisions	34,929	34,203
Total non-current liabilities	39,716	39,375
Current liabilities		
Borrowings	3,000	2,503
Provisions	8,287	20,067
Income taxes payable	15	29,341
Mineral extraction tax and rent tax payable	34,200	61,956
Trade and other payables	59,514	68,489
Total current liabilities	105,016	182,356
Total liabilities	144,732	221,731
Total liabilities and equity	1,483,848	1,595,506

Consolidated Statement of Cash Flows

Tenge million

	For the year ended December 31,	
	2014	2013
Cash flows from operating activities		
Profit before tax	61,573	200,360
Adjustments to add / (deduct) non-cash items		
Depreciation, depletion and amortization	59,485	47,144
Share of results of associate and joint ventures	(60,191)	(50,866)
Loss on disposal of property, plant and equipment (PPE)	4,221	4,475
Impairment of PPE	256,683	60,099
Dry well expense on exploration and evaluation assets	1,263	10,971
Recognition of share-based payments	–	145
Forfeiture of share-based payments	(127)	(137)
Unrealised foreign exchange gain on non-operating activities	(76,188)	(5,533)
Other non-cash income and expense	247	7,898
Add finance costs	8,952	8,085
Deduct finance income	(20,762)	(20,577)
Working capital adjustments		
Change in other assets	2,129	376
Change in inventories	1,021	(549)
Change in taxes prepaid and VAT recoverable	(12,299)	(16,436)
Change in prepaid expenses	(7,947)	(6,525)
Change in trade and other receivables	96,684	(51,906)
Change in trade and other payables	(8,629)	(20,371)
Change in mineral extraction and rent tax payable and prepaid	(26,570)	11,128
Change in provisions	4,073	(1,805)
Income tax paid	(87,214)	(77,544)
Net cash generated from operating activities	196,404	98,432
Cash flows from investing activities		
Purchases of PPE	(132,186)	(140,402)
Proceeds from sale of PPE	224	582
Purchases of intangible assets	(2,042)	(8,628)
Loans provided to the joint ventures	(3,895)	(11,252)
Dividends received from joint ventures and associate, net of withholding tax	73,945	64,138
Interest received from investment in Debt Instruments of NC KMG	–	4,734
Proceeds from repayment of investment in Debt Instruments of NC KMG	–	135,243
Proceeds from withdrawal/ (Purchase of) financial assets held to maturity	23,617	(78,520)
Proceeds from sale of other financial assets	155	–
Repayments of loans receivable from related parties	4,866	4,088
Interest received	14,654	7,130
Net cash used in investing activities	(20,662)	(22,887)
Cash flows from financing activities		
Repayment of borrowings	(1,093)	(1,079)
Dividends paid to Company's shareholders	(128,995)	(109,979)
Net cash used in financing activities	(130,088)	(111,058)
Net change in cash and cash equivalents	45,654	(35,513)
Cash and cash equivalents at the beginning of the year	119,036	154,705
Net foreign exchange difference on cash and cash equivalents	15,555	(156)
Cash and cash equivalents at the end of the year	180,245	119,036

The following tables show the Company's realised sales prices adjusted for oil transportation and other expenses for 2014.

2014 (US\$/bbl)	UAS	CPC	Domestic	Shipments to Russia
Benchmark end-market quote	99.0	99.0	-	-
Quality bank	-	(7.3)	-	-
Price differential	(1.6)	(0.3)	-	-
Realised price	97.4	91.4	37.2	30.0
Rent tax	(20.4)	(20.0)	-	-
Export customs duty	(10.3)	(9.4)	-	-
Transportation	(8.7)	(7.1)	(1.8)	(5.6)
Netback	58.0	54.9	35.4	24.4
Premium of bbl difference	-	7.7	-	-
Effective netback incl. premium of bbl. Difference	58.0	62.6	35.4	24.4

2013 (US\$/bbl)	UAS	CPC	Domestic	Shipments to Russia
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	-

Reference information	2013	2014
Average exchange US\$/KZT rate	152.14	179.12
End of period US\$/KZT rate	153.61	182.35
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 producers. The overall production in 2014 was 12.3 million tonnes (250 kbopd) 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 2013 was 200 million tonnes (1.5 bn bbl), out of which 148.8 million tonnes (1.1 bn bbl) relates to Ozenmunaigas, Embamunaigas, and Ural Oil and Gas (Rozhkovskoye field, Fyodorovskiy block). 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.

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