

KMG EP announces 1H2014 operating results

Astana, 23 July 2014. JSC KazMunaiGas Exploration Production (“KMG EP” or “the Company”) announces its operating results for the first half of 2014, an update on the modernization programme, details of a memorandum signed with the environmental agency, information on the start of trial production on Liman block and an update on the decision on the sale of shares in Kazakh Oil and Gas Institute (KOGI).

- In the first half of 2014, the Company’s consolidated production, including its stakes in Kazgermunai (KGM), CCEL (CCEL) and PetroKazakhstan Inc. (PKI), was 6,106 thousand tonnes (250 kbopd), which is a 0.2% increase compared with the same period of 2013.
- The Company remains committed to its 2014 production plan of 8,170 thousand tonnes (165 kbopd) for Ozenmunaigas JSC (OMG) and Embamunaigas JSC (EMG).
- As part of the modernization programme, two units have been put into operation.
- Trial Production at the Novobogat SE field (suprasalt) of the Liman Block has been initiated.
- A Memorandum of Cooperation to support environmental measures was signed.
- The Company has decided to sell its shares in the Kazakh Oil and Gas Institute.

Abat Nurseitov, KMG EP Chief Executive, says: “KMG EP’s results for the first six months of 2014 are in line with our expectations. The modernization programme is in progress. We have also focused our efforts on supporting the environment and a Memorandum of Cooperation for the clean-up of historical contamination and accumulated wastes has been signed between governmental authorities and National Company KazMunayGas. We are also pleased to announce that we are very close to resolving an issue with gas utilization at our two oil and gas production units in Atyrau; and that we have launched a project which will decontaminate radioactive tubing in Mangystau Province”.

Operating activity in the first half of 2014

KMG EP produced 6,106 thousand tonnes of crude oil (250kbopd), including the Company’s stakes in KGM, CCEL and PKI, which is a 0.2% increase compared with the same period of 2013.

Ozenmunaigas JSC and Embamunaigas JSC

OMG produced 2,627 thousand tonnes (107kbopd) during the period, which is 88 thousand tonnes (3.6 kbopd) or 3% more than in the same period of 2013. EMG produced 1,391 thousand tonnes (57kbopd), which is similar to the same period of 2013. The volume of oil produced at

OMG and EMG in the first six months of 2014 totaled 4,018 thousand tonnes (163kbopd), which is a 2% increase versus the same period of 2013.

As of July 2014 the level of daily oil production is in line with the Company's expectations. The Company remains committed to the approved production plan of 8,170 thousand tonnes for 2014, including 5,350 thousand tonnes at OMG and 2,820 thousand tonnes at EMG.

In the first six months of 2014 the Company's export and domestic sales from OMG and EMG were 2,938 thousand tonnes (117kbopd) and 1,010 thousand tonnes (40kbopd), respectively. The Company expects the domestic sales from OMG and EMG to be 1.9 million tonnes for 2014.

Joint Ventures

The Company's share in the production from KGM, CCEL and PKI for the first six months of 2014 amounted to 2,088 thousand tonnes of crude oil (86kbopd) which is 3% less compared with the same period in 2013 and which is in line with the production plan.

The Company's share in the sales from KGM, CCEL and PKI was 2,086 thousand tonnes of crude oil (86kbopd), including 1,084 thousand tonnes (44kbopd) or 51% supplied to export markets.

Update on Modernization Programme

Operating results of the two servicing companies

Both servicing companies of KMG EP — Drilling Well Servicing Division LLP (UBR) and Support Service Vehicles and Well Servicing Division LLP (UTTiOS) — are engaging in work programmes which are being completed according to their production plans. In the first half of 2014, UBR performed well servicing operations on 1,537 wells and workover operations on 27 wells. It is expected to provide workover and well servicing operations on 50 and 2,928 wells respectively by the end of this year. In the first half of 2014, UTTiOS performed workovers on 21 wells and well servicing operations on 390 wells. It is planned to perform workovers on 45 wells and well servicing operations on 760 wells in 2014.

During the first half of 2013, two service bases were put into operation at UTTiOS. In the first half of 2014, projects to expand those service bases were completed and the new facilities are now in full operation. Specifically, at Kalamkas field, the service base has been expanded to accommodate repair and storage of 100 motor vehicles and special equipment for workover operations. At Karazhanbas field, the service base has been expanded to enable repair and storage of 250 motor vehicles and special equipment for workover operations.

Gas utilization unit at S.Balgimbayev field

The construction of the gas utilization unit at S. Balgimbayev field at EMG was completed in August 2013. The facility, with a designed capacity of 20 million cubic meters per year, will allow stopping flaring of raw gas, in accordance with the environmental legislation requirements. The sum of 1.4bn Tenge (US\$9.6m) has been invested in the construction of this gas utilization unit. Part of the processed gas will be used for the Company's own needs. The remainder will be sold to the domestic market at a price set by the government. Starting from June 2014 the gas

utilization unit is running in a test mode. The unit is expected to be put into full operation in 4Q2014.

Environment

Memorandum

On 5 June 2014, a Memorandum of Cooperation was signed between the Ministry of Environment and Water Resources of Kazakhstan, the Ministry of Oil and Gas of RK and National Company KazMunayGas (comprising KMG EP and OMG) to prevent, reduce and clean up oil contaminated soil and dispose of waste. The Memorandum sets out an action plan to clean up oil-contaminated soil and dispose of waste contained in 11 sludge storage pits, operated by OMG, by the end of 2021. In the first half of 2014, the methods which will be used to treat oil-contaminated soil have been debated and selected. In 3Q2014 it is anticipated that pilot tests will be run to test whether these methods are the most effective.

Radioactive tubing

During oil production in some of the fields in Kazakhstan, specifically the Uzen field, radioactive buildups occur inside tubing and other equipment. Until recently, this equipment was placed in temporary storage for radioactive waste at OMG. The Company has been running pilot tests of various decontamination methods and during the first half of 2014 a contractor specialized in this area has decontaminated 1,000 tonnes of radioactive tubing and equipment at OMG. After decontamination, the tubing and equipment will be returned to OMG to be re-used for production needs. The contractor will deliver radioactive salts and scales that occur after decontamination in a small amount to the specialized companies for long-term storage. It is expected that an additional 1,000 tons of radioactive tubing and equipment will be decontaminated by the end of the year. After the successful completion of this work, OMG intends to continue the decontamination of all radioactive tubing and equipment at temporary storage for radioactive wastes. This will help diminish adverse impact on environment.

Exploration

New discovery in the Rozhkovskoye field

[As reported previously](#), in the first half of 2014 the Company made a new discovery in the Bashkirian tier's sediments of the Carboniferous period in the Rozhkovskoye field. Inflow of light dry crude oil and gas, with maximum flow rates of 1.9 kboe/day and 6 million cubic feet/day, respectively, with 24/64" (9.5 mm) choke, was produced while carrying out tests in reservoirs of the Bashkirian period at the U-24 well that was drilled in 2013 in the north-east wing of the field.

Start of Trial Production at Liman block

In the first half of 2014, the Company started trial production at the Novobogat SE field (suprasalt) at Liman block. Trial production is planned for a period of two years. Based on the results of this trial production a decision will be taken on whether to engage in commercial production.

Disposal of assets

On 20 June 2014, KMG EP ceased to be a shareholder of Kazakh Oil and Gas Institute, selling its 1.7% stake (154,566 shares) to National Company KazMunayGas. The transaction was approved by the Management Board of the Company on 28 May 2014. The value of the transaction is 154.5 million tenge (US\$0.8mn at the exchange rate of the Kazakh National Bank as at the day of payment). The sale of the Company's stake is in line with KMG EP's strategy with regard to the disposal of non-core assets.

Notes to editors

KMG EP is among the top three Kazakh oil and gas producers. The overall production in 2013 was 12.4 million tonnes (an average of 251 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 UOG (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.

Drilling Well Servicing Division LLP (UBR) was created in 2012 as a structural division of OMG providing well and pipeline maintenance services. Support Service Vehicles and Well Servicing Division LLP (UTTiOS) was also set up in 2012 as KMG EP's subsidiary providing well servicing and well workover operations, road construction services and vehicles lease (with crews) for oil production companies.

Kazakh Oil and Gas Institute is a largest R&D and design company in Kazakhstan that was incorporated in December 2002 and has been providing a comprehensive R&D support to oil and gas sector of Kazakhstan.

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