

## IMPORTANT NOTICE

**IMPORTANT: You must read the following before continuing.** The following applies to the Base Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. NEITHER THE SECURITIES NOR ANY GUARANTEE IN RESPECT THEREOF HAS BEEN, OR WILL BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND NEITHER THE SECURITIES NOR ANY GUARANTEE IN RESPECT THEREOF MAY BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your Representation:** In order to be eligible to view the Base Prospectus or make an investment decision with respect to the securities, investors must be either (1) Qualified Institutional Buyers (“**QIBs**”) (within the meaning of Rule 144A under the Securities Act) that are also Qualified Purchasers (“**QPs**”), as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended, or (2) persons that are not U.S. persons (within the meaning of Regulation S under the Securities Act) outside the United States. The Base Prospectus is being sent at your request and, by accepting the e-mail and accessing the Base Prospectus, you shall be deemed to have represented to us that (1) you are (or, if you are acting for the account of another person, such person is) either (a) a QIB that is also a QP or (b) not a U.S. person and that the electronic mail address that you gave us and to which the Base Prospectus has been delivered is (or, if you are acting for the account of another person, that such person is) not located in the United States and (2) you consent (and, if you are acting for the account of another person, such person consents) to delivery of the Base Prospectus by electronic transmission.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor any sale of these securities in any jurisdiction in which such offer, solicitation or sale, would be unlawful. The Base Prospectus may be communicated solely to (A) persons outside the United Kingdom or (B) persons inside the United Kingdom who are (i) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”), (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order or (iii) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended) in connection with the issue or sale of any securities of the Issuer or any member of its Group (as defined in the Base Prospectus) may otherwise lawfully be communicated or caused to be communicated (all such persons in (A) and (B) above being “**relevant persons**”). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

If a jurisdiction requires that the offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of JSC NC “KazMunayGas” or KazMunaiGaz Finance Sub B.V. (as the case may be) in such jurisdiction.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Dealers (as defined in the Base Prospectus) nor any person who controls them nor any director, officer, employee nor agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from any such Dealer.



**JSC NC “KazMunayGas”**

*(a joint stock company incorporated in the Republic of Kazakhstan)*

and

**KazMunaiGaz Finance Sub B.V.**

*(a limited liability company incorporated in the Netherlands)*

in respect of Notes issued by KazMunaiGaz Finance Sub B.V. unconditionally and irrevocably guaranteed by  
**JSC NC “KazMunayGas”**

**U.S.\$10,500,000,000**

**Global Medium Term Note Programme**

JSC NC “KazMunayGas” (the “**Company**”), and KazMunaiGaz Finance Sub B.V. (“**KMG Finance**”) have established a U.S.\$10,500,000,000 Global Medium Term Note Programme (the “**Programme**”), pursuant to which the Company or KMG Finance, as the case may be (each in such capacity, an “**Issuer**”), may from time-to-time issue notes (“**Notes**”) denominated in any currency agreed between the relevant Issuer, together, if applicable, with the Company and the relevant Dealer(s) (as defined below). The Notes will be constituted by and have the benefit of an amended and restated trust deed dated 3 April 2018 (as may be supplemented, amended or restated from time-to-time, the “**Trust Deed**”), among the Company, KMG Finance and Citicorp Trustee Company Limited (the “**Trustee**”, which term shall include any successor trustee under the Trust Deed).

Where KMG Finance acts as the Issuer of Notes under the Programme, the payment of all amounts owing by KMG Finance in respect of such Notes will be unconditionally and irrevocably guaranteed by the Company (in such capacity, the “**Guarantor**”) pursuant to a guarantee (the “**Guarantee**”) contained in the Trust Deed.

This Base Prospectus supersedes the Base Prospectus dated 5 April 2017 relating to the Programme.

Application has been made (i) to the Financial Conduct Authority under Part VI of Financial Services and Markets Act 2000, as amended (the “**FSMA**”) (the “**UK Listing Authority**”), for Notes issued under the Programme during the period of twelve months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and (ii) to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Regulated Market**”). References in this Base Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of Directive 2014/65/EU (“**MiFID II**”). Notice of the aggregate nominal amount of, interest (if any) payable in respect of, the issue price of, and the completion of certain other terms and conditions which are applicable to, each Tranche (as defined below) of Notes will be set forth in a final terms (the “**Final Terms**”), which, in order for Notes to be admitted to the Official List and to be admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and to the London Stock Exchange on or before the date of issue of the Notes of such Tranche. In addition, unless otherwise agreed with the relevant Dealer(s) (as defined below) and provided for in the Final Terms, the Company will use its reasonable endeavours to cause all Notes issued by the Company and KMG Finance under the Programme to be admitted to the “bonds” category of the “debt securities” sector of the “main” platform of the official list of the Kazakhstan Stock Exchange (the “**KASE**”) as from (and including) the date of issue of the relevant Notes (the “**Issue Date**”). Neither the Company nor KMG Finance can give any assurance that any such listing will be obtained. In addition, no Notes may be issued, placed or listed outside of Kazakhstan without the prior permissions of the National Bank of the Republic of Kazakhstan (the “**NBK**”) for issuance and placement of the Notes outside of Kazakhstan (the “**NBK Permissions**”).

**Factors that may affect the ability of the Company and KMG Finance to fulfil their obligations under the Programme and factors that are material for the purposes of assessing the risks associated with Notes issued under the Programme are set out under “Risk Factors” beginning on page 1.**

Neither the Notes nor the Guarantee has been or will be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”). Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. Notes may be offered and sold (i) within the United States to qualified institutional buyers (“**QIBs**”) (as defined in Rule 144A under the Securities Act (“**Rule 144A**”)) that are also qualified purchasers (“**QPs**”), as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the “**Investment Company Act**”), in reliance on the exemption from registration provided by Rule 144A (“**Rule 144A Notes**”) and (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S (“**Regulation S**”) under the Securities Act (“**Regulation S Notes**”) and, together with Rule 144A Notes, “**Notes**”). Prospective purchasers are hereby notified that sellers of Notes may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The minimum denomination of any Notes issued under the Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Subject thereto and in compliance with all applicable legal, regulatory or central bank requirements, Notes will be issued in such denominations as may be specified in the relevant Final Terms.

As at the date of this Base Prospectus, the long-term foreign currency debt of the Company has been rated BB- by Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”), BBB- by Fitch Ratings Limited (“**Fitch**”) and Baa3 by Moody’s Investors Service Limited (“**Moody’s**”). Each of S&P, Fitch and Moody’s is established in the European Economic Area and is registered under Regulation (EU) № 1060/2009, as amended (the “**CRA Regulation**”). Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Such rating will not necessarily be the same as the rating assigned to the Company by the relevant rating agency. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Amounts payable under the Notes may be calculated by reference to either LIBOR or EURIBOR, which are provided by ICE Benchmark Administration Limited (“**ICE**”) and the European Money Markets Institute (the “**EMMI**”), respectively. As at the date of this Base Prospectus, ICE and the EMMI do not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“**ESMA**”) pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the “**Benchmark Regulation**”). As far as the Issuers are aware, the transitional provisions in Article 51 of the Benchmark Regulation apply, such that ICE and the EMMI are not currently required to obtain authorisation or registration.

**Joint Arrangers and Dealers**

Citigroup

Halyk Finance

J.P. Morgan

MUFG

UBS Investment Bank

The date of this Base Prospectus is 3 April 2018

This Base Prospectus should be read and construed together with any supplements hereto and, in relation to any Tranche of Notes, should be read and construed together with the relevant Final Terms. This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. The expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in any relevant Member State of the European Economic Area.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Overview—Overview of the Programme*” and any additional Dealer or Dealers appointed under the Programme from time-to-time by the Issuer and the Guarantor (if applicable) (each, a “**Dealer**” and, together, the “**Dealers**”), which appointment may be for a specific issue of Notes or an ongoing basis. In the context of a discussion of an issue of a particular Tranche of Notes, reference in this Base Prospectus to “**relevant Dealer**” or “**relevant Dealers**” shall be to the Dealer or Dealers agreeing to subscribe for the particular Tranche of Notes.

The language of this Base Prospectus and the Final Terms in respect of any Tranche of Notes is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. In connection with the listing of the Notes on the KASE, the Company will furnish the KASE with Russian-language translations of this Base Prospectus and any Final Terms (the “**Translations**”). The Translations will be prepared by the Company solely for the purpose of listing the Notes described in this Base Prospectus on the KASE and obtaining the relevant consents and permissions of the KASE and the NBK. None of the Dealers nor any of their respective affiliates has verified or will verify, makes any representation or warranty or takes any responsibility for the accuracy or completeness of the Translations. Only the English-language version of this Base Prospectus and any Final Terms should be used in connection with any investment decision. In the event of any conflict or discrepancy between the English version of this Base Prospectus or any Final Terms and the Translations, or any dispute regarding the interpretation of any statement in the English version or the Translations, the English version shall prevail.

For the purpose of the listing of the Notes on the KASE and any subsequent offer and sale of Notes in Kazakhstan, JSC Halyk Finance will act as sole manager, and the other Dealers will not be involved in such process.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Company or KMG Finance or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Company, KMG Finance, the Trustee or any Dealer or the Registrar, any Paying Agent, any Transfer Agent or the Calculation Agent (collectively, the “**Agents**”).

