

PRESS - RELEASE

JSC KazMunaiGas Exploration Production

Financial Results for the first six months of 2016

Astana, 11 August 2016. JSC KazMunaiGas Exploration Production (“KMG EP” or “the Company”) announces its consolidated interim financial results for the six months ended 30 June 2016.

- The Company’s revenue in the first six months of 2016 was up 30% year on year to 313bn Tenge (US\$907m¹) largely as a result of an 86% increase in the Tenge – US dollar exchange rate, switch to a processing scheme, which offset a 31% Brent price decrease.
- Net revenue in Q2 2016 achieved from the sale of all refined oil products (net of all processing and marketing costs²) was 37,148 Tenge per tonne of oil processed at the Atyrau refinery (“ANPZ”) and 47,210 Tenge per tonne of oil processed at the Pavlodar refinery (“PNHZ”).
- Net profit for the first six months of 2016 was 17.2bn Tenge (US\$50m) compared with 2.9bn Tenge (US\$16m) in the same period of 2015. The year on year increase in net profit is largely due to an increase in revenue from export sales because of an 86% increase in the Tenge – US dollar exchange rate and the switch to a processing scheme from April 2016, lower rent tax driven by a decrease in the average Brent price below US\$40 per barrel during the 1Q 2016, resulting in a rent tax rate of 0%, which offset a 31% decline in Brent price. Margin improvement due to switch to a processing scheme is also a result of a reduction of export taxes on mazut ensured by NC KMG.
- Net profit in 2Q 2016 was 16.3bn Tenge (US\$47m) compared with a net profit of 0.9bn Tenge (US\$3m) in 1Q 2016.
- The net cash position³ on 30 June 2016 was 1,065bn Tenge (US\$3.1bn), US\$85m higher than the net cash position as at the end of the first quarter of 2016.

Production

Total crude oil production for KMG EP, including its stakes in Kazgermunai (“KGM”), CCEL (“Karazhanbasmunai”) and PetroKazakhstan Inc. (“PKI”), was 6,078 thousand tonnes of crude oil (246kbopd) for the first six months of 2016, which is a 0.7% decrease over the same period of 2015.

Ozenmunaigas JSC (“OMG”) produced 2,779 thousand tonnes (112kbopd), 2% higher than the same period in 2015. Embamunaigas JSC (“EMG”) produced 1,407 thousand tonnes (57kbopd), also 2% higher than the same period in 2015. Therefore, the total volume of oil produced by OMG and EMG was 4,186 thousand tonnes (169kbopd), which is a 2% increase on the same period last year.

The Company’s share in production from KGM, CCEL, and PKI for the first six months of 2016 amounted to 1,892 thousand tonnes of crude oil (77kbopd), which is 6% less than in the same period of 2015, mostly as a result of the reduction of production at PKI.

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 cashflows and the end of the period rate for information derived from the consolidated balance sheets (average rates for 6M2016 and 6M2015 were 345.35 and 185.22 Tenge/US\$, respectively; period-end rates at June 30, 2016 and December 31, 2015 were 338.66 and 339.47 Tenge/US\$, respectively).

² Except cost of production of crude oil and oil transportation expenses to the refineries.

³ Cash, cash equivalents and other financial assets less borrowings.

Crude oil sales

In the first six months of 2016, the Company's combined sales from OMG and EMG were 4,168 thousand tonnes (166kbopd). This includes 2,464 thousand tonnes (98kbopd) of crude oil for export or 59% of the total sales volume, and 1,704 thousand tonnes (68 kbopd) of crude oil to the domestic market. In addition, 3 thousand tonnes of oil products were sold to the domestic market; this material has not been included in the new independent crude oil processing scheme as it was treated before the scheme was established in April 2016.

Of the 1,704 thousand tonnes (68 kbopd) of oil supplied by OMG and EMG to the domestic market, 1,280 thousand tonnes (51 kbopd) went to the ANPZ and 424 thousand tonnes (17kbopd) went to the PNHZ.

