PRESS – RELEASE

JSC KazMunaiGas Exploration Production

Financial Results for the year ended 31 December 2017

Astana, 22 February 2018. JSC KazMunaiGas Exploration Production ("KMG EP" or "the Company") announces its consolidated financial results for the year ended 31 December 2017.

- Revenue in 2017 was up 32% year-on-year at 956bn Tenge (US$2,933m[1]). This was largely a result of a 24% increase in the price of Brent, a higher share of export sales and an improved oil products price environment, partially offset by a 5% decrease in the average Tenge – US dollar exchange rate.
- Net profit in 2017 was 195bn Tenge (US$599m) and net cash generated from operating activities was 218bn Tenge (US$667m).
- Net cash position[2] as at 31 December 2017 was 1,339bn Tenge (US$4.0bn) compared to 1,172bn Tenge (US$3.5bn) as at December 31, 2016.

Production

KMG EP, including its stakes in Kazgermunai ("KGM"), Karazhanbasmunai ("CCEL") and PetroKazakhstan Inc. ("PKI"), produced 11,868 thousand tonnes of crude oil (241 kbopd) for 2017, a 2% decrease over 2016.

Ozenmunaigas JSC ("OMG") produced 5,480 thousand tonnes (111kbopd), a 1% decrease as compared to 2016 mainly due to lower level of production from the existing well stock. Embamunaigas JSC ("EMG") produced 2,840 thousand tonnes (57kbopd), a 0.3% increase as compared to 2016. The total volume of oil OMG and EMG produced was 8,320 thousand tonnes (168kbopd), a 1% decrease compared to production for 2016.

The Company's share in production from KGM, CCEL, and PKI for 2017 amounted to 3,548 thousand tonnes of crude oil (73kbopd), 6% less than in 2016. This was mainly driven by the natural decline in oil production at PKI and KGM.

Crude oil supplies and sales of oil products

In 2017, the Company's combined sales from OMG and EMG were 8,233 thousand tonnes (163kbopd). Of these crude oil sales, 5,700 thousand tonnes (113kbopd) were exported and 2,533 thousand tonnes (50kbopd) were sold to the domestic market, equivalent to 31% of the total sales volume. In 2016, the Company sold 41% of crude oil in the domestic market.

Out of 2,533 thousand tonnes (50 kbopd) of crude oil supplied by OMG and EMG to the domestic market, 1,909 thousand tonnes (38 kbopd) were supplied to Atyrau Refinery and 624 thousand tonnes (12 kbopd) were supplied to Pavlodar Refinery.

---

[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 2017 and 2016 were 326.08 and 341.76 Tenge/US$, respectively; period-end rates at December 31, 2017and December 31, 2016 were 332.33 and 333.29 Tenge/US$, respectively).

[2] Cash, cash equivalents and other financial assets less borrowings.

Under the independent oil processing scheme, sales of oil products in 2017 were 2,388 thousand tonnes, a 3% increase of 2,324 thousand tonnes from 2016.

The Company's share in the sales from KGM, CCEL, and PKI amounted to 3,414 thousand tonnes of crude oil (70 kbopd). Of this, 1,443 thousand tonnes (28 kbopd) were exported with the remaining 1,971 thousand tonnes (42 kbopd) supplied to the domestic market, equivalent to 58% of total sales volume. In 2016, KGM, CCEL and PKI combined to sell 50% of total sales to the domestic market.

Net Profit for the Period

Net profit in 2017 was 195bn Tenge (US$599m), compared to 132bn Tenge (US$385m) in 2016. The increase in net profit was due to higher revenue resulting from a 24% rise in the Brent price, an increased share of export sales and an increase in the share of results of associate and joint ventures, partially offset by an increase of taxes other than on income, production expenses and selling, general and administrative expenses.

Revenue

The Company's revenue in 2017 was 956bn Tenge (US$2,933m), up 32% compared to 2016. This increase is the result of a 24% rise in the Brent price, an increased share of export sales and an improved oil products price environment, which was partially offset by a 5% decrease in the average Tenge – US dollar exchange rate.

Net revenue achieved from the sale of refined oil products (net of all processing and marketing costs[3]) in 2017 was 56,305 Tenge per tonne at ANPZ and 61,292 Tenge per tonne at PNHZ. Between April and December 2016, net revenue was 42,366 Tenge per tonne and 51,743 Tenge per tonne for ANPZ and PNHZ, respectively.