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Company, KMG Finance, the Dealers, the Agents or the Trustee that any recipient of this Base Prospectus, or any other information supplied relating to the Programme or any Notes, should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Company and KMG Finance. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Company or KMG Finance or any of the Dealers, the Agents, the Trustee or any other person to any person to subscribe for or to purchase any Notes in any jurisdiction where such offer or invitation is prohibited.

No representation or warranty is made or implied by the Dealers, the Trustee, the Agents or any of their respective affiliates, and none of the Dealers, the Agents, the Trustee nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Company or KMG Finance since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Furthermore, none of the Company, KMG Finance, the Dealers, the Agents or the Trustee makes any representation about the treatment for taxation purposes of payments or receipts in respect of any Notes received by any Noteholder. Each

investor contemplating acquiring Notes under the Programme must seek such tax or other professional advice as it considers necessary for the purpose.

Each potential investor in Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of Notes, the merits and risks of investing in Notes and the information contained or incorporated by reference in this Base Prospectus and any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in Notes and the impact Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's home currency;
- understand thoroughly the terms of Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes, which are complex financial instruments, unless it has the expertise (either alone or with a financial advisor) to evaluate how such Notes will perform under changing conditions, the resulting effects on the value of Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to applicable legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

The distribution of this Base Prospectus, any supplement and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus, any supplement or any Final Terms comes are required by the Company, KMG Finance and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus, any supplement or any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

This Base Prospectus may be communicated solely to (A) persons outside the United Kingdom or (B) persons inside the United Kingdom who are (i) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order or (iii) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended) in connection with the issue or sale of any securities of the Issuer or any member of its Group (as defined below) may otherwise lawfully be communicated or caused to be communicated (all such persons in (A) and (B) above being "**relevant persons**"). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

**NEITHER THE NOTES NOR THE GUARANTEE HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES**

**OR THE GUARANTEE OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

## **MIFID II PRODUCT GOVERNANCE / TARGET MARKET**

The Final Terms in respect of any Notes may include a legend entitled “MiFID II Product Governance”, which will outline the target market assessment in respect of the Notes and which channels for distribution of Notes are appropriate. Any person subsequently offering, selling or recommending Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue of Notes whether, for the purpose of the product governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for purposes of the MiFID Product Governance Rules.

## **IMPORTANT – EEA RETAIL INVESTORS**

Unless the Final Terms in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, the Notes are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client, as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) № 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## **STABILISATION**

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation or over allotment must be conducted by the Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws, regulations and rules.

## **ADDITIONAL INFORMATION**

Neither the Company nor KMG Finance is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). For so long as neither the Company nor KMG Finance is a reporting company under Section 13 or 15(d) of the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company and KMG Finance will, upon request, furnish to each holder of Notes that are “restricted securities” (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder upon request of such holder or prospective purchaser, in connection with a transfer or proposed transfer of any such Rule 144A Notes under the Securities Act, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. As long as the relevant Notes are represented by a Rule 144A Global Note, for the purposes of this paragraph the expression “holder” shall be deemed to include account holders in the clearing systems who have interests in the relevant Rule 144A Global Note.

## U.S. INFORMATION

This Base Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs that are also QPs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Notes may be offered or sold within the United States only to QIBs that are also QPs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Notes is hereby notified that the offer and sale of any Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Rule 144A Global Note or any Notes issued in exchange or substitution therefor (together “**Legended Notes**”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “*Subscription and Sale*” and “*Transfer Restrictions*”.

## PRESENTATION OF FINANCIAL, RESERVES AND CERTAIN OTHER INFORMATION

### Financial Information

The independent auditors of the Company, Ernst & Young LLP, issued an independent auditor’s report dated 12 March 2018 relating to the Company’s consolidated financial statements as at, and for the year ended, 31 December 2017, which include comparative data as at, and for the year ended, 31 December 2016 (certain of which has been restated, see “—*Restatements and Reclassifications*” below) (the “**2017 Financial Statements**”) and an independent auditor’s report dated 10 March 2017 relating to the Company’s consolidated financial statements as at and for the year ended 31 December 2016, which include comparative data as at, and for the year ended, 31 December 2015 (the “**2016 Financial Statements**”) and, together with the 2017 Financial Statements, the “**Financial Statements**”).

Ernst & Young LLP’s independent auditor’s report in respect of the 2017 Financial Statements appears on page F-4 of this Base Prospectus and Ernst & Young’s independent auditor’s report in respect of the 2016 Financial Statements appears on page F-96 of this Base Prospectus. The financial information set forth herein relating to the Company, unless otherwise indicated, has been extracted without material adjustment from the Financial Statements and the notes thereto contained in this Base Prospectus beginning on page F-1.

The 2016 cash flow figures included in this Base Prospectus are derived from the 2017 Financial Statements and differ from figures included in the 2016 Financial Statements. The 2015 figures included in this Base Prospectus are derived from the 2016 Financial Statements and may differ from figures included in the Company’s audited consolidated financial statements as at and for the year ended 31 December 2015 and published elsewhere. As the 2015 cash flow figures are not included in the 2017 Financial Statements, the 2015 cash flow figures included in this Base Prospectus are taken from the 2016 Financial Statements and, accordingly, are presented differently from the 2017 and 2016 cash flow figures included in the 2017 Financial Statements and in this Base Prospectus. In addition, the 2016 consolidated statement of financial position included in this Base Prospectus is derived from the 2017 Financial Statements and differs from the 2016 consolidated statement of financial position included in the 2016 Financial Statements. As the 2015 consolidated statement of financial position is not included in the 2017 Financial Statements, the 2015 consolidated statement of financial position included in this Base Prospectus is taken from the 2016 Financial Statements and, accordingly, is presented differently from the 2017 and 2016 consolidated statement of financial position figures included in the 2017 Financial Statements and in this Base Prospectus. See “—*Restatements and Reclassifications*”.

Items included in the financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The Financial Statements contained elsewhere in this Base Prospectus are presented in Kazakhstan Tenge (“**Tenge**”). However, for convenience some financial information in this Base Prospectus is presented in U.S. Dollars, which information is based on the Tenge amounts contained in the Financial Statements as translated at the exchange rates indicated. Such translation should not be construed as a representation that the Tenge amounts have been or could be converted into U.S. Dollars at these rates or at any other rate.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them. For purposes of rounding adjustments made to percentages and percentage change calculations in respect of figures included in this Base Prospectus taken from the Financial Statements, rounding adjustments are made based on the figures included in the Financial Statements (which are presented in thousands of Tenge) rather than the already rounded figures included in this Base Prospectus.

### **Restatements and Reclassifications**

The Company changed the method of presentation of its consolidated cash flow statement included in the 2017 Financial Statements from the method of presentation of the consolidated cash flow statement included in the 2016 Financial Statements, from the indirect method to the direct method for the period of 1 January 2017 to 31 December 2017, since the Company believes that the direct method is more relevant to users of consolidated financial statements. The Company adopted the direct method of presenting the consolidated cash flows statement on a retroactive basis and, accordingly, the 2016 cash flow figures included in this Base Prospectus are derived from the 2017 Financial Statements and differ from the 2016 cash flow figures included in the 2016 Financial Statements. As the 2015 cash flow figures are not included in the 2017 Financial Statements, the 2015 cash flow figures included in this Base Prospectus are taken from the 2016 Financial Statements and, accordingly, are presented differently from the 2017 and 2016 cash flow figures included in the 2017 Financial Statements and in this Base Prospectus. The Company believes that this re-presentation had no material impact on the financial position, results of operations or equity of the Company.

In addition, the consolidated statement of financial position included in the 2017 Financial Statements as at 31 December 2017 and 2016 has been revised to combine certain items of a similar nature, as discussed in Note 2 to the 2017 Financial Statements. Accordingly, the 2016 consolidated statement of financial position included in this Base Prospectus is derived from the 2017 Financial Statements and differs from the 2016 consolidated statement of financial position included in the 2016 Financial Statements. As the 2015 consolidated statement of financial position is not included in the 2017 Financial Statements, the 2015 consolidated statement of financial position included in this Base Prospectus is taken from the 2016 Financial Statements and, accordingly, is presented differently from the 2017 and 2016 consolidated statement of financial position figures included in the 2017 Financial Statements and in this Base Prospectus. The Company believes that the reclassifications made to the 2016 consolidated statement of financial position included in the 2017 Financial Statements did not have an impact on the Company's consolidated financial statements and such presentation is more transparent as it reflects the nature of such assets.

The Company made certain restatements to its 2015 consolidated statement of financial position and consolidated statement of comprehensive income included in the 2016 Financial Statements due to the recognition of "Aysir Turism ve Inshaat A.S." ("**Aysir**") as a continuing operation, rather than a discontinued operation, as Aysir did not meet the applicable criteria of IFRS 5. Accordingly, the 2015 figures included in this Base Prospectus are derived from the 2016 Financial Statements and differ from figures included in the Company's audited consolidated financial statements as at, and for the year ended, 31 December 2015 and published elsewhere. The Company believes that these restatements had no material impact on the financial position, results of operations or equity of the Company. See Note 6 to the 2016 Financial Statements for a tabulation of the effect of the change on comparative data (including Kazakh British Technical University JSC).

### **Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates**

Subsidiaries are entities over which the Company directly or indirectly has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company or one of its subsidiaries. Unless otherwise indicated, in this Base Prospectus, information presented for the Company's direct and indirect subsidiaries relating to production and reserves and other similar information reflect the subsidiaries' total interest therein, irrespective of the Company's percentage ownership thereof.