The Company's share in the sales from KGM, CCEL, and PKI was 1,875 thousand tonnes of crude oil (77kbopd), including 922 thousand tonnes (36kbopd) supplied to export markets, which is 49% of the total sales volume. The domestic sales volume was 953 thousand tonnes (40 kbopd).

Net Profit for the Period

Net profit for the first six months of 2016 was 17.2bn Tenge (US\$50m) compared with 2.9bn Tenge (US\$16m) in the same period of 2015. The year on year increase in net profit is largely due to an increase in revenue from export sales because of an 86% increase in the Tenge – US dollar exchange rate and switch to a processing scheme starting April 2016, which offset a 31% decrease in Brent price. Net profit in 2Q 2016 was 16.3bn Tenge (US\$47m) compared with a net profit of 0.9bn Tenge (US\$3m) in 1Q 2016.

Revenue

The Company's revenue in the first six months of 2016 was 313bn Tenge (US\$907m), up 30% compared to the same period in 2015. This is the result of an 86% increase in the Tenge – US dollar exchange rate, switch to a processing scheme, which offset a 31% Brent price decrease.

Domestic realized price in 1H2015 was 22.4 th. tenge per tonne at ANPZ and 30.0 th. Tenge per tonne at PNHZ. These prices were not approved by the Independent Directors of KMG EP. In 4Q 2015 an agreement was reached to set the price for domestic supplies in 2015 at 37 thousand Tenge per Tonne to ANPZ and PNHZ. The Company's revenue in the fourth quarter of 2015 was adjusted to reflect the agreed price. The corresponding payments from KMG RM were made in July 2016.

Net revenue from sales of refined products

As previously reported, the Company switched to an independent oil processing scheme in April 2016. As per the scheme, KMG EP supplies oil to ANPZ and PNHZ for refining, with further sales of oil products through KazMunaiGas Refining & Marketing ("KMG RM") under agency contract. In the second quarter of 2016, the Company supplied 761 thousand tonnes of oil products as per the scheme.

Net revenue achieved from the sale of all refined oil products (net of all processing and marketing costs⁴) during the second quarter of 2016 was 37,148 Tenge per tonne of oil processed at the ANPZ and 47,210 Tenge per tonne of oil processed at the PNHZ. This compares with 14,603 Tenge per tonne at ANPZ and 27,563 Tenge per tonne at PNHZ in the first quarter of 2016.

⁴ Except cost of production of crude oil and oil transportation expenses to the refineries.

To date, the Company's management and independent directors have not yet agreed to the domestic pricing for first quarter of 2016.

Production Expenses

Production expenses in the first six months of 2016 were 123bn Tenge (US\$357m), up 13% compared to the same period of 2015. This was mainly due to higher processing expenses related to a switch to a processing scheme in April 2016, partially offset by a 7% reduction in employee benefit expenses in the first six months of 2016 compared with the same period of 2015. The Company pays a processing fee of 20,501 Tenge per tonne at ANPZ and 14,895 Tenge per tonne at PNHZ.

A 7% reduction in employee benefit expenses was largely due to the absence of annual bonus provision in the first six months of 2016 and higher actuary obligations in the first quarter of 2015 for 4.9bn Tenge as a result of subsoil contracts extension at OMG and EMG, partially offset by a 7% salary indexation of production units' personnel since January 2016.

Selling, General and Administrative Expenses

Selling, general and administrative expenses during the first six months of 2016 amounted to 62.6bn Tenge (US\$181m), up 16% compared to the same period in 2015. This was largely a result of increased transportation expenses, partially offset by a reduction of accruals for fines and penalties.

The increase in transportation expenses resulted mainly from the 86% increase in Tenge – US dollar exchange rate (given the Caspian Pipeline Consortium (CPC) transportation tariff is mostly US dollar denominated). In addition, domestic expenses increased because of a 21% domestic transportation tariff increase.

