

## PRESS - RELEASE

### *JSC KazMunaiGas Exploration Production 2009 Financial results*

*Astana, March 1st, 2010.* JSC KazMunaiGas Exploration Production (“KMG EP” or “the Company”), released its consolidated financial statements for the year ended December 31, 2009.

- Average Brent price in 2009 declined by 36% compared to 2008, from US\$97.1 per barrel to US\$61.7 per barrel.
- In 2009 KMG EP made a profit of 209.7bn Tenge (US\$1,422m)<sup>1</sup> and earnings per share were 2,871 Tenge (US\$3.2 per GDR). This includes a significant foreign exchange gain of approximately 89.5bn Tenge (US\$607m).
- Operating profit declined by 50% to 155bn Tenge (US\$1,050m) compared to 308bn Tenge (US\$2,559m) in 2008, mainly due to lower oil prices and introduction of the new Tax Code in January 2009.

Commenting on the financial results for the year, Kenzhebek Ibrashev, CEO of KMG EP, said: “KMG EP received a substantial net profit in 2009 and successfully continued the realisation of its strategy of onshore asset consolidation in Kazakhstan. The acquisition of a 33% stake in PetroKazakhstan Inc was finalised at the end of 2009 and will make its contribution to our performance this year. In 2010 we are planning to continue implementing our acquisition strategy as well as to significantly increase capital expenditure, in order to further grow production and increase reserves.”

### **Production Highlights**

In 2009 the Company produced 8,962 thousand tonnes (181kbopd) of crude oil from its Uzen and Emba fields, 5% less than in 2008. The decline is due to KMG EP’s planned reduction in drilling and production for 2009. Production was also affected by severe weather conditions at the beginning of the year and interruptions in power supply in the first and third quarters of 2009.

Consolidated production in 2009 was 11,497 thousand tonnes (232kbopd) of crude oil, including the Company’s share in production from Kazgermunai and CCEL of 2,534 thousand tonnes (51kbopd).

The Company supplied 8,966<sup>2</sup> thousand tonnes (181kbopd) of crude oil, excluding the share in supply from Kazgermunai and CCEL. Of this amount, 6,946 thousand tonnes (140kbopd) were exported (77% of sales), 1,720 thousand tonnes (35kbopd) were supplied to the domestic market and 300 thousand tonnes (6kbopd) were supplied to the Atyrau refinery for processing, subsequent sale and in-house use of the refined products.

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<sup>1</sup> 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.

<sup>2</sup> Includes 61 thousand tonnes of refined products in oil equivalent used in-house.

The Company's share in the shipment volumes from Kazgermunai and CCEL was 2,452 thousand tonnes (49kbopd) of crude oil in 2009, including 2,054 thousand tonnes (41kbopd) supplied for export (84% of sales).

### **Financial Highlights**

Profit after tax (**net income**) for the full year of 2009 was 209.7bn Tenge (US\$1,422m) compared to 241.3bn Tenge (US\$2,006m) in 2008 representing a 13% decline. This decline is attributable mainly to the decrease in revenue as a result of lower oil prices. This was partly offset by a foreign exchange gain of 89.5bn Tenge (pre-tax) (US\$607m) that followed the devaluation of Tenge in February 2009. Excluding the foreign exchange gain net of tax, net income declined by 40% year on year.

**Revenue** for the full year of 2009 decreased by 20% to 485.5bn Tenge (US\$3,291m) compared to 605.0bn Tenge (US\$5,029m) in 2008. This was due to an 18% decrease in the average realised price per tonne, from 64,879 Tenge (US\$74.60 per bbl) to 53,082 Tenge (US\$49.78 per bbl) and a 1% reduction in sales volume. In US Dollar terms, revenues declined by approximately 35% year on year.

In 2009 KMG EP recorded a 2.4bn Tenge (US\$16m) loss from its **share in Kazgermunai**. This amount represents 50% of Kazgermunai's net profit of 33.8bn Tenge (US\$229m) adjusted for 10.6bn Tenge (US\$72m) from the effect of purchase price premium amortization, 4.3bn Tenge (US\$29m) deferred income tax gross-up amortisation and 4.4bn Tenge (US\$30m) deferred income tax benefit revision. The financial results of Kazgermunai in 2009 were primarily affected by the lower oil price compared to 2008, introduction of the new tax code in 2009, accrual of 16.4bn Tenge (US\$111m) related to environmental fines for excessive gas flaring and a change in the method of revenue recognition from the beginning of 2009, which has deferred sales by approximately 45-60 days.

In 2009 the Company received US\$25m in dividends from Kazgermunai. From the date of the acquisition, dividends received have amounted to US\$650m.

The Company has recognised the amount of 21.4bn Tenge (US\$144m) as a **receivable from CCEL**, a jointly controlled entity, as at December 31, 2009. KMG EP has accrued 3.2bn Tenge (US\$22m) of interest income for the full year of 2009 which is related to the US\$26.87m annual priority return from CCEL.

**Operating expenses** were 330.6bn Tenge (US\$2,241m) for the full year of 2009 compared to 297.2bn Tenge (US\$2,470m) in 2008, representing an 11% increase. The key reasons for the increase were the introduction of the mineral extraction tax (MET), which replaced royalty, accrual of fines and penalties and the increase in payroll expenses. Excluding tax-related factors and accrued fines and penalties, operating expenses in 2009 increased by 4% in Tenge compared to 2008. This was primarily due to an increase in payroll expenses, change in crude oil balance, impairment of investment in joint venture, increase in energy tariffs and a loss on the disposal of fixed assets. This was partially offset by the reduction in depreciation expenses and decreases in costs of repairs, maintenance and materials. In US Dollar terms, operating expenses, excluding taxes, fines and penalties decreased by 15% year on year.

**Operating cash flow** for the full year of 2009 was 149.2bn Tenge (US\$1,011m), which is 9% less than in 2008. The key reason for the decline was the decrease in oil price and the replacement of royalty by the MET.

**Purchases of property, plant and equipment** (capital expenditure, not including purchases of intangible assets, as per Cash Flow Statement) in 2009 were 43.3bn Tenge (US\$294m) compared to 41.9bn Tenge (US\$348m) in 2008, representing 3% increase. In US Dollar terms, capital expenditure declined by 16% year on year.

**Impact of PKI acquisition.** In December 2009 the Company finalised the acquisition of 100% of common shares of KMG PKI Finance from NC KMG. KMG PKI Finance holds a 33% equity interest in PetroKazakhstan Inc. (“PKI”). The acquisition of KMG PKI Finance does not represent a business combination and the Company accounted for this transaction as an acquisition of assets and liabilities. KMG PKI Finance’s investment in PKI is recognized as an investment in an associate in the consolidated financial statements of the Company.

The major impact was on the balance sheet, in particular, investments in associates increased by 131.0bn Tenge (US\$883) and borrowings increased by 129.0bn Tenge (US\$869m). Impact on profit and loss accounts was immaterial. For the detailed discussion of impact of PKI acquisition on the Company’s accounts please refer to the consolidated financial statements and the notes.

**Borrowings and obligations** increased by 117.2bn Tenge (US\$759m) from 20.4bn Tenge (US\$169m) as at 31 December 2008 to 137.7bn Tenge (US\$928m) as at 31 December 2009. Increase in borrowings was mainly due to recognition of non-recourse debt and liabilities related to the acquisition of the 33% stake in PKI (as discussed above).

**Net cash, cash equivalents and financial assets<sup>3</sup>** at 31 December 2009 amounted to 505.0bn Tenge (US\$3.4bn) compared to 534.5bn Tenge (US\$4.4bn) as at 31 December 2008.

As at December 31, 2009, 74% of cash and deposits with banks were denominated in USD and 26% were denominated in Tenge. Cash and deposits with two of the largest Kazakh banks, Halyk and Kazkommertsbank, account for approximately 75% of the financial assets as at 31 December 2009. Interest accrued on deposits with banks for the 2009 was 42.9bn Tenge (US\$291m).

**Dividends paid** in 2009 were 46.1bn Tenge (US\$313m) compared to 39.5bn Tenge (US\$328m) paid in 2008.

**Fines and Penalties.** As a result of the tax audit covering the period of 2004 – 2005, the tax authorities assessed additional amounts of 32.0bn Tenge (US\$213m) including principal of 16.2bn Tenge (US\$107m) with the balance consisting of fines and penalties. The Company’s management maintains that its interpretation of the tax legislation was correct. However, as the outcome of the dispute remains uncertain, the Company made appropriate provisions. As at 31 December 2009 the accrued provision was 11.4 bn Tenge (US\$77m). This amount increased during the fourth quarter of 2009 (accrued provision was 9.1bn Tenge (US\$61m) as of 30 September 2009) as the Company made another provision related to similar risk in 2009 and interest until 31 December 2009.

**Hedging.** In October 2009 the Company completed its 2009 hedging program. As of December 2009 the aggregated volume of transactions was 3.3 million barrels per month, which represents 78% of average monthly export volume in 2009. As a result of the Brent price exceeding collar cap price the Company recognized a loss on a crude oil derivative instrument to the amount of 0.2bn Tenge (US\$1.7m) in 2009. As at December 31, 2009 the Company had no outstanding crude oil derivative instruments. No hedging is planned for 2010.

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<sup>3</sup> Cash, cash equivalents and other financial assets less borrowings.

## Outlook for 2010

**Production** in 2010 at Uzenmunaigas and Embamunaigas is expected to be 9,200 thousand tonnes (186 kbopd). Consolidated production in 2010 is expected to increase to 13.6 million tonnes including the 50% share in production of Kazgermunai and CCEL, as well as the 33% share in production of Petrokazakhstan Inc.

The annual plan on **shipments to domestic market** from Core fields in 2010 is expected at the level of 2.2 million tonnes.

For the 2010 budget the Company based on the **oil price** of US\$50 per barrel adhering to a conservative oil price scenario. This is in line with the government's macroeconomic forecast and the oil price assumption used by the Company's parent, National Company KazMunayGas.

In 2010 the Company is planning to spend about 95bn Tenge (US\$633m) on **capital expenditure**, to primarily fund maintenance and exploration drilling, as well as the implementation of the associated gas utilisation program.

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The consolidated financial statements for the year ended 31 December 2009, the notes thereto and the operating and financial review for the period are available on the Company's website ([www.kmgep.kz](http://www.kmgep.kz)).

## APPENDIX

### Key operating and financial indicators of KMG EP for the year ended 31 December 2009<sup>4</sup>

#### Consolidated Statement of Comprehensive Income

*Tenge thousands*

	For the year ended December 31,	
	2009	2008
Revenue	485,493,479	604,993,422
Operating expenses	(330,605,629)	(297,167,473)
<b>Profit from operations</b>	<b>154,887,850</b>	<b>307,825,949</b>
Finance income	46,758,905	45,374,578
Finance costs	(3,241,289)	(3,146,631)
Foreign exchange gain	89,534,814	696,455
Share of result of associates and joint ventures	(2,467,551)	57,623,884
<b>Profit before tax</b>	<b>285,472,729</b>	<b>408,374,235</b>
Income tax expense	(75,745,829)	(167,091,866)
<b>Profit for the year</b>	<b>209,726,900</b>	<b>241,282,369</b>
Exchange difference on translating foreign operations	13,013,592	579,153
Realised loss on available-for-sale financial investments reclassified to the profit for the year	–	435,886
<b>Other comprehensive income for the year, net of tax</b>	<b>13,013,592</b>	<b>1,015,039</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>222,740,492</b>	<b>242,297,408</b>
EARNINGS PER SHARE		
Basic	2.87	3.26
Diluted	2.78	3.26

<sup>4</sup> Rounding adjustments have been made in calculating some of the financial information included in the Appendix. As a result, figures shown as total in some tables may not be exact arithmetic aggregations of the figures that precede them.

## Consolidated Statement of Financial Position

Tenge thousands

	As at December 31,	
	2009	2008
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	257,739,303	248,920,924
Other financial assets	797,931	5,108,021
Receivable from jointly controlled entity	20,268,928	18,862,017
Intangible assets	2,276,745	2,831,782
Investments in associates and joint ventures	254,147,918	121,910,766
Deferred tax asset	10,265,537	1,428,948
Other assets	7,291,870	3,519,908
<b>Total non-current assets</b>	<b>552,788,232</b>	<b>402,582,366</b>
<b>Current assets</b>		
Inventories	15,525,704	14,405,863
Taxes prepaid and VAT recoverable	9,969,965	8,352,503
Prepaid and deferred expenses	21,595,622	6,562,709
Trade and other receivables	49,710,916	37,819,473
Receivable from jointly controlled entity	1,082,100	–
Other financial assets	534,288,078	264,677,096
Cash and cash equivalents	107,626,368	285,131,743
<b>Total current assets</b>	<b>739,798,753</b>	<b>616,949,387</b>
<b>Total assets</b>	<b>1,292,586,985</b>	<b>1,019,531,753</b>
<b>EQUITY</b>		
Share capital	238,546,914	259,724,847
Other capital reserves	1,474,089	1,385,036
Retained earnings	747,820,751	586,058,950
Other components of equity	12,937,395	(76,197)
<b>Total equity</b>	<b>1,000,779,149</b>	<b>847,092,636</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	92,023,143	5,532,332
Provisions	35,319,443	38,716,666
<b>Total non-current liabilities</b>	<b>127,342,586</b>	<b>44,248,998</b>
<b>Current liabilities</b>		
Borrowings	45,650,017	14,905,744
Income taxes payable	21,138,596	55,806,901
Mineral extraction and rent tax payable	36,177,299	–
Trade and other payables	34,402,259	32,380,235
Provisions	27,097,079	25,097,239
<b>Total current liabilities</b>	<b>164,465,250</b>	<b>128,190,119</b>
<b>Total liabilities</b>	<b>291,807,836</b>	<b>172,439,117</b>
<b>Total liabilities and equity</b>	<b>1,292,586,985</b>	<b>1,019,531,753</b>

## Consolidated Statement of Cash Flows

Tenge thousands

	For the year ended December 31,	
	2009	2008
<b>Cash flows from operating activities</b>		
Profit before tax	285,472,729	408,374,235
Adjustments to add (deduct) non-cash items		
Depreciation, depletion and amortisation	31,155,360	34,368,825
Share of result of associates and joint ventures	2,467,551	(57,623,884)
Settlement of crude oil under the terms of a pre-export financing agreement	(10,830,585)	(17,862,800)
Loss on disposal of property, plant and equipment (PPE)	2,547,437	852,909
(Reversal of impairment) impairment of PPE	(590,558)	183,086
Recognition of share-based payments	248,106	354,612
Forfeiture of share-based payments	(164,690)	–
Impairment of investment in joint venture	3,043,907	2,396,198
(Reversal) accrual of allowance for doubtful receivables	(1,057,105)	1,057,105
Unrealised foreign exchange gain	(7,993,206)	(464,941)
Other non-cash expenses	686,909	5,840,391
Add interest expense	3,241,289	3,146,631
Deduct interest income relating to investing activity	(46,758,905)	(45,374,578)
Working capital adjustments		
Change in other assets	(4,352,007)	(10,008)
Change in inventories	(1,282,335)	(2,607,882)
Change in taxes prepaid and VAT recoverable	(2,818,233)	(2,587,032)
Change in prepaid and deferred expenses	(13,762,247)	(1,815,510)
Change in trade and other receivables	(9,697,855)	11,241,450
Change in mineral extraction and rent tax payable	36,177,299	–
Change in trade and other payables	(6,558,436)	1,241,412
Change in provisions	5,670,976	(3,578,130)
Income tax paid	(115,686,180)	(173,277,182)
<b>Net cash generated from operating activities</b>	<b>149,159,221</b>	<b>163,854,907</b>
<b>Cash flows from investing activities</b>		
Purchases of PPE	(43,326,083)	(41,891,804)
Proceeds from sale of PPE	1,221,183	545,183
Purchases of intangible assets	(15,764)	(227,771)
Contribution to the capital of the joint venture	(3,043,907)	(1,816,093)
Acquisition of subsidiary, net of cash acquired	459,646	–
Dividends received from joint ventures and associates	3,768,250	39,164,528
(Purchases) sale of financial assets, net	(253,356,352)	91,555,956
Sale of financial assets held-to-maturity	10,517,548	–
Sale of available-for-sale financial assets, net	–	6,449,113
Loan repayments received from related parties	5,028,216	2,036,327
Interest received	26,046,200	44,724,319
<b>Net cash (used in) generated from investing activities</b>	<b>(252,701,063)</b>	<b>140,539,758</b>
<b>Cash flows from financing activities</b>		
Exercise of share-based options	–	299,279
Purchase of treasury shares	(21,392,129)	(521,318)
Proceeds from borrowings	–	30,000
Repayment of borrowings	(6,352,778)	(311,960)
Dividends paid to Company's shareholders	(46,108,343)	(39,504,759)
Interest paid	(109,083)	(968,822)
<b>Net cash used in financing activities</b>	<b>(73,962,333)</b>	<b>(40,977,580)</b>
Net change in cash and cash equivalents	(177,504,175)	263,417,085
Cash and cash equivalents at beginning of the year	285,131,743	21,658,451
Exchange losses on cash and cash equivalents	(1,200)	56,207
<b>Cash and cash equivalents at end of the year</b>	<b>107,626,368</b>	<b>285,131,743</b>

The following tables show the Company's realised sales prices adjusted for oil and oil products transportation and other expenses for the year ended December 31, 2009 and 2008.

	<b>2009</b>			
	<b>UAS</b>	<b>CPC</b>	<b>Domestic</b>	<b>Average</b>
	(US\$/bbl)			
Benchmark end-market quote <sup>5</sup>	60.71	61.02	-	-
Sales price	59.26	58.32	17.65	50.06
Quality bank	-	(5.68)	-	(1.28)
Premium of bbl difference <sup>6</sup>	0.09	4.93	-	0.99
<b>Realised price<sup>7</sup></b>	<b>59.35</b>	<b>57.56</b>	<b>17.65</b>	<b>49.78</b>
Rental tax	7.94	7.29	-	6.05
Transportation	7.32	7.15	1.30	5.96
Sales commissions	0.06	0.06	-	0.05
<b>Adjusted realised price</b>	<b>44.03</b>	<b>43.07</b>	<b>16.35</b>	<b>37.71</b>

  

	<b>2008</b>			
	<b>UAS</b>	<b>CPC</b>	<b>Domestic</b>	<b>Average</b>
	(US\$/bbl)			
Benchmark end-market quote <sup>3</sup>	94.08	98.44	-	-
Sales price <sup>5</sup>	90.07	92.53	20.50	75.10
Quality bank	-	(8.47)	-	(1.97)
Premium of bbl difference <sup>4</sup>	0.02	7.71	-	1.46
<b>Realised price<sup>5</sup></b>	<b>90.09</b>	<b>91.77</b>	<b>20.50</b>	<b>74.60</b>
Export customs duty	11.29	11.29	-	8.71
Transportation	7.38	7.79	0.94	6.00
Sales commissions	0.07	0.07	-	0.05
<b>Adjusted realised price</b>	<b>71.35</b>	<b>72.62</b>	<b>19.56</b>	<b>59.83</b>

<b>Reference information</b>	<b>For the year ended 31 December</b>	
	<b>2009</b>	<b>2008</b>
Average exchange rate \$/KZT	147.50	120.29
US\$/KZT at balance sheet date	148.36	120.77
Coefficient barrels to tones for KMG EP crude	7.36	
Coefficient barrels to tones for Kazgermunai crude	7.70	
Coefficient barrels to tones for CCEL crude	6.68	

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<sup>5</sup> The following quoted prices are used as benchmarks: for Q4 and 12m 2008 Urals (FOB Odessa) through the UAS and CPC blend (CIF) the CPC pipeline; for the 1h 2009 Urals NOVO 80KT through the UAS and CPC FOB 80kt through the CPC; for 2h 2009 Brent (DTD).

<sup>6</sup> Coefficient of 7,23 barrels per tonne is used

<sup>7</sup> Average realized price by financial report converted at 7.23 barrels per tonne of crude oil

## 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 total volume of proved and probable reserves, as at the end of 2008, was 241mmt (1.8bn bbl), excluding the relevant proportion of reserves at Kazgermunai and CCEL; including the share of reserves from Kazgermunai and CCEL the 2P reserves are over 2.1 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" rate.

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