In September 2006, the Company sold 42.05% of the common shares of JSC KazMunaiGas Exploration Production ("**KMG EP**"), its principal onshore exploration and production company, and KMG EP listed (i) its common shares on the KASE and (ii) global depositary receipts representing its common shares (the "**GDRs**") on the London Stock Exchange. As at 31 December 2017, the Company owned 63.01% of the ordinary voting shares of KMG EP. The financial position and results of operations of KMG EP are consolidated into those of the Company in the Financial Statements, and such Financial Statements reflect the amounts attributable to the non-controlling interest. Unless otherwise indicated, data presented for KMG EP relating to production and reserves and other similar data reflect KMG EP's entire ownership interest. In December 2017, KMG EP launched a conditional tender offer to repurchase all of its outstanding GDRs and,

in January 2018, KMG EP launched an unconditional offer to repurchase on KASE all of its outstanding common shares. As a result of these transactions, the percentage of ordinary voting shares of KMG EP owned by the Company will increase. On 20 February 2018, KMG EP announced that the Company and KMG EP together held approximately 99.2% of the common shares (including common shares represented by GDRs) of KMG EP. See “*Business—Exploration and Production—Significant Production Fields of KMG EP*”.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities requires the unanimous consent of the parties sharing control. Joint arrangements of the Company exist in two forms: joint ventures and joint operations. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.

Under International Financial Reporting Standards (“**IFRS**”) 11, which applies specifically to interests in joint ventures, and replaces IAS 31, joint ventures that meet the definition of a joint venture under IFRS 11 must be accounted for using the “equity method”. The interests of the Company and its subsidiaries in joint ventures are accounted for in the Financial Statements using the equity method of accounting. Under the equity method, the Company’s consolidated statement of comprehensive income simply reflects the share of the Company and its subsidiaries’ of the net profit or loss of the joint venture as a single line item.

Upon the acquisition of joint operations, the Company recognises in relation to its interest in such joint operations, including its share of any assets held jointly and assets and liabilities, its share of any liabilities incurred jointly. The Company also recognises its revenue from the sale of its share of the output arising from the joint operations; its share of the revenue from the sale of the output by the joint operations; and expenses arising from the joint operations, including its share of any expenses incurred jointly.

Associates are entities over which the Company directly or indirectly has significant influence, but not control, generally accompanying a shareholding of between 20 and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. The Company’s and its subsidiaries’ interests in associates are limited to their share of the net profit or loss of such associates and are reflected as a single line item in the Company’s consolidated statement of comprehensive income of the Financial Statements.

Unless otherwise indicated, information presented in this Base Prospectus with respect to production and reserves and other similar information of joint ventures of the Company or its subsidiaries reflects the Company’s and/or the relevant subsidiaries’ proportionate interests in the joint ventures. Similarly, information presented in this Base Prospectus relating to production and reserves and other similar information of associates reflects the Company’s and its subsidiaries’ proportionate interest in the associates. In certain sections of this Base Prospectus, the Company has provided information on production and reserves and other similar information of the Company and its subsidiaries and joint operations separately from the production and reserves and other similar information of joint ventures accounted for under the equity method in order to permit some correlation to the financial accounting for the respective entities.

In this Base Prospectus, “**A+B+C1 reserves**” refers to reserves of crude oil and gas classified as category A, B and C1 under Kazakhstan methodology, “**Company’s A+B+C1 reserves**” refers to the A+B+C1 reserves of crude oil and gas of the Company and its subsidiaries and the Company’s and the Company’s subsidiaries’ proportionate share in the A+B+C1 reserves of crude oil and gas of their respective joint ventures and associates, collectively, and “**Company’s production**” refers to the crude oil and gas production of the Company and its subsidiaries and the Company’s and the Company’s subsidiaries’ proportionate share in the crude oil and gas production of their respective joint ventures and associates, collectively. See “*Management’s Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations—Acquisitions, Discontinued Operations and Loss of Control*” and “*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*”.

See Note 30 of the 2017 Financial Statements and Note 31 of the 2016 Financial Statements for additional information regarding how the Company accounts for its subsidiaries, joint ventures and associates.

### **Certain Reserves Information**

The Company calculates its reserves using Kazakhstan methodology, which is based on a system employed in the former Soviet Union, which differs significantly from both (i) the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association



of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers (the “**PRMS**”) and (ii) the reserves classifications permitted by the SEC (the “**SEC Standards**”), in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

While Kazakhstan methodology permits the inclusion of highly speculative reserve quantities attributable to highly speculative acreage, the Company has elected to include only A+B+C1 reserves in the reserves figures calculated using Kazakhstan methodology included in this Base Prospectus. Even so, estimates derived according to Kazakhstan methodology may be substantially higher than those derived in accordance with PRMS and the SEC Standards because Kazakhstan methodology differs in significant ways from those standards. Effective from 1 January 2010, the SEC Standards were revised to be more consistent with PRMS, including allowing for the voluntary disclosure of probable and possible reserves in addition to proven reserves. Reserves are measured only on an annual basis and, accordingly, as at the date of this Base Prospectus, no reserve information is available as at any date subsequent to 31 December 2017. For a detailed discussion of each reserve classification used in the methodology employed by the Company, see “*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*”.

The reserves data contained in this Base Prospectus are, unless otherwise stated, taken from reserves analyses prepared in accordance with Kazakhstan methodology by the Company’s professional engineering staff. The depreciation, depletion and amortisation data in the Financial Statements are prepared in accordance with IFRS, based on reserves estimates in accordance with PRMS, and were taken from published audited financial statements of certain of the Company’s and its subsidiaries’ joint ventures. Although the Company calculates its reserves using Kazakhstan methodology, some of the Company’s subsidiaries and joint ventures calculate their reserves in accordance with PRMS.

### **Hydrocarbon Data**

References in this Base Prospectus to “**tonnes**” are to metric tonnes. One metric tonne equals 1,000 kilograms.

For informational purposes only, certain estimates in this Base Prospectus are presented as follows:

- oil and condensate in barrels and barrels per year. Barrel figures are converted from the Company’s internal records presented in tonnes at a rate of 7.6 barrels per tonne. Barrel per day figures have been obtained by dividing annual figures by 365; and
- plant products, which include butane, propane, liquefied petroleum gas (“**LPG**”) and liquid hydrocarbons, in barrels. Barrel figures are converted from the Company’s internal records presented in tonnes at a rate of 7.6 barrels per tonne. Barrel per day figures have been obtained by dividing annual figures by 365.

For internal record keeping purposes, the Company’s information relating to production, transportation and sales of crude oil and gas condensate is recorded in tonnes, a unit of measure that reflects the mass of the relevant hydrocarbon. For convenience, such information is presented in this Base Prospectus as both tonnes and in standard 42 U.S. gallon barrels (“**barrels**” or “**bbl**”), converted from tonnes as described above. The actual number of barrels of crude oil produced, shipped or sold may vary from the barrel equivalents of crude oil presented herein, as a tonne of heavier crude oil will yield fewer barrels than a tonne of lighter crude oil. The conversion rates for other companies for converting tonnes into barrels and for converting cubic feet into cubic metres may be at different rates.

### **Third Party Information Regarding the Company’s Market and Industry**

Statistical data and other information appearing in this Base Prospectus relating to the oil and gas industry in the Republic of Kazakhstan (“**Kazakhstan**”) have, unless otherwise stated, been extracted from documents and other publications released by the Statistics Committee of Kazakhstan (the “**Statistics Committee**”), the Ministry of Finance of Kazakhstan, the Ministry of Energy (the “**Ministry of Energy**”), the NBK and other public sources in Kazakhstan, including the NBK’s Annual Report, the World Bank and International Monetary Fund, as well as from Kazakhstan press reports and publications, decrees and resolutions of the government of Kazakhstan (the “**Government**”) and estimates of the Company (based on its management’s knowledge and experience of the markets in which the Company operates). In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Any discussion of matters relating to Kazakhstan in this Base Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. See “*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—The Company cannot ensure the accuracy of official statistics and other data in this Base Prospectus published by Kazakhstan authorities*”.

The information described above has been accurately reproduced and, as far as the Company and KMG Finance are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third party information has been used in this Base Prospectus, the source of such information has been identified.

The Company's estimates have been based on information obtained from the Company's subsidiaries, joint ventures, associates, customers, suppliers, trade and business organisations and other contacts in the markets in which the Company operates. The Company believes these estimates to be accurate in all material respects as at the dates indicated. However, this information may prove to be inaccurate because of the method by which the Company obtained some of the data for these estimates or because this information cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other inherent limitations and uncertainties.

This Base Prospectus contains illustrations and charts derived from the Company's internal information, as well as the internal information of the Company's subsidiaries, joint ventures and associates, which have not been independently verified unless specifically indicated.

### **Certain Definitions and Terminology**

Certain defined terms are used in this Base Prospectus. See Appendix I for a glossary of frequently used defined terms. Additionally, see Appendix II for a glossary of measurement and technical terms used in this Base Prospectus.

## Presentation of Alternative Performance Measures

In this Base Prospectus, the Group uses the following metrics in the analysis of its business and financial position, which the Company considers to constitute Alternative Performance Measures (“APMs”), as defined in the ESMA Guidelines on Alternative Performance Measures dated 5 October 2015.

Set out below is a summary of the APM metrics used, the definition, bases of calculation and reconciliation of such metrics and the rationale for the inclusion of such metrics.

<b>Metric</b>	<b>Definition, method of calculation and reconciliation to financial statement line item</b>	<b>Rationale</b>
EBIT .....	Calculated as profit before income tax plus finance cost.	Performance measure
EBITDA .....	Calculated as EBIT plus depreciation, depletion, amortisation and impairment of long-lived assets.	Performance measure
Debt (including current portion) .....	Calculated as the current portion of borrowings plus the non-current portion of borrowings.	Liquidity measure
Capitalisation .....	Calculated as debt plus equity.	Liquidity measure
Net Capitalisation .....	Calculated as net debt plus equity.	Liquidity measure
Net Debt .....	Calculated as debt minus cash and cash equivalents.	Liquidity measure
Debt/EBITDA .....	Calculated as the ratio of debt divided by EBITDA.	Performance measure
Net Debt/Net Capitalisation .....	Calculated as the ratio of Net Debt divided by Net Capitalisation.	Liquidity measure
Cash and deposits (including long-term) .....	Calculated as the sum of cash in bank, deposits with maturities of less than 12 months and deposits with maturities over 12 months.	Liquidity measure
Debt/Equity .....	Calculated as the ratio of Debt divided by total equity	Liquidity measure
Current Liquidity .....	Calculated as current assets as at 31 December of the relevant year divided by current liabilities	Liquidity measure
EBIT/Finance Cost .....	Calculated as the ratio of EBIT divided by finance cost	Performance measures

The above APMs have been included in this Base Prospectus to facilitate a better understanding of the Group’s historic trends of operation and financial condition. The Group uses APMs as supplementary information to its IFRS operating results or financial position. The APMs are not defined by, or presented in accordance with, IFRS. The APMs are not measurements of the Group’s operating performance and/or liquidity under IFRS and should not be used instead of, or considered as alternatives to, any measures of performance and/or liquidity under IFRS. The APMs relate to the reporting periods described in this Base Prospectus and are not intended to be predictive of future results. In addition, other companies, including those in the Group’s industry, may calculate similarly titled APMs differently from the Group. Because companies do not calculate these APMs in the same manner, the Group’s presentation of such APMs may not be comparable to other similarly titled APMs used by other companies.

For a reconciliation of the APMs used in this Base Prospectus to the Financial Statements, see “*Alternative Performance Measures*”.

## FORWARD-LOOKING STATEMENTS

This Base Prospectus, any supplement thereto and any Final Terms may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and certain of the plans, intentions, expectations, assumptions, goals and beliefs of the Company regarding such items. These statements include all matters that are not historical fact and generally, but not always, may be identified by the use of words such as “believes,” “expects,” “are expected to,” “anticipates,” “intends,” “estimates,” “should,” “will,” “shall,” “may,” “is likely to,” “plans” or similar expressions, including variations and the negatives thereof or comparable terminology.

Prospective investors should be aware that forward looking statements are not guarantees of future performance and that the Company’s actual results of operations and financial condition and the development of the industry in which it operates may differ significantly from those made in or suggested by the forward-looking statements contained in this Base Prospectus. In addition, even if the Company’s results of operations, financial condition and business and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Factors that could cause actual results to differ materially from the Company’s expectations are contained in cautionary statements in this Base Prospectus and include, among other things, the following:

- price fluctuations in crude oil, gas and refined products markets and related fluctuations in demand for such products;
- fluctuations in the KZT/U.S.\$ and other exchange rates;
- operational limitations, including equipment failures, labour disputes and processing limitations;
- the availability or cost of transportation routes and fees charged for arranging transportation;
- overall international and domestic economic and business conditions, including commodity prices;
- changes in government regulations, including regulatory changes affecting the availability of permits, and governmental actions that may affect the Company’s operations or planned expansion;
- changes in the corporate organisation of the Company, its subsidiaries, joint ventures or associates;
- asset disposals by the Company, including, *inter alia*, those in line with the Government’s privatisation plan;
- unplanned events or accidents affecting the Company’s operations or facilities;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- the Company’s ability to increase market share for its products and control expenses;
- economic and political conditions in Kazakhstan and international markets, including governmental changes;
- the effects of instability and unrest in countries in the same region as Kazakhstan, including but not limited to the Russian Federation (“**Russia**”) and Ukraine;
- incidents or conditions affecting the export of crude oil and gas;
- reservoir performance, drilling results and the implementation of the Company’s oil and gas expansion plans;
- an inability to implement any potential acquisition or an inability to acquire such interests on terms proposed by the Company; and
- the timing, impact and other uncertainties of future actions.

The sections of this Base Prospectus entitled “*Risk Factors*” and “*Management’s Discussion and Analysis of Results of Operations and Financial Performance*” contain a more complete discussion of the factors that could affect the Company’s future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward looking events described in this Base Prospectus may not occur.

Neither the Company nor KMG Finance undertakes any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or KMG Finance or to persons acting on their behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Base Prospectus.

## **RESPONSIBILITY STATEMENT**

This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Company and KMG Finance, which, according to the particular nature of the relevant Issuer, together, if applicable, with the Company and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the relevant Issuer, together, if applicable, with the Company and of the rights attaching to the Notes. Where third party information has been used in this Base Prospectus, the source of such information has been identified. Such information has been accurately reproduced and, as far as the Company and KMG Finance are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Company and KMG Finance accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Company and KMG Finance (which have taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

## **SUPPLEMENTS TO THIS BASE PROSPECTUS**

Following the publication of this Base Prospectus, supplements may be prepared by the Company and KMG Finance and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

The Company and KMG Finance will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus that is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

The relevant Issuer together, if applicable, with the Company may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event a supplemental Base Prospectus will be published, if appropriate, which will describe the effect of the agreement reached in relation to such Series of Notes.

## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents, which have previously been published and approved by, filed with or notified to the Financial Services Authority (now the Financial Conduct Authority) (the “**FCA**”) shall be incorporated in, and form part of, this Base Prospectus and, for so long as the Programme remains in effect and (in the case of any of the referenced Terms and Conditions of the Notes) Notes to which such Terms and Conditions of the Notes are applicable shall be outstanding, copies of each such document may be inspected during normal business hours at the specified office of the Paying Agent and such documents may also be viewed electronically and free of charge at: <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 5 April 2017 (pages 199-232 inclusive) prepared by the Company and KMG Finance in connection with the Programme;
- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 23 October 2014 (pages 214-247 inclusive) prepared by the Company and KMG Finance in connection with the Programme;
- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 15 April 2013 (pages 177-210 inclusive) prepared by the Company and KMG Finance in connection with the Programme;
- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 1 November 2010 (pages 181-213 inclusive) prepared by the Company and KMG Finance in connection with the Programme;
- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 15 April 2010 (pages 157-190 inclusive) prepared by the Company and KMG Finance in connection with the Programme; and
- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 18 June 2008 (pages 166-203 inclusive) prepared by the Company and KMG Finance in connection with the Programme.

The non-incorporated parts of a document listed above are either not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus. Any documents themselves incorporated by reference in any document incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

## **ENFORCEMENT OF CIVIL LIABILITIES**

The Company is a joint stock company organised under the laws of Kazakhstan, and all of its officers and certain of its directors and other persons referred to in this Base Prospectus are residents of Kazakhstan. All or a substantial portion of the assets of the Company and most of such persons are located in Kazakhstan. As a result, it may not be possible (i) to effect service of process upon the Company or any such person outside Kazakhstan, (ii) to enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (iii) to enforce against any of them, in Kazakhstan courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained in respect of the Notes or the Trust Deed in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

KMG Finance is incorporated under the laws of the Netherlands and its managing directors are residents of the Netherlands and Kazakhstan. A substantial portion of the assets of KMG Finance and of its managing directors are located in the Netherlands and Kazakhstan. As a result, it may not be possible (i) to effect service of process upon KMG Finance or any such person outside the Netherlands or Kazakhstan, as the case may be, (ii) to enforce against any of them, in courts of jurisdictions other than the Netherlands or Kazakhstan, as the case may be, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (iii) to enforce against any of them, in the courts of the Netherlands or Kazakhstan, as the case may be, judgments obtained in jurisdictions other than the Netherlands or Kazakhstan, respectively, including judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States. KMG Finance has been advised by its legal counsel in the Netherlands, DLA Piper Nederland N.V., that the Netherlands does not currently have a treaty with the United States providing for reciprocal recognition and enforcement of judgments (other than arbitral awards) in civil and commercial matters.

Consequently, a judgment for the payment of an amount of money rendered by any federal or state court in the United States will not be recognised and enforced by the Dutch courts. However, if a person has obtained a final and conclusive judgment for the payment of money rendered by any federal or state court in the United States and files his claim with the competent Dutch court, the Dutch court will generally give binding effect to the judgment of any federal or state court in the United States, insofar as it finds that the jurisdiction of any federal or state court in the United States has been based on grounds which are internationally acceptable and that proper legal procedures have been observed and unless the foreign judgment contravenes Dutch public policy.

Accordingly, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not be directly enforceable in the Netherlands. If the party in whose favour such final judgment is rendered brings a new suit in a competent court in the Netherlands, however, such party may submit to a Dutch court the final judgment that has been rendered in the United

States. If the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on grounds which are internationally acceptable and that proper legal procedures have been observed, the Dutch court will, in principle, give binding effect to the final judgment which has been rendered in the United States unless such judgment contravenes public policy in the Netherlands. The enforcement in a Dutch court of judgments rendered by any federal or state court in the United States is subject to Dutch rules of civil procedure.

The Notes and the Trust Deed are governed by the laws of England, and the Company and KMG Finance have agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in London or, at the election of the Trustee or, in certain circumstances, a Noteholder (as defined in “*Terms and Conditions of the Notes*”), to the non-exclusive jurisdiction of English courts. See Condition 24(b) under “*Terms and Conditions of the Notes*”. The Civil Procedure Code of Kazakhstan, which became effective on 1 January 2016, provides that Kazakhstan courts should recognize and enforce foreign court judgments only if provided for by Kazakhstan law or an international treaty to which Kazakhstan is a party (based on reciprocity). Kazakhstan is not a party to any multilateral or bilateral treaties with the United Kingdom (or most western jurisdictions) for the mutual enforcement of court judgments, and, accordingly, there is a risk that a judgment obtained from a court in England would not be enforceable in Kazakhstan courts. Each of Kazakhstan and the United Kingdom are, however, parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the “**Convention**”), and, accordingly, an arbitral award under the Convention should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met. The Civil Procedure Code of Kazakhstan establishes the procedure for the enforcement of foreign arbitral awards.

The Law “On Arbitration” (№ 466-V, dated 8 April 2016) (the “**Arbitration Law**”) was signed by the President of Kazakhstan on 8 April 2016. The introductory language to the Arbitration Law, as well as other provisions of the Arbitration Law, imply that the Arbitration Law should apply only where the matter involves dispute resolution in Kazakhstan (*i.e.*, in respect of arbitration bodies with a seat in Kazakhstan). In particular, the preamble to the Arbitration Law states that: “This [l]aw regulates social relations arisen in the process of arbitration activity on the territory of the Republic of Kazakhstan as well as the procedure and terms of recognition and enforcement of arbitral awards in Kazakhstan...”

There are, however, certain provisions in the Arbitration Law, which may have implications (as described below) in respect of the arbitration provisions contained in the Notes and the Trust Deed. In particular, the provisions of the Arbitration Law do not clearly differentiate between domestic and foreign arbitration. In particular:

- Article 8.8 of the Arbitration Law restricts the trying of disputes involving quasi-sovereign companies by arbitration. Both the Company and KMG Finance fall under the definition of a quasi-sovereign company. More specifically, Article 8.8 provides that a dispute between two quasi-sovereign companies cannot be resolved by arbitration. While there is no established practice in relation to Article 8.8 of the Arbitration Law, Management believes that this requirement only applies when two or more quasi-sovereign companies are involved in a dispute as adverse parties. Accordingly, Article 8.8 should not apply if two or more quasi-sovereign companies are not adverse parties to the dispute, which would be the case in respect of the Notes and the Trust Deed.
- Article 8.10 of the Arbitration Law requires state-controlled companies to obtain consent from the Competent Authority of a relevant industry in order to enter into an arbitration agreement. Both the Company and KMG Finance fall under the definition of a state-controlled company. Although, there is no established practice in relation to Article 8.10 of the Arbitration Law, Management believes that the Arbitration Law does not govern conduct of arbitration proceedings outside of Kazakhstan and that, accordingly, no consent of the Competent Authority (as defined below) is required for the Company or KMG Finance to enter into arbitration agreements under the Notes and the Trust Deed.
- Article 44.1 of the Arbitration Law provides that an arbitral tribunal applies Kazakhstan law when considering a dispute: (i) between Kazakhstan nationals and/or legal entities; or (ii) involving a quasi-sovereign company. Although, there is no established practice in relation to Article 44.1 of the Arbitration Law, Management believes that the Arbitration Law does not govern conduct of arbitration proceedings outside of Kazakhstan and that, accordingly, Article 44.1 of the Arbitration Law does not require an arbitral tribunal outside of Kazakhstan to apply Kazakhstan law when considering a dispute involving the Company and/or KMG Finance.

Given that the Arbitration Law has not been tested in practice, there can be no assurance that Kazakhstan courts would support the above interpretation of the Arbitration Law and that an award against the Company and/or KMG Finance in arbitral proceedings in London under English law would be enforced in Kazakhstan. See “*Risk Factors—Risk Factors*

*Relating to the Notes—It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Company and its management.”*

In February 2010, the Parliament of Kazakhstan (the “**Parliament**”) passed legislation amending Kazakhstan law to provide for certain immunities to government entities in the context of arbitration and foreign court judgments. While companies, such as the Company, are not considered to be government entities and, thus, do not have such immunity, arbitral awards and foreign court decisions in respect of the Company, including in relation to the issuance of Notes under the Programme, may not be recognised and enforced on the grounds that they affect the interests of the State. Notwithstanding these concerns, although no assurance can be given that a Kazakhstan court would give effect to such provisions, under the Trust Deed, the Company has, to the full extent permitted by applicable laws, waived any immunity that may be attributed to it in respect of the Notes or, if applicable, the Guarantee.

In addition, certain of the assets owned by the Company or its subsidiaries, as well as certain of the shares in the Company’s subsidiaries, are considered to be strategic assets of Kazakhstan. Kazakhstan law provides that the State shall have a priority right to purchase the strategic assets of Kazakhstan in the event of their disposition (whether through sale, bankruptcy or receivership).



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## RISK FACTORS

*Each of KMG Finance and the Company believes that the following factors may affect its ability to fulfil its obligations under Notes and the Guarantee, as applicable. Some of these factors are contingencies, which may or may not occur, and neither KMG Finance nor the Company is in a position to express a view on the likelihood of any such contingency occurring or not occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Notes are also described below. If any of the risks described below materialise, the Company's business, prospects, financial condition, cash flows or results of operations may be materially adversely affected and may impact the ability of the Company to pay amounts due under the Notes. If that were to happen, the trading price of the Notes may decline, the relevant Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes, and the Company may be unable to honour the Guarantee, if applicable, and investors may lose all or part of their investment. Furthermore, Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.*

*Each of KMG Finance and the Company believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the relevant Issuer or the Company (as the case may be) to pay interest, principal or other amounts on, or in connection with, any Notes, or otherwise perform its obligations under any Notes or the Guarantee, if applicable, may occur for other reasons that may not be considered significant risks by KMG Finance and the Company based on information currently available to them or for reasons that they may not currently be able to anticipate or currently consider relevant. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

### **Risk Factors Relating to KMG Finance**

***KMG Finance's ability to fulfil its obligations, if any, in respect of Notes issued by it under the Programme is entirely dependent on the Company and, in turn, the Company is dependent on receipt of funds from its shareholders, subsidiaries, joint ventures and associates.***

KMG Finance's principal purpose is to provide funding, through the international capital markets, to the Company, although it also engages in other transactions, including the TCO Advanced Oil Sale (as defined below). Accordingly, KMG Finance's ability to fulfil its obligations under any Notes issued by it is entirely dependent on the performance of the Company and, in turn, the Company is dependent upon its subsidiaries, joint ventures and associates as a source of revenue. As a result, in considering the risks that may affect KMG Finance's ability to fulfil such obligations, potential investors should focus on the risk factor analysis set out below in respect of the Company and its ability to fulfil its obligations under the Guarantee in respect of Notes issued by KMG Finance, which analysis is equally applicable to KMG Finance's ability to fulfil its obligations, including payments of interest and repayment of principal, under the Notes. If a prospective investor purchases Notes, it is relying on the creditworthiness of the Company and no other person. In addition, an investment in any Notes involves the risk that subsequent changes in the actual or perceived creditworthiness of the Company may adversely affect the market value of Notes.

The Company's subsidiaries, including KMG Finance, joint ventures and associates are separate and distinct legal entities and they have no obligation to pay any amounts due under the Notes or the Guarantee or, necessarily, to make funds available for that purpose. In recent years, a significant proportion of the Company's cash flow has been derived from dividends paid to the Company by its subsidiaries, joint ventures and associates; however, future dividends to the Company may decrease. The Company can give no assurance that future dividends from the Company's subsidiaries, joint ventures and associates, if forthcoming, will be of a similar magnitude as those received in recent years. In addition, the Company's right to receive assets of any of the Company's subsidiaries, joint ventures or associates upon their liquidation or reorganisation, and consequently the right of the holders of the Guarantee to participate in those assets, will be subordinated to the claims of that subsidiary's, joint ventures' or associates' creditors, including trade creditors. Further, even if the Company were a creditor of any of its subsidiaries, joint ventures or associates, the Company's rights as a creditor would be subordinate to any security interest in the assets of the Company's subsidiaries, joint ventures or associates and any indebtedness of those entities senior to that held by the Company. In the event that dividends from the Company's subsidiaries, joint ventures and associates significantly decrease, the Company may not be able to fulfil its obligations under the Guarantee in respect of Notes issued by KMG Finance.

The Company has in the past also received funds from JSC “Samruk-Kazyna” (“**Samruk-Kazyna**”) or the Government. There can be no assurance, however, that the Company will continue to benefit from loans and other financing from Samruk-Kazyna, the Government or Government-affiliated entities.

### **Risk Factors Relating to the Company’s Business**

*The Company’s revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company’s control.*

Crude oil sales are the Company’s largest source of revenue, and the price of crude oil and the revenue realised by the Company from the sales of crude oil are affected by a variety of factors beyond the Company’s control, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and petroleum products;
- the impact of recessionary economic conditions on the Company’s customers, including reductions in demand for gas and oil products;
- global and regional socioeconomic and political conditions and military developments, particularly in countries in the same region as Kazakhstan (including, but not limited to, Russia and Ukraine) and in the Middle East and other oil-producing regions;
- weather conditions and natural disasters;
- access to pipelines, railways and other means of transporting crude oil, gas and petroleum products;
- prices and availability of alternative fuels;
- the ability of the members of the Organisation of Petroleum Exporting Countries (“OPEC”), and other crude oil producing nations to set and maintain specified levels of production and prices;
- Kazakhstan and foreign governmental regulations and actions, including export restrictions and taxes; and
- market uncertainty and speculative activities.

Historically, world crude oil prices have been highly volatile and are generally characterised by significant fluctuations that are determined by the global balance of supply and demand, which is entirely outside of the Company’s control. For example, crude oil prices may be affected by the emergence of new discoveries and the growth of new exploration and production activities around the world. The United States is producing large volumes of crude oil through hydraulic fracturing or “fracking”, and these activities have had, and are expected to continue to have, a significant impact on world crude oil supplies, which could, in turn, affect world crude oil prices. In addition, while current agreements by Kazakhstan with OPEC to reduce crude oil output have resulted in an oil price improvement and do not appear to have a material adverse impact on the Company’s operations, there can be no assurance that any future agreements will not have a material adverse impact on the quantities of crude oil produced by the Company or the price which the Company may receive for such crude oil.

Crude oil prices have been particularly volatile in recent years. According to statistics published by the U.S. Energy Information Administration (the “EIA”), the average monthly spot price of Brent crude oil was U.S.\$43.64 per barrel in 2016, as compared to average prices of U.S.\$52.32 per barrel in 2015 and U.S.\$98.97 per barrel in 2014. Brent crude oil prices began to recover in 2017, with an average monthly spot price of Brent crude oil for December 2017 of U.S.\$64.37 per barrel, according to statistics published by EIA. According to the 9 January 2018 Short-Term Energy Outlook published by the EIA, Brent crude oil prices are forecast to average U.S.\$60 per barrel and U.S.\$61 per barrel in 2018 and 2019, respectively. As at the date of the Base Prospectus, the price of crude oil remains considerably below the record high average monthly price of U.S.\$132.72 per barrel recorded in July 2008. As at 26 March 2018, the spot price for Brent crude oil was U.S.\$68.81 per barrel.

The Company’s profitability derived from crude oil sales is determined in large part by the difference between the income received for the crude oil the Company produces and its operating costs, as well as costs incurred in transporting and selling its crude oil. The Company’s business, prospects, financial condition, cash flows and results of operations are heavily dependent on prevailing crude oil prices. Historically, high oil prices have had a considerable positive impact on the Company’s business, prospects, financial condition, cash flows and results of operations, while lower crude oil prices have reduced, and may continue to reduce, the amount of crude oil that the Company is able to produce economically,

including, in particular, by negatively affecting the economic viability of the production levels of specific wells or of projects planned or in development where production costs would exceed anticipated income from such production. There can be no assurance that the price per barrel of crude oil will increase, or be maintained in the future. Any decline in the price per barrel for crude oil currently received by the Company (even a relatively modest decline) or any resulting curtailment in the Company's overall production volumes may result in a reduction in net income, impair the Company's ability to make planned capital expenditures or to incur costs necessary for the development of the Company's fields and may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations. In particular, for budgeting purposes, the Company uses a price per barrel of crude oil of U.S.\$55, U.S.\$50 and U.S.\$60 for 2018, 2019 and 2020, respectively, which the Company's management believes is sufficient to allow the Company to continue to conduct its operations and capital expenditure and exploration projects as planned. If the price per barrel falls below this internal threshold, there can be no guarantee that the Company will continue with its planned capital expenditure or exploration projects unless it is able to obtain support for such projects from Samruk-Kazyna or other sources.

***The Company relies heavily on oil and gas transportation systems to transport its products and its customers' products to markets outside Kazakhstan.***

Kazakhstan's crude oil for export is transported primarily through international pipelines and, to a lesser extent, by rail and sea routes through other countries. The Company currently exports its crude oil through Russian pipelines to Black Sea ports for shipment to Europe and through Azerbaijan by rail to the Batumi Port and Oil Terminal Facilities (as defined below) for shipment to Europe. Therefore, the Company is largely dependent upon intergovernmental agreements between Kazakhstan and other countries to transport its oil and upon such governments' adherence to such agreements, both of which are entirely outside of the Company's control.

In addition, any reduction or cessation in the availability of the Company's export routes, whether due to maintenance breakdowns, security issues, political developments, natural disasters or disagreements with the Company's partners, among other things, would materially adversely affect exports, which, in turn, would have a material adverse impact on the Company's business, prospects, financial condition, cash flows or results of operations. Significant transportation disruptions could also result in reductions in, or interruptions of, production, which, together with the costs of resuming production and restoring production to pre-reduction or interruption levels, could have a material adverse impact on the Company's business, prospects, financial condition, cash flows or results of operations.

As at the date of this Base Prospectus, and following completion of the Caspian Pipeline Consortium ("CPC") expansion project in 2017, the Company's preferential capacity rights in respect of transportation of crude oil increased to 14.3 million tonnes of crude oil per year through the CPC Pipeline. Despite increased throughput rights, the Company cannot be certain that it will be successful in obtaining sufficient CPC Pipeline (as defined below) capacity allocation to meet anticipated production volumes at the Kashagan Field. CPC Pipeline capacity allocations change from period to period primarily due to quotas granted to certain subsoil users by the Ministry of Energy. Failure to access additional CPC Pipeline capacity and any further material increase in the tariff for the use of the CPC Pipeline (or other export routes) could materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

Users of the gas transportation network operated by JSC Intergas Central Asia ("ICA"), the Company's international natural gas transportation subsidiary, are, in addition, dependent upon connections to third-party pipeline networks in Turkmenistan, Uzbekistan and Russia to receive and deliver natural gas. Accordingly, a reduction in the allocation of usage rights capacity of third-party pipelines located in Turkmenistan, Uzbekistan or Russia due to maintenance breakdowns, security issues, disputes, political developments, natural disasters or otherwise, could result in the reduction of volumes of gas transported by ICA and have a corresponding material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

***A number of the Company's production fields are mature.***

KMG EP is the Company's largest subsidiary in terms of reserves and production. As at 31 December 2017, 30.0% of the Company's reserves, in particular the fields operated by JSC Ozenmunaigaz ("OMG") and JSC EmbaMunaiGas ("EMG"), wholly-owned subsidiaries of KMG EP and located in the Mangistau and Atyrau oblasts in western Kazakhstan, were mature, production from those reserves is declining and production from certain fields is no longer commercially viable. The Company intends to maintain production levels by various field development and rehabilitation projects, including the drilling of new wells, the completion of well workovers and the introduction of secondary enhanced oil recovery and well stimulation techniques. The Company also intends to increase overall production levels by replacing reserves through new discoveries over the long-term and making new acquisitions of producing oil and gas fields, both in Kazakhstan and internationally. Such activities typically involve significant levels of capital expenditures in new technologies and alternative methods of extracting reserves from such fields. The economic viability of such activities

also depends upon the minimum price per barrel of crude oil being sufficient to allow the Company to continue to conduct its operations and capital expenditure and exploration projects, in accordance with its budget. See “—*The Company’s revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company’s control.*” No assurance can be given that the Company will be successful in achieving these strategic objectives or that such activities will achieve the desired results. Any failure of the Company to implement these activities at all or in part or in a cost-efficient manner could result in decreases in production or the profitability of such production, which could, in turn have a material adverse effect on the Company’s business, prospects, financial condition, cash flows or results of operations.

***Many of the Company’s transportation and refining facilities were constructed many years ago and will require significant further investment, in particular, to meet required ecological standards.***

The Company’s production, transportation and refining facilities largely rely on old infrastructure, which could materially adversely affect the Company’s activities. The natural gas transportation systems operated by ICA, including the pipelines and compressor stations, were, for the most part, constructed over 30 years ago. Most of the pipelines are over 25 years old with some parts of the pipelines being more than 35 years old; overall, the pipelines have depreciated in value. Considerable sums of money have been invested by the Company to overhaul and improve the pipeline network and compressor stations to bring them in compliance with international standards. There can be no assurance that there will not be any delays or curtailments of the supply of oil and natural gas to the Company’s customers in the future due to the stress and corrosion of pipelines, defective construction of compressor stations, problems associated with harsh climate, the insufficient maintenance or refurbishment of the network or the breakdown or failure of equipment or processes leading to performance below expected levels of output or efficiency.

While modernisation works at the Atyrau Refinery and the Pavlodar Refinery were completed in 2017 and the modernisation work at the Shymkent Refinery is expected to be completed in September 2018, as a result of which much of the outdated equipment at the three refineries has been replaced and technological processes and equipment have been updated (with certain works completed in 2017, to ensure compliance with the Euro 4 and Euro 5 ecological standards of the Eurasian Economic Union of Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan (the “**EEU**”), which took effect from 1 January 2018), there can be no assurance that further investment will need to be made by the Company to maintain or improve utilisation rates, profitability and the quality of the refined oil products at the refineries, in particular, if new ecological standards are introduced going forward.

If the Company is not able to complete any required further works, comply with applicable standards, find sources of funding for such works on favourable terms or at all or control the costs of such works, there could be a material adverse effect on the Company’s business, prospects, financial condition, cash flows or results of operations.

***The Company’s exploration, production and refining activities have been and could continue to be affected by infrastructure failures.***

The Group’s activities have been, and may continue to be, affected by infrastructure failures. Kazakhstan’s power supply network is outdated and prone to power outages and disruptions. In common with other oil producers in Kazakhstan, the Company has experienced power outages at its fields. Although the Company has not experienced any significant power interruptions in recent years, there can be no assurance that there will not be such interruptions in the future. Any disruptions or adverse changes affecting the power supply required for the Company’s operations or problems with other operational infrastructure could have a material adverse effect on the Group’s business, financial conditions, results of operations and prospects.

***Commercial production at the Kashagan Field commenced in November 2016, after significant delays, disruptions and cost over-runs, and there can be no assurance that there will not be further production failures or disruptions or additional capital expenditure for the Company.***

As a result of the Company’s interest in NCPC, through KMG Kashagan B.V. in which (following the sale of 50% of its interest in KMG Kashagan B.V. to Samruk-Kazyna in October 2015) the Company has a 50% direct interest (as at 31 December 2017), the Company is responsible for a share in the capital expenditures programme for the Kashagan Field. Pursuant to the amendment to the development plan and budget made in May 2012 as a result of the delay to the commencement of commercial production at that time, the total capital expenditure for the first phase of the North Caspian Project had been increased by U.S.\$6.9 billion to a total of U.S.\$45.6 billion. Commercial production of oil at the Kashagan Field began on 11 September 2013, but was halted on 9 October 2013 due to the detection of leaks in the pipelines leading from the Field. In 2015, replacement works were carried out on the oil and gas pipeline while maintenance, conservation and modernisation works were carried out on the production facilities. The Company, through KMG Kashagan B.V., is responsible for 8.44% of capital expenditures in line with its ownership interest. As a result of these replacement works and the corresponding delay to commercial production, total capital expenditure for the first

phase of the North Caspian Project further increased to U.S.\$54.4 billion. Commercial production recommenced in November 2016.

The Kashagan Field produced 686.0 thousand tonnes of oil and gas condensate attributable to the Company in the year ended 31 December 2017, as compared to 80.8 thousand tonnes of oil and gas condensate attributable to the Company in the year ended 31 December 2016 (reflecting crude oil attributable to the Company for the two-month period of commercial production following the resumption of commercial production at the Kashagan Field in November 2016). The Company expects production at the Kashagan Field to continue to have a positive impact on the Company's revenues from crude oil production and sales. In November 2016, KMG Kashagan B.V. entered into a prepayment transaction in relation to the advanced sale of the crude oil produced at the Kashagan Field. In August 2017, the advanced sale amount under this prepayment transaction was increased. See "*Business—Significant Production Fields of Other Joint Ventures and Associates—Kashagan Advanced Oil Sale Transaction.*" There can be no assurance, however, that expected revenues will be realised and that there will not be further production failures or disruptions at the Kashagan Field.

The incurrence of additional capital expenditure requirements in connection with the Kashagan Field and/or the Company's failure to receive planned revenues from the Kashagan Field could have a material adverse effect on the Company's financial condition, cash flows or results of operations.

***The Company's business has in the past required significant capital expenditures and the Company may be unable to finance any future significant capital expenditures.***

The Company's business has in the past required, and will continue to require, significant capital expenditures related to modernisation, exploration and development, production, transportation, refining and trading and compliance with environmental laws and regulations. The Company has historically had significant levels of capital spending and investment, which continued in 2015, 2016 and 2017, although such levels are expected to decline in 2018 and 2019. In 2014, the Company increased its capital expenditure programme significantly, primarily (i) to implement an accelerated modernisation programme, including, *inter alia*, in respect of the Company's refineries and pipelines, (ii) to meet funding obligations in respect of the Kashagan and Karachaganak fields and (iii) to provide improved social benefits for the Company's workers. In 2016 and 2017, the Company completed a number of capital intensive projects, including the modernisation projects at the Atryau Refinery and the Pavlodar Refinery. Aside from the planned construction of three new compressor stations on the Beineu-Bozoi-Shymkent Gas Pipeline in 2018 and 2019 (at an estimated cost of KZT 109.2 billion) to facilitate the transportation of gas to China, the Company expects that the majority of its capital expenditure commitments in 2018 will be in respect of exploration projects, projects aimed at maintaining the current level of production and other projects. Overall, the Company expects to incur capital expenditures of KZT 367.7 billion in 2018, capital expenditures KZT 310.3 billion in 2019 and total capital expenditures of KZT 1,849.9 billion over the next five years (including 2018 and 2019). There can be no assurance, however, that the Company will not engage in further capital intensive projects.

As described above, as a result of the Company's interest in NCPC, through KMG Kashagan B.V., the Company is responsible for a share in the capital expenditures programme for the Kashagan Field, which increased following the halting of commercial production in October 2013 and the identification of the need to replace the entire pipeline prior to recommencement of commercial production in November 2016. There can be no assurance that the Company will not incur additional capital expenditures in respect of the Kashagan Field in the future. See "*Commercial production at the Kashagan Field commenced only in November 2016, after significant delays, disruptions and cost over-runs and there can be no assurance that there will not be further production failures or disruptions or additional capital expenditure for the Company.*"

Increased oil production from the Tengiz Field and continued commercial production at the Kashagan Field will require increased capacity of the transportation infrastructure. While the CPC expansion project was completed in 2017, there can be no assurance that further expansion or other projects will not be necessary, and if such projects are commenced, that funding will not be sought from the Company.

TCO is continuing its ongoing future generation (or future growth) expansion project (the "FGP") in the Tengiz Field to further increase TCO's oil field production and plant processing capacity using the technologies from the existing second generation plant and sour gas injection project completed in 2008. In addition to the FGP, TCO is implementing a wellhead pressure management project (the "WPMP"). The FGP and WPMP projects are being executed as an integrated project, in order to realise synergies in design and execution and are expected to cost an aggregate of U.S.\$36.8 billion (including cost contingencies and anticipated increased costs of raw materials, but excluding the cost of the drilling programme and assuming a design capacity of 12 million tonnes per year). As at 31 December 2017, U.S.\$12.7 billion has been expended in respect of FGP and WPMP since July 2013. The budget for the FGP and the WPMP projects was approved in July 2016, and work on the projects is expected to be completed by 2022, although there can be no assurance that costs will not rise or delays will not occur. While TCO expects to pay the total cost of the project out of its own cash

flows and, to the extent necessary, through non-recourse external financings and, as at the date of this Base Prospectus, there are no binding cash calls on the Company, there can be no assurance that TCO will not seek funding or guarantees for external funding from its shareholders, including the Company. In addition, the Company and TCO have agreed that the level of dividends payable by TCO to the Company will depend on the crude oil price for the relevant year. In a low oil price environment, amounts required to fund the FGP and WPMP may limit the funds available to be distributed as dividends to the Company. In 2015, the dividend paid by TCO to its shareholders was U.S.\$2.4 billion (gross of withholding tax), of which U.S.\$402 million (excluding amounts withheld due to withholding tax) was paid to the Company. No dividend was paid by TCO in 2016, as a result of the low oil price environment. In December 2017, based on the results of TCO's activities for 2017, TCO distributed a dividend of U.S.\$1.4 billion (gross of withholding tax) to its shareholders, of which U.S.\$238 million (excluding amounts withheld due to withholding tax) was paid to the Company.

As a result of the Company's direct and indirect interest in the project (the "**N Block Project**") for exploration and development in the Nursultan block (the "**N Block**"), the Company is responsible for all obligations and expenses under the capital expenditures programme for the N Block Project. The Company's share in exploration expenses at N Block is expected to be KZT 0.8 billion in 2018, KZT 5.2 billion in 2019, KZT 6.0 billion in 2020, KZT 0.6 billion in 2021 and KZT 0.6 billion in 2022. There can be no assurance that exploration expenses will not increase or that commercial production will not be further delayed.

In addition, as a result of the Company's interest (through its wholly-owned subsidiary, KMG Karachaganak LLP) in KPO, the Company is responsible for a share in the capital expenditures programme for the Karachaganak Field. Karachaganak Petroleum Operating B.V. ("**KPO**") is currently in the process of implementing the second phase of industrial development at the Karachaganak Field. After the completion of the second phase of development, KPO plans to initiate an extension project aimed at maintaining the liquid hydrocarbon production shelf. There can be no assurance, however, that this phase of development will be completed on the expected schedule or within the expected budget.

The Company's investments (whether on its own or in a joint venture) pursuant to certain Subsoil Use Agreements (as defined below), as well as statutory liquidation expenses, for hydrocarbon exploration projects, which fail to yield commercial discoveries or reserves, are generally at the Company's sole risk and, due to applicable tax ring-fencing rules, are not recoverable from revenue streams generated from the Company's other projects (except where this risk is contractually borne or shared by the Company's joint venture partners).

The Company expects to fund a substantial part of its capital expenditures out of intragroup financings and net cash provided by its operating activities (although the Company itself has limited direct access to cash flows and is largely dependent on dividends from its subsidiaries and joint ventures), as well as through loans from international banks and further issuances under the Programme. If (among other things) global oil prices decline, the Company may have to finance more of its planned capital expenditures from outside sources, including bank loans and offerings of debt securities, such as Notes, in the domestic and international capital markets, which could be more expensive than other funding sources. The Company may be unable to raise the financing required for its future capital expenditures, on a secured basis or otherwise, on acceptable terms or at all.

If the Company is unable to raise necessary financing either from Samruk-Kazyna, the Government, international or domestic banks or capital markets, it may be forced to reduce planned capital expenditures or curtail, delay or abandon certain projects, which could adversely affect the Company's ability to expand its business, and if the reductions or curtailments are severe enough, could adversely affect its ability to maintain its production and operations at current levels.

***The Company is leveraged, in the past has embarked on long-term growth plans leading to an increased debt burden, and may embark on similar long-term growth plans in the future.***

As a result of the Company's historic acquisition-driven growth strategy and large capital expenditures programme, the Company is leveraged, with total borrowings of KZT 4,163.4 billion as at 31 December 2017 and KZT 3,072.5 billion as at 31 December 2016.

In 2016 and 2017, the Company completed a number of capital expenditure-intensive programmes and transportation projects with joint ventures, including completion of the modernisation projects at the Atyrau Refinery and the Pavlodar Refinery, as well as the second phase of a construction project at the Beineu-Bozoi-Shymkent Gas Pipeline (as defined below). Total capital expenditures incurred in connection with the modernisation projects at the Atyrau Refinery and the Pavlodar Refinery were U.S.\$2,050.1 million (KZT 589.9 billion) and U.S.\$895.5 million (KZT 252.1 billion), respectively.

Prior to the resumption of commercial production at the Kashagan Field in November 2016, the North Caspian Project, investment for which was financed by the Company in proportion to its 8.44% direct interest in the North Caspian Project Consortium (“NCPC”) held through KMG Kashagan B.V. (as at 31 December 2017), was particularly capital expenditure-intensive, including the costs of construction of a compression centre, an artificial island and the installation of additional gas re-injection compressors to increase the capacity of existing facilities at the Kashagan Field. There can be no assurance that, in the future, the Company will not be required to assume additional debt in respect of this or similar projects. See “*Business—Reserves—Exploration Projects*”.

Tengizchevroil LLP (“TCO”), a joint venture among the Company, Chevron Overseas, ExxonMobil Kazakhstan Ventures Inc. and LukArco B.V., operates the Tengiz Field in western Kazakhstan, which is among the largest fields under development in the world based on estimated A+B+C1 reserves. Although TCO expects to fund its capital expenditures out of its own cash flows or non-recourse external financings and the Company does not have any binding cash call obligations towards TCO, there can be no assurance that the Company will not at some point be required to provide cash or guarantees to cover all or a portion of such capital expenditures.

Unlike in recent years, (and aside from the planned construction of three new compressor stations on the Beineu-Bozoi-Shymkent Gas Pipeline between 2018 and 2019 (at an estimated cost of KZT 109.2 billion to facilitate the transportation of gas to China), the Company expects that the majority of its capital expenditure commitments in 2018 will be aimed at maintaining the current level of production, which the Company expects may have a positive impact on its debt leverage position.

The Company may, however, decide or be directed to embark on further capital expenditure-intensive projects in the future. Accordingly, no assurance can be given that the Company will be able to fund all or most of its current or future capital expenditure programmes through the Company’s cash resources, intragroup financings or external financing.

There can also be no assurance that the Company’s debt levels will not continue to increase in the future, that the Company will continue to be able to comply with the restrictive covenants of its debt facilities, or that the Company will be able to refinance its indebtedness at maturity on terms that are favourable or acceptable to the Company or at all. Any failure by the Company’s subsidiaries to refinance their outstanding indebtedness may result in a reduction of dividends paid to KMG, which could, in turn, affect the Company’s income and cash flow. In addition, failure by the Company to refinance its outstanding indebtedness could have a material adverse effect on the Company’s business, prospects, financial condition, cash flows or results of operations. See “—*The Company’s business requires significant capital expenditures and the Company may be unable to finance its planned capital expenditures*” and “—*The Company is required to comply with certain financial and other restrictive covenants*”.

***The Company’s production and other activities could be reduced by adverse weather events.***

Kazakhstan’s climate is characterised by harsh winters and hot summers. A large number of the Company’s facilities and large segments of its networks are located in areas that experience severe weather conditions, particularly in winter, and extreme variability in winter and summer weather, which can accelerate wear and tear on pipelines and related equipment. Extremely harsh weather conditions and the remoteness of certain of the Company’s facilities may make it difficult to gain access to conduct repair or maintenance quickly. In addition, winter storms have negatively affected the Company’s production levels due to the inability of staff and equipment to reach drilling sites and other facilities. There can be no assurance that further such events or other significant weather events will not negatively affect the Company’s operations in the future, which could, in turn, have a materially adverse effect on the Company’s business, financial condition, results of operations and prospects.

***The Company operates in a number of remote areas that are difficult to access.***

Because of the remote location of many of the Company’s operations, the Company generally does not have ready access to equipment or facilities to address problems such as, equipment breakdowns and failures, and delays may occur in accessing required materials or supplies in order to carry out necessary repairs or maintenance. In addition, equipment breakdowns and failures affecting certain key parts of the Company’s facilities, such as the Company’s transportation operations and the interface between the field gathering system and its processing facilities, might, in turn, affect the Company’s ability to use all of its facilities and substantially curtail or stop production. Similarly, operating in remote areas exposes the Company’s operations to risks caused by poor infrastructure, such as power outages, which can reduce oil production. The remote location of many of the Company’s operations also makes its assets and infrastructure susceptible to acts of terrorism or sabotage and natural disasters. As a result, the Company may not be able to immediately respond to or repair damage resulting from such acts, which could have a material adverse effect on the Company’s business, prospects, financial condition, cash flows or results of operations.



***The reported quantities or classifications of the Company's crude oil and gas reserves may be lower than estimated because of inherent uncertainties in the calculation of reserves and because of the use of Kazakhstan methodology.***

There are numerous uncertainties inherent in estimating the quantity of reserves and in projecting future rates of production, including many factors beyond the Company's control. Estimating the quantity of reserves is a subjective process, and estimates made by different experts often vary significantly. In addition, the results of drilling, testing and production subsequent to the date of an estimate may result in revisions to that estimate. Accordingly, reserves estimates may be different from the quantity of crude oil and natural gas that is ultimately recovered, and, consequently, the revenue therefrom could be less than that currently expected. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they are based, the quality of the information available and the ability to verify such information against industry standards.

The reserves data contained in this Base Prospectus is, unless otherwise stated, taken from reserves analyses prepared in accordance with Kazakhstan methodology by the Company's professional engineering staff, while the reserves data used to calculate the Company's consolidated depreciation, depletion and amortisation expenses for financial reporting purposes is taken from reserves reports prepared in accordance with PRMS prepared by independent petroleum engineering consultants.

Estimates derived using Kazakhstan methodology may differ substantially from those derived using PRMS, SEC Standards and other international standards, in particular, with respect to the manner in which, and the extent to which, commercial factors are taken into account in calculating reserves. In particular, to the extent that reserves data contained in this Base Prospectus is based on Kazakhstan methodology rather than PRMS or SEC Standards, such data may, by international standards, significantly overstate the Company's recoverable reserves. In any case, all reserves data comprises estimates only and should not be construed as representing exact quantities. These estimates are based on production data, prices, costs, ownership, geological and engineering data and other information assembled by the Company's subsidiaries, joint ventures and associates, and assume, among other things, that the future development of the Company's oil and gas fields and the future marketability of the Company's oil and gas products will be similar to past development and marketability. These assumptions may prove to be incorrect. Moreover, the reserves data used to calculate the Company's consolidated depreciation, depletion and amortisation expenses for financial reporting purposes may differ substantially from the reserves data contained in this Base Prospectus as a result of the differences between Kazakhstan methodology and PRMS and SEC Standards. Potential investors should not place undue reliance on the forward looking statements contained herein concerning the Company's reserves or production levels.

If the assumptions upon which the Company's or any consultant's estimates of reserves of crude oil or gas have been based are incorrect, the Company may be unable to produce the estimated levels of crude oil or gas set out in this Base Prospectus and the Company's business, prospects, financial condition, cash flows or results of operations could be materially adversely affected.

***The Company's natural gas transportation revenue is heavily dependent upon the volumes of natural gas transported by Gazprom, which volumes are, in turn, dependent on the international demand for natural gas.***

Although the Company has made efforts to expand its customer base, including through the commencement of deliveries of gas to China for the first time in October 2017, the Company's natural gas transportation subsidiary, ICA, lacks a diversified customer base. ICA's revenue is heavily dependent on the volumes of natural gas that it transports through Kazakhstan's natural gas transportation system for Gazprom (the Russian state owned oil and gas company), which has been ICA's single largest customer in all recent periods, accounting for 28.8%, 43.9% and 57.2% of the gas transportation fees of ICA for the years ended 31 December 2017, 2016 and 2015, respectively. Since 2017, Gazprom and ICA have entered into contracts for gas transportation services on an annual basis. Pursuant to the contracts entered into since 2017, there is no specified ship-or-pay volume, and payment is based on the volumes of gas transported. In connection with the instability