In the second quarter of 2016, the Company also accrued an agency fee of 1.8bn Tenge related to the agency agreement between the Company and KMG RM for sales of oil products. The Company expects that an annual agency fee to KMG RM would be at the level of 5.4bn Tenge in 2016.

In the first six months of 2016, the Company accrued 1.3bn Tenge of penalties related to corporate income tax and excess profits tax provisions on possible future tax audit assessments for 2012 – 2016.

Taxes other than on Income

Taxes, other than on income, for the first six months of 2016 were 79bn Tenge (US\$230m), down 4% compared with the same period in 2015. This was largely due to a decline in rent tax, partially offset by higher Export Customs Duty (ECD) and Mineral Extraction Tax (MET).

The rent tax decline was driven by a decrease in the average Brent price, which was below US\$40 per barrel during the first quarter of 2016, and resulted in a rent tax rate of 0%.

An increase in MET expenses was largely due to higher average Tenge – US dollar exchange rate, partially offset by a decline in Brent price.

The increase in ECD expenses was due to the export of oil products as the Company switched to an oil processing scheme from April 2016 and an increase in average Tenge – US dollar exchange rate partially offset by a decline in average ECD rate. During the first six months of 2016 the average ECD rate amounted to US\$35 per tonne compared to US\$72 per tonne in the same period of the previous year. The ECD rate for mazut, which is exported, is US\$30 per tonne.

Cash Flows from Operating Activities

Net cash generated from operating activities in the first six months of 2016 was 4.4bn Tenge (US\$13m), against 0.1bn Tenge (US\$1m) in the same period in 2015.

Capital expenditure

Capital expenditure⁵ in the first six months of 2016 totaled 51bn Tenge (US\$148m), down 8% compared to the same period in 2015. This was primarily due to a reduction in volumes and costs of production drilling at OMG, including a 15% discount obtained from the drilling service contractor. This was partially offset by an increase in capital expenditure directed towards construction and modernization of production facilities, production and exploration drilling at EMG.

The Company plans capital expenditures for 2016 at the level of 88bn Tenge (US\$246m⁶).

Cash and Debt

Cash and cash equivalents at 30 June 2016 amounted to 380bn Tenge (US\$1.1bn), compared with 237bn Tenge (US\$0.7bn) at 31 December 2015. Other financial assets on 30 June 2016 totaled 695bn Tenge (US\$2.1bn) compared with 868bn Tenge (US\$2.6bn) on 31 December 2015.

At 30 June 2016, 96% of cash and financial assets were denominated in foreign currencies (mostly US dollars) and 4% were denominated in Tenge. Finance income accrued on cash, financial, and other assets in the first six months of 2016 totaled 14bn Tenge (US\$41m), compared with 12bn Tenge (US\$63m) in the first six months of 2015.

Borrowings at 30 June 2016 stood at 10.7bn Tenge (US\$31m), compared with 11.6bn Tenge (USD\$34m) on 31 December 2015.

The net cash position⁷ on 30 June 2016 was 1,065bn Tenge (US\$3.1bn), compared with 1,093bn Tenge (US\$3.2bn) on 31 December 2015. The net cash position on 30 June 2016 was US\$85m higher than the net cash position as at the end of the first quarter of 2016.

Trade and other receivables

At June 30, 2016 the Company's trade receivables amounted to 117bn Tenge (US\$346) and included receivables from sales of crude oil to KazMunaiGaz Trading AG and KMG RM, both subsidiaries of NC KMG, and sale of refined products to KazMunayGaz Onimderly, a subsidiary of KMG RM. Trade receivables from KMG RM included 44bn Tenge that was overdue (December 31, 2015: nil). On 5 July 2016, the full amount of this overdue trade receivable was paid by KMG RM.

