

PRESS RELEASE

KMG EP MARKET UPDATE **KMG EP AND NC KMG TAKE STEPS TO IMPLEMENT ASSET ACQUISITION** **STRATEGY AND TREASURY POLICY**

- **KMG EP ACQUIRES STAKES IN KAZAKHOIL AKTOBE, KAZAKTURKMUNAI AND MANGISTAUMUNAIGAS**
- **KMG EP UPDATES ITS TREASURY POLICY**
- **KMG EP AGREES ON A BOND TRANSACTION WITH NC KMG**

Astana, 12 July 2010. The Board of Directors of JSC KazMunaiGas Exploration Production (“KMG EP” or the “Company”) and NC KazMunayGas JSC (“NC KMG”) are pleased to update the market on a series of transactions between KMG EP and NC KMG.

Acquisitions

KMG EP has reached an agreement with NC KMG to acquire 50% of Kazakhoil Aktobe LLP (“KOA”), 51% of Kazakturkmunai Ltd (“KTM”) and 50% of Mangistau Investments B.V. (“MIBV”), the owner of 100% of the common share capital of JSC “Mangistaumunaigas” (“MMG”).

For the three assets KMG EP will pay total cash consideration of US\$750 million, of which US\$350m is for the stake in Kazakhoil Aktobe (“KOA”), US\$70m for the stake in Kazakturkmunai (“KTM”), and US\$330m for a 50% stake in Mangistau Investments B.V. (“MIBV”). The cash component of acquisitions will be financed by the Company’s own funds. The ensuing total net debt corresponding to the stakes being acquired is US\$1,499m, of which US\$116m is KOA’s net debt, US\$53m is KTM’s net debt¹ and US\$1,330m is MIBV’s consolidated net debt².

According to preliminary estimates, these acquisitions will result in over 27% growth in consolidated oil production of KMG EP and in an increase of 406m barrels in 2P reserves (18.5%).

Kenzhebek Ibrashev, the CEO of KMG EP, said: “The acquisition of the stakes in Kazakhoil Aktobe, Kazakturkmunai and Mangistaumunaigas is a key element of our growth strategy and it further emphasises KMG EP’s role as an asset consolidator in Kazakhstan. These acquisitions offer a considerable increase in production and reserves and will also expand the geography of our operations in Kazakhstan”.

The acquisitions represent related-party transactions and as such were unanimously approved by the independent non-executive directors of the Board of KMG EP. The Board of Directors of NC KMG also approved the transactions.

¹ Financial indicators are as of 30.09.2009

² As of 31 December 2009 total outstanding non-recourse loan of MIBV was US\$2,771m. The loan was provided to MIBV in 2009 at LIBOR+3.5%.

The Board of Directors of KMG EP has received opinions from both Credit Suisse and Visor Capital that the consideration to be paid by the Company in the acquisition of a stake in MMG is fair to KMG EP from the financial point of view. This transaction, subject to a number of conditions including approval by regulatory bodies, is expected to be completed in Q3 2010.

The Board of Directors of KMG EP has also received an opinion from Deutsche Bank that the consideration to be paid by the Company in the acquisition of the stakes in KOA and KTM is fair to KMG EP from the financial point of view. This transaction is subject to a number of conditions, including approval by regulatory bodies and, pursuant to Kazakhstan's law, a written waiver signed by the remaining shareholders of KOA and KTM of their pre-emptive right and expected to be completed in Q4 2010.

NC KMG also confirms that it is considering to transfer a number of new exploration blocks to KMG EP later this year.

Treasury Policy

In line with the Company's Treasury Policy, the Board of Directors of KMG EP has reviewed its arrangements for depositing the Company's cash resources in order to broaden the number of its counterparties, to spread risk, and to diversify and enhance credit exposure (See notes to editors).

NC KMG Bond

KMG EP and NC KMG announced today that KMG EP intends to purchase 220 bn Tenge (US\$1.5bn) three year Bond to be issued by NC KMG ("the Bond").

Transaction Highlights

- The Bond value is 220 bn Tenge or US\$1.5 bn
- The Bond which were issued on 25 June 2010 will carry an annual coupon of 7% and mature in three years
- The deal will enable, above certain thresholds, KMG EP to offset the Bond against future acquisitions of assets from NC KMG
- The deal will require NC KMG to offset future dividends from KMG EP against outstanding Bond
- The transaction will diversify and enhance credit exposure and spread risk

The terms of NC KMG Bond Issue and the SPA

The Bond will be acquired at par and indexed to the USD/KZT FX rate, and will carry an annual coupon of 7%.

Pursuant to the Bond Sale and Purchase Agreement between the parties:

- NC KMG will mandatorily use any future dividends from KMG EP to offset against the outstanding Bond;
- If KMG EP acquires assets from NC KMG during the life of the Bond of an aggregate value of more than US\$800 million, then KMG EP will be able to finance the portion of the cost of such acquisitions exceeding the US\$800 million threshold through transferring or selling to NC KMG the relevant portion of the Bond at their par value plus accrued coupon indexed to the USD/KZT FX rate. The amount payable by KMG EP for the agreed acquisition of the

interests in Kazakhoil Aktobe (50%), Kazakturkmunai (51%) and Mangistaumunaigas (50%) will count towards this threshold.

- If at maturity, NC KMG does not settle the then outstanding Bond for cash, KMG EP will pay a Special Dividend to its shareholders of a quantum where NC KMG's share is sufficient to settle the outstanding Bond.
- KMG EP will ensure that it will have sufficient cash reserves in appropriate banks to pay its minority shareholders their portion of the Special Dividend, should it become necessary. Special monitoring and control mechanisms have been put in place to ensure that the Independent Non-Executive Directors could exercise control over expenditures exceeding budgeted amounts in the event that the amount of cash, held in appropriate banks, falls below required levels.

The Bond has been approved by the Agency of the Republic of Kazakhstan for the Regulation and Supervision of the Financial Market and Financial Organisations ("FMSA"). It is intended for the Bond to be listed on the Kazakh Stock Exchange ("KASE") and an application for listing has been submitted to KASE.

As required by the Relationship Agreement, because the purchase of the Bond is a related party transaction, it has been approved by the Independent Non-Executive Directors of KMG EP. The Independent Non-Executive Directors, who have been so advised by N M Rothschild & Sons Limited, consider that the purchase of the Bond is fair and reasonable as far as the public shareholders of KMG EP are concerned.

Commenting on the Bond deal, the CFO of KMG EP Zhanneta Bekezhanova, said: "The Bond transaction represents a significant step to diversify and enhance the credit exposure of our counter parties while preserving our ability to finance the Company's growth strategy. It also enhances shareholders visibility for the ultimate use of the company's cash resources".

Ardak Kassymbek, General Manager for Corporate Finance and Assets Management of NC KMG said: "This transaction enables the KMG group of companies to use its cash resources more efficiently whilst protecting the interests of minority shareholders of KMG EP. We are looking forward to many years of mutually beneficial co-operation between NC KMG and KMG EP for the benefit of all stakeholders."

The terms of the Bond have been reviewed by Moody's rating agency, which has assigned it an issue rating of Baa2.

JSC Visor Capital is acting as independent financial adviser to KMG EP and N M Rothschild & Sons Limited is acting as independent financial adviser to the Independent Non-Executive Directors of KMG EP in relation to the issue of the Bond.

NOTES TO EDITORS

KMG EP is among the top three Kazakh oil and gas producers. The overall production in 2009 was 11.5mmt (an average of 232kbopd) of crude oil, including the Company's share in Kazgermunai and CCEL. The volume of proved and probable reserves (2P) of KMG EP as at the end of 2009 was 234mmt (1.7bn barrels); while including the share of reserves from associates and joint ventures, preliminary about 2.2 bn barrels. The Company's shares are listed on 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. In July 2009 International rating agency Standard & Poor's (S&P) confirmed KMG EP's "BB+" corporate credit rating and assigned the Company "GAMMA-6" level.

The Company's Treasury policy has been approved by the Board of directors and provides guidelines for managing the Company's financial resources. The amended policy requires that the Company will deposit its cash resources with domestic Kazakh banks that have a credit rating not lower than two notches below the sovereign level of the Republic of Kazakhstan, and international banks with a credit rating of at least 'A-'. The policy excludes the two largest Kazakh banks, Halyk and KKB, who have historically held the bulk of the Company's deposits. The Treasury policy envisages a gradual reduction of the maximum amount that can be held in these two banks to US\$750m by the end of year 2011.

NC KMG is a national operator of hydrocarbon exploration, production, refining and transportation, which represents the state interests in oil and gas sector of Kazakhstan. NC KMG owns approximately 63% stake in KMG EP, while 100% of NC KMG belongs to JSC "National Welfare Fund Samruk-Kazyna".

KOA owns the contract for subsurface resources development and use of Alibekmola and Kozhasai deposits, located in Aktobe region. The overall production in 2009 was 0.93mmt (19kbopd) of crude oil and the 2P reserves are estimated at 30mmt (217m barrels of oil equivalent). The second shareholder of KOA is Caspian Investments Resources.

KTM owns 2 contracts for subsurface resources development and use of Western Elemes, Northeast Saztobe, Southeast Saztobe deposits, located in Mangistau region, and Laktybay and Karatobe deposits, located in Aktobe region. The overall production in 2009 was 0.22mmt (4.5kbopd) of crude oil, the 2P reserves are estimated at 5.6mmt (41m barrels of oil equivalent). The second shareholder of KTM is Turkish Petroleum Corporation (TPAO).

MMG is one of the largest oil and gas companies in Kazakhstan. MMG's operations include exploration and crude oil production. Annual production of MMG was around 5.7mmt in 2007, 5.6mmt in 2008 and 5.7mmt in 2009. The volume of proved and probable reserves (2P) of MMG as at the end of 2009 was around 78,9mmt (556m barrels). Its major assets are the Kalamkas and Zhetybai oil fields in Western Kazakhstan. In total MMG owns 15 licenses to explore and produce oil.

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