Net revenue in 4Q2017 was 60,612 Tenge per Tonne at ANPZ and 62,665 Tenge per Tonne at PNHZ compared with 48,308 Tenge per Tonne and 54,569 Tenge per tonne, respectively in 4Q2016.

Production Expenses

Production expenses in 2017 were 318bn Tenge (US$977m), up 16% compared to 2016. This was mainly due to an 8% increase in employee benefit expenses, a recognition of reserve for environmental remediation obligations, higher repair and maintenance expenses and increase in processing expenses, partially offset by a change in crude oil balance.

Employee benefit expenses were up by 8% mainly due a 7% salary indexation of production units' personnel since January 2017.

Estimate of environmental remediation obligations increased due to recognition of an additional reserve by the Company for the removal of historical contaminations at OMG and EMG in an amount of 8.9bn Tenge in 3Q2017.

Repair and maintenance expenses were up due to an increased number of well servicing performed by third parties and a higher volume and price of hydraulic fracturing works at OMG.

[3] Except cost of production of crude oil and oil transportation expenses to the refineries.

As announced, the processing fee at ANPZ increased from 20,501 Tenge per tonne to 24,512 Tenge from April 1, 2017 and at PNHZ from 14,895 Tenge per tonne to 16,417 Tenge from August 1, 2017.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2017 amounted to 135bn Tenge (US$415m), up 18% compared to 2016. This was largely a result of an increase of transportation expenses and reduction of reversals for fines and penalties related to the 2009-2012 tax audit, after reduction of the tax charge by the tax authorities, which was partially offset by the absence of the agency fee expenses.

The transportation expenses were up mainly due to an increase of volume of crude oil exported via Uzen-Atyrau-Samara route by 22% in 2017.

As announced, on January 1, 2017 the Company ceased using KazMunaiGas Refining & Marketing as its sales agent and started marketing refined products directly[4]. In April-December 2016, the Company paid 5.4bn Tenge for those services.

Taxes other than on Income

Taxes, other than on income, in 2017 were 288bn Tenge (US$883m), up 98% compared to 2016. This was largely due to an increase in the rent tax, Mineral Extraction Tax (MET), Export Customs Duty (ECD) and other taxes. This was a direct result of a rise in the average Brent price and higher share of export sales.

Rent tax in 2017 averaged 14,013 Tenge per tonne of export volume versus 3,673 Tenge per tonne of export volume in 2016. This was driven by a higher rent tax rate, which correlates to the price of Brent. Also, the Company's rent tax payable was recalculated for 2012-2015 and reduced by 11.6bn Tenge in 2016 as a result of changes in the tax legislation in relation to the methodology for calculating the rent tax.

The Company applied the MET rate of 13% for OMG fields in 2017, while in September 2016 MET rate was set at 9% for 2016, as OMG recorded losses under tax accounting in 2016 and was thereby granted a reduction based on the Government Decree. Effect from reduced MET rate in 2016 was a reduction of MET expenses by 15bn Tenge.

The increase in ECD expenses was due to a higher average Brent price and an increase in the export volumes of crude oil, which was partially offset by decrease in average Tenge – US dollar exchange rate. The average ECD rate in 2017 was US$48 per tonne of crude oil compared to US$39 per tonne of crude oil in 2016.

Higher other tax expenses were mainly due to a higher excise tax on diesel and petrol in 2017 after the Company switched to the independent oil processing scheme in April 2016. As announced, the excise tax on diesel increased for the period from June to October to 9,300 Tenge per tonne from 540 Tenge per tonne applied during the rest of the year.

[4] Prior to April 2016, the Company had been supplying a portion of crude oil to KazMunaiGas Refining & Marketing (KMG RM) as part of its domestic supply obligations. Starting April 2016, the Company has been refining crude oil at Atyrau Refinery and Pavlodar Plant, and selling oil products through KMG RM that has since been acting as a sales agent.

Capital expenditures

Capital expenditures[5] in 2017 totaled 111bn Tenge (US$341m), down 3% compared to 2016. This was primarily due to a decrease in capital expenditures directed towards the construction and modernization of production facilities, which was partially offset by an increase in purchases of fixed assets and higher expenses related to production and exploration drilling.

Cash Flows from Operating Activities

Net cash generated from operating activities in 2017 was 218bn Tenge (US$667m) compared to 159bn Tenge (US$466m) in 2016.

Increase in the net cash generated from operating activities was mainly due to the improved oil price environment, higher level of export sales, continued success in processing scheme, return of VAT in the amount of 30.1bn Tenge in 2017 and recovery of previously made CIT, EPT and MET tax prepayments in the amount of 27.1bn Tenge, which was partially offset by an increase of taxes other than on income, production expenses and selling, general and administrative expenses.

Net cash

The net cash position as at December 31, 2017 was 1,339bn Tenge (US$4.0bn), representing a 167bn Tenge (US$512m) increase over the net cash position of 1,172bn Tenge (US$3.5bn) as at December 31, 2016. 98% of cash and financial assets were denominated in foreign currencies (predominantly US dollars) and 2% were denominated in Tenge.

Finance income accrued on cash, financial, and other assets in 2017 totaled 29.8bn Tenge (US$91m), compared to 33.0bn Tenge (US$88m) in 2016.

Share of results of associate and joint ventures

In 2017, KMG EP reported a profit of 20.4bn Tenge (US$63m) in its share of results of associate and joint ventures, compared to a loss of 12.6bn Tenge (US$37m) in 2016.

Kazgermunai

In 2017, KMG EP recognized 19.2bn Tenge (US$59m) income from its share in KGM compared to a profit of 4.3bn Tenge (US$13m) in 2016. This amount represents the Company’s 50% share in KGM’s net profit, which amounts to 22.2bn Tenge (US$68m) adjusted for 3.0bn Tenge (US$9m) amortization of the fair value of licenses and the related deferred tax benefit.

KGM’s revenue in US dollars in 2017 increased by 26% compared to 2016. This was largely driven by a 24% increase in Brent price and higher domestic prices, which partially offset a decrease in sales volumes resulting from lower production levels.

KGM made a dividend payment of US$124m to KMG EP in 2017, constituting US$122m for the year of 2016 and US$2m for past periods.

[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.

PetroKazakhstan Inc.

In 2017, KMG EP recognized a profit of 3.1bn Tenge (US$10m) from its share in PKI, compared to a loss of 15.3bn Tenge (US$45m) in 2016. This amount represents the Company's 33% share in PKI's net profit, which amounted to 10.8bn Tenge (US$33m), adjusted for the 7.6bn Tenge (US$23m) amortization of the fair value of licenses.

PKI's revenue in US dollars in 2017 increased by 15% compared to 2016. This was largely driven by a 24% increase in Brent price and higher domestic prices, which partially offset a decrease in sales volumes resulting from lower production levels.

PKI made a dividend payment of US$62.7m (after withholding tax) to KMG EP in 2017, constituting US$31.35m for the year of 2016 and US$31.35m for the year of 2017.

CCEL

As of 31 December 2017, the Company had 38.0bn Tenge (US$114m) as a receivable from CCEL, a jointly controlled entity with CITIC Resources Holdings Limited. The Company has accrued 3.8bn Tenge (US$12m) of finance income in 2017, which is a part of the annual priority return in an amount of US$26.9m from CCEL.

***

The consolidated financial statements for the year ended December 31, 2017, 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,	
	2017	**2016**
Revenue	956,457	727,154
Share of results of associate and joint ventures	20,441	(12,600)
Finance income	29,760	30,037
Total revenue and other income	**1,006,658**	**744,591**
Production expenses	(318,473)	(274,753)
Selling, general and administrative expenses	(135,324)	(115,022)
Net loss on acquisition of a subsidiary	(3,249)	–
Exploration expenses	(1,612)	(2,535)
Depreciation, depletion and amortization	(35,626)	(30,776)
Taxes other than on income	(288,070)	(145,431)
Net reversal of allowance on VAT recoverable	24,053	13,362
Loss on disposal of property, plant and equipment	(2,176)	(2,050)
Finance costs	(4,311)	(5,842)
Foreign exchange loss, net	(893)	(12,892)
Profit before tax	**240,977**	**168,652**
Income tax expense	(45,618)	(37,076)
Profit for the year	**195,359**	**131,576**
Foreign currency translation difference	118	(11,771)
Other comprehensive income / (loss) for the period to be reclassified to profit and loss in subsequent periods	**118**	**(11,771)**
Actuarial (loss) / gain, net of tax	(496)	563
Other comprehensive (loss) / income for the period not to be reclassified to profit and loss in subsequent periods	**(496)**	**563**
Total comprehensive income for the year, net of tax	**194,981**	**120,368**
EARNINGS PER SHARE – Tenge thousands		
Basic and diluted	2.86	1.93

Consolidated Statement of Financial Position

Tenge million

	As at December 31,	
	2017	**2016**
ASSETS		
Non-current assets		
Property, plant and equipment	377,160	311,597
Intangible assets	16,296	11,607
Investments in joint ventures	127,548	144,532
Investments in associate	116,970	135,633
Receivable from a jointly controlled entity	11,519	16,696
Loans receivable from joint venture	28,049	29,638
Other financial assets	34,778	35,961
Deferred tax asset	53,215	51,459
Other assets	6,085	970
Total non-current assets	**771,620**	**738,093**
Current assets		
Inventories	30,697	24,774
Income taxes prepaid	2,483	51,567
VAT recoverable, net of allowance	21,574	16,680
Mineral extraction and rent tax prepaid	–	15,676
Export customs duty and other taxes prepaid	20,717	15,071
Prepaid expenses	16,190	11,529
Trade and other receivables	132,680	74,121
Receivable from a jointly controlled entity	26,496	17,617
Other financial assets	889,687	983,257
Cash and cash equivalents	421,643	162,091
Total current assets	**1,562,167**	**1,372,383**
Total assets	**2,333,787**	**2,110,476**
EQUITY		
Share capital	165,418	165,343
Other capital reserves	2,347	2,448
Retained earnings	1,619,466	1,444,351
Foreign currency translation reserve	321,488	321,370
Total equity	**2,108,719**	**1,933,512**
LIABILITIES		
Non-current liabilities		
Borrowings	1,807	3,844
Deferred tax liability	138	138
Provisions	51,845	45,300
Total non-current liabilities	**53,790**	**49,282**
Current liabilities		
Borrowings	5,669	5,483
Provisions	31,795	45,926
Income taxes payable	3,888	33
Mineral extraction tax and rent tax payable	52,181	8,571
Trade and other liabilities	77,745	67,669
Total current liabilities	**171,278**	**127,682**
Total liabilities	**225,068**	**176,964**
Total liabilities and equity	**2,333,787**	**2,110,476**

Consolidated Statement of Cash Flows

Tenge million

	For the year ended December 31,	
	2017	**2016**
Cash flows from operating activities		
Profit before tax	240,977	168,652
Adjustments to add / (deduct) non-cash items		
Depreciation, depletion and amortization	35,626	30,776
Share of results of associate and joint ventures	(20,441)	12,600
Loss on disposal of property, plant and equipment (PPE)	2,176	2,050
Recognition of share-based payments	–	1,410
Forfeiture of share-based payments	(13)	(63)
Unrealised foreign exchange loss on non-operating activities	1,028	12,003
Reversal of allowance on VAT recoverable, net	(24,053)	(13,362)
Change in provisions	4,678	(15,566)
Net loss on acquisition of a subsidiary	3,249	–
Other non-cash income and expense	4,807	2,829
Add finance costs	4,311	5,842
Deduct finance income	(29,760)	(30,037)
Working capital adjustments		
Change in other assets	(926)	(1,025)
Change in inventories	(5,923)	(1,949)
Change in export customs duty, VAT recoverable and other taxes prepaid	12,136	9,053
Change in prepaid expenses	(4,661)	6,463
Change in trade and other receivables	(57,593)	20,500
Change in trade and other payables	775	9,956
Change in mineral extraction and rent tax payable and prepaid	61,208	(18,384)
Income tax paid, net of amounts refunded	(9,974)	(42,398)
Net cash generated from operating activities	**217,627**	**159,350**
Cash flows from investing activities		
Purchases of PPE and advances paid for PPE	(104,954)	(101,233)
Proceeds from sale of PPE	670	784
Purchases of intangible assets	(6,624)	(3,672)
Loans provided to the joint ventures	(1,218)	(5,146)
Dividends received from joint ventures and associate, net of withholding tax	60,899	27,515
Withdrawal / (placement) of term deposits	95,783	(170,927)
Cash acquired with subsidiary	181	–
Interest received	18,807	15,972
Net cash generated from / (used in) investing activities	**63,544**	**(236,707)**
Cash flows from financing activities		
Repayment of borrowings	(2,371)	(2,128)
Dividends paid to the Company's shareholders	(18,906)	(137)
Net cash used in financing activities	**(21,277)**	**(2,265)**
Net change in cash and cash equivalents	259,894	(79,622)
Cash and cash equivalents at the beginning of the year	162,091	237,310
Net foreign exchange difference on cash and cash equivalents	(342)	4,403
Cash and cash equivalents at the end of the year	**421,643**	**162,091**

The following tables show the Company's realized sales prices adjusted for oil transportation and other expenses for 2017[6].

(US$/bbl.)	2017			
	UAS	**CPC**	**ANPZ**	**PNHZ**
Benchmark end-market quote	54,2	54,2	-	-
Quality bank	-	(3,4)	-	-
Price differential	(1,6)	(2,2)	-	-
Realized price	**52,6**	**48,6**	**23,9**	**26,0**
Rent tax	(6,1)	(5,7)	-	-
Export customs duty	(6,7)	(6,7)	-	-
MET	(6,3)	(6,3)	(1,2)	(0,9)
Transportation	(6,1)	(7,5)	(1,2)	(3,3)
Netback	**27,4**	**22,4**	**21,5**	**21,8**
Premium of bbl. difference	-	4,7	-	-
Effective netback incl. premium of bbl. difference	**27,4**	**27,1**	**21,5**	**21,8**

(US$/bbl.)	2016					
	UAS	**CPC**	**ANPZ 2-4Q**	**PNHZ 2-4Q**	**ANPZ 1Q**	**PNHZ 1Q**
Benchmark end-market quote	43,7	43,7	-	-	-	-
Quality bank	-	(3,2)	-	-	-	-
Price differential	(2,4)	(0,7)	-	-	-	-
Realized price	**41,3**	**39,8**	**17,4**	**21,2**	**5,7**	**10,7**
Rent tax	(2,6)	(2,4)	-	-	-	-
Export customs duty	(5,4)	(5,4)	-	-	-	-
MET	(3,7)	(3,7)	(0,8)	(0,7)	(1,1)	(0,5)
Transportation	(5,6)	(7,3)	(1,2)	(3,7)	(1,4)	(4,0)
Netback	**24,0**	**21,0**	**15,4**	**16,8**	**3,2**	**6,2**
Premium of bbl. difference	-	4,0	-	-	-	-
Effective netback incl. premium of bbl. difference	**24,0**	**25,0**	**15,4**	**16,8**	**3,2**	**6,2**

Reference information	**2016**	**2017**
Average exchange US$/KZT rate	341,76	326,08
End of period US$/KZT rate	333,29	332,33
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 KGM crude		7,70
Coefficient barrels to tonnes for CCEL crude		6,68
Coefficient barrels to tonnes for PKI crude		7,75

[6] As of first quarter 2015 the netback calculation methodology has been amendment and now includes a subtraction pertaining to the netback MET. In 2016 methodology of MET calculation was revised and netback for 2015 were restated in accordance with the methodology introduced.

Notes to Editors

KMG EP is among the top three Kazakh oil producers based on the 2017 results. The overall production in 2017 was 11.9 million tonnes (240 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 2016 was 182 million tonnes (1,327 mmbbl). The Company's shares are listed on the Kazakhstan Stock Exchange and the GDRs are listed on the London Stock Exchange and Kazakhstan Stock Exchange. The Company raised over US$2bn at its IPO in September 2006.

For further details please contact us at:

KMG EP. Investor Relations (+7 7172 97 5433)
e-mail: ir@kmgep.kz

KMG EP. Public Relations (+7 7172 97 7887)
Bakdaulet Tolegen
e-mail: pr@kmgep.kz

Finsbury (+44 (0)20 7251 3801)
Dorothy Burwell
e-mail: KMGEP@finsbury.com

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.