VAT receivable

On July 20, 2016 the Supreme Court of the Republic of Kazakhstan has made a decision that the tax authorities will not be required to immediately refund the Company's VAT claims in the amount of 32bn Tenge that relate to sale of assets to JSC "Ozenmunaigas" in 2012. These amounts will be allowed to offset against future VAT payables from operating activities. The full amount of this VAT

⁵ The Company revised its approach to calculation of capital expenditure. Starting from 4Q 2013 the Capex represents the 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.

⁶ Amounts shown in US dollars ("US\$" or "\$") have been translated solely for the convenience of the reader at the budgeted rate of 360 Tenge per US dollar.

⁷ Cash, cash equivalents and other financial assets less borrowings.

claim was provided for in 2015. If VAT amounts that relates to this claim, are offset in the future, they will be charged to income as received.

Share of results of associate and joint ventures

In the first six months of 2016, KMG EP reported a loss of 6.7bn Tenge (US\$19m) in its share of results of associate and joint ventures, compared to a profit of 1.9bn Tenge (US\$10m) in the first six months of 2015.

Kazgermunai

In the first six months of 2016, KMG EP recognized 2.5bn Tenge (US\$7m) income from its share in KGM. This amount represents the Company's 50% share in KGM's net profit, which amounts to 4.6bn Tenge (US\$13m) with the effect of 2.1bn Tenge (US\$6m) impact from amortization of the fair value of licenses, the related deferred tax.

KGM's net profit in US dollars for the first six months of 2016 declined by 66% compared with the same period in 2015. This was largely driven by a 31% decline in Brent price and a decrease in sales volumes, resulting from lower production levels.

In the first six months of 2016, KGM made a dividend payment to KMG EP in the amount of US\$28m for the year of 2015, which was accounted for in 2015. An outstanding dividend payment of US\$10m for the year of 2015, accounted for in 2015, was paid in July 2016.

PetroKazakhstan Inc.

In the first six months of 2016, KMG EP recognized a loss in amount of 8.4bn Tenge (US\$24m) from its share in PKI. This amount represents the Company's 33% share in PKI's net loss, which amounted to 2.9bn Tenge (US\$8m), with the 5.6bn Tenge (US\$16m) amortization of the fair value of licenses.

In the first six months of 2016, PKI's net loss in US dollars was US\$25m, compared to a net loss of US\$36m in the same period in 2015, which is largely due to lower fines and penalties, lower CIT and EPT accruals, partially offset by a decline in revenue due to a 31% drop in Brent price and a decrease in sales volumes, resulting from lower production levels.

CCEL

As of 30 June 2016, the Company had 32.5bn Tenge (US\$96m) as a receivable from CCEL, a jointly controlled entity with CITIC Resources Holdings Limited. The Company has accrued 1.1bn Tenge (US\$3.2m) of interest income in the first six months of 2016, which is a part of the annual priority return in an amount of US\$26.87m from CCEL.

The condensed consolidated interim financial statements for the six months ended June 30, 2016, the notes thereto, and the operating and financial review for the period is available on the Company's website (www.kmgep.kz).

APPENDIX

Consolidated Interim Statement of Comprehensive Income (unaudited)

Tenge million

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue	192,176	124,373	313,366	241,105
Share of results of associate and joint ventures	(3,020)	(2,647)	(6,710)	1,907
Finance income	6,260	5,547	14,275	11,735
Total revenue and other income	195,416	127,273	320,931	254,747
Production expenses	(68,591)	(51,208)	(123,209)	(109,172)
Selling, general and administrative expenses	(32,281)	(27,610)	(62,597)	(54,050)
Exploration expenses	–	(128)	–	(477)
Depreciation, depletion and amortization	(6,728)	(6,274)	(13,349)	(10,620)
Taxes other than on income	(45,115)	(34,194)	(79,310)	(82,573)
Allowance for VAT recoverable	(6,936)	–	(6,936)	–
Loss on disposal of property, plant and equipment	(151)	(3)	(282)	(75)
Finance costs	(925)	(850)	(1,866)	(1,931)
Foreign exchange (loss)/gain, net	(11,864)	1,579	1,449	18,634
Profit before tax	22,825	8,585	34,831	14,483
Income tax expense	(6,500)	(7,278)	(17,582)	(11,594)
Profit for the period	16,325	1,307	17,249	2,889
Foreign currency translation difference	(8,548)	1,227	883	1,585
Other comprehensive (loss)/income for the period to be reclassified to profit and loss in subsequent periods	(8,548)	1,227	883	1,585
Total comprehensive income for the period, net of tax	7,777	2,534	18,132	4,474
Earnings per share – Tenge thousands				
Basic and diluted	0.24	0.02	0.25	0.04

Consolidated Interim Statement of Financial Position

Tenge million

	June 30, 2016	December 31, 2015
	Unaudited	Audited
ASSETS		
Non-current assets		
Property, plant and equipment	271,453	234,367
Intangible assets	9,331	9,619
Investments in joint ventures	156,515	154,453
Investments in associate	148,419	154,241
Receivable from a jointly controlled entity	23,728	21,602
Loans receivable from joint ventures	30,373	27,941
Other financial assets	36,360	33,760
Deferred tax asset	65,695	71,904
Other assets	5,005	5,717
Total non-current assets	746,879	713,604
Current assets		
Inventories	21,821	23,102
Income taxes prepaid	50,043	36,225
Taxes prepaid and VAT recoverable	17,907	16,132
Mineral extraction and rent tax prepaid	6,064	6,064
Prepaid expenses	29,426	30,135
Trade and other receivables	117,280	105,443
Receivable from a jointly controlled entity	8,801	8,822
Other financial assets	658,875	833,912
Cash and cash equivalents	380,074	237,310
Total current assets	1,290,291	1,297,145
Total assets	2,037,170	2,010,749
EQUITY		
Share capital	164,670	163,004
Other capital reserves	3,240	3,945
Retained earnings	1,329,343	1,311,759
Other components of equity	334,024	333,141
Total equity	1,831,277	1,811,849
LIABILITIES		
Non-current liabilities		
Borrowings	5,095	5,990
Deferred tax liability	240	240
Provisions	46,165	45,264
Total non-current liabilities	51,500	51,494
Current liabilities		
Borrowings	5,572	5,585
Provisions	71,818	70,010
Income taxes payable	13	13
Mineral extraction tax and rent tax payable	24,637	22,249
Trade payables and other liabilities	52,353	49,549
Total current liabilities	154,393	147,406
Total liabilities	205,893	198,900
Total liabilities and equity	2,037,170	2,010,749

Consolidated Interim Statement of Cash Flows (unaudited)

Tenge million

	Six months ended June 30,	
	2016	2015
Cash flows from operating activities		
Profit before tax	34,831	14,483
Adjustments to add/(deduct) non-cash items		
Depreciation, depletion and amortisation	13,349	10,620
Share of result of associate and joint ventures	6,710	(1,907)
Loss on disposal of property, plant and equipment (PPE)	282	75
Dry well expense on exploration and evaluation assets	–	51
Recognition of share-based payments	1,350	–
Unrealised foreign exchange gain on non-operating activities	(1,387)	(14,412)
Change in provisions	2,372	9,437
Allowance for VAT recoverable	6,936	–
Other non-cash income and expense	348	857
Add finance costs	1,866	1,931
Deduct finance income	(14,275)	(11,735)
Working capital adjustments		
Change in other assets	(3,056)	99
Change in inventories	1,246	6,138
Change in taxes prepaid and VAT recoverable	(9,483)	1,536
Change in prepaid expenses	709	8,204
Change in trade and other receivables	(19,948)	18,510
Change in trade and other payables	4,449	(14,116)
Change in mineral extraction and rent tax payable and prepaid	13,388	(2,782)
Income tax paid	(35,248)	(26,874)
Net cash generated from operating activities	4,439	115
Cash flows from investing activities		
Purchases of PPE	(49,484)	(44,086)
Proceeds from sale of PPE	384	34
Purchases of intangible assets	(430)	(640)
Loans provided to joint ventures	(1,468)	(1,676)
Dividends received from joint ventures and associate, net of withholding tax	9,696	4,626
Withdrawals of term deposits, net	166,625	35,880
Interest received	8,576	6,443
Net cash generated from investing activities	133,899	581
Cash flows from financing activities		
Repayment of borrowings	(924)	(595)
Dividends paid to Company's shareholders	(35)	(65)
Net cash used in financing activities	(959)	(660)
Net change in cash and cash equivalents	137,379	36
Cash and cash equivalents at the beginning of the period	237,310	180,245
Exchange gain on cash and cash equivalents	5,385	2,442
Cash and cash equivalents at the end of the period	380,074	182,723

The following tables show the Company's realized sales prices adjusted for oil transportation and other expenses for the three months ended June 30, 2016⁸.

(US\$/bbl.)	6M2016		1Q2016		Shipments to Russia
	UAS	CPC	Atyrau refinery	Pavlodar refinery	
Benchmark end-market quote	39.8	39.8	-	-	-
Quality bank	-	(2.9)	-	-	-
Price differential	(2.6)	(0.4)	-	-	-
Realized price	37.2	36.5	5.7	10.7	-
Rent tax	(1.7)	(1.5)	-	-	-
Export customs duty	(4.8)	(4.9)	-	-	-
MET	(4.6)	(4.6)	(0.9)	(0.9)	-
Transportation	(5.0)	(7.6)	(1.4)	(4.0)	-
Netback	21.1	17.9	3.4	5.8	-
Premium of bbl. difference	-	3.7	-	-	-
Effective netback incl. premium of bbl. difference	21.1	21.6	3.4	5.8	-

(US\$/bbl.)	6M2015				
	UAS	CPC	Atyrau refinery	Pavlodar refinery	Shipments to Russia
Benchmark end-market quote	57.8	57.8	-	-	-
Quality bank	-	(5.4)	-	-	-
Price differential	(3.8)	(2.2)	-	-	-
Realized price	54.0	50.2	16.7	22.4	41.3
Rent tax	(7.1)	(6.6)	-	-	-
Export customs duty	(9.8)	(10.0)	-	-	-
MET	(5.9)	(5.9)	(2.0)	(2.0)	(4.1)
Transportation	(7.8)	(8.0)	(0.9)	(7.0)	(5.4)
Netback	23.4	19.7	13.8	13.4	31.8
Premium of bbl. difference	-	4.6	-	-	-
Effective netback incl. premium of bbl. difference	23.4	24.3	13.8	13.4	31.8

Reference information	6M2015	6M2016
Average exchange US\$/KZT rate	185.22	345.35
End of period US\$/KZT rate	186.20	338.66
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

⁸ As of first quarter 2015 the netback calculation methodology has been amendment and now includes a subtraction pertaining to the netback MET.

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Notes to Editors

KMG EP is among the top three Kazakh oil producers. The overall production in 2015 was 12.4 million tonnes (251 kbopd) of crude oil, including the Company's share in Kazgermunai, CCEL and PKI. The Company's volume of proved and probable reserves excluding shares in the associates, at the end of 2015 was 193 million tonnes (1,409 mmbbl). 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 at its IPO in September 2006.

Forward-looking statements

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology including, but not limited to, the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "target", "will", or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They include, but are not limited to, statements regarding the Company's intentions, beliefs and statements of current expectations concerning, amongst other things, the Company's results of operations, financial condition, liquidity, prospects, growth, potential acquisitions, strategies and as to the industries in which the Company operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that may or may not occur. Forward-looking statements are not guarantees of future performance and the actual results of the Company's operations, financial condition and liquidity and the development of the country and the industries in which the Company operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. The Company does not intend, and does not assume any obligation, to update or revise any forward-looking statements or industry information set out in this document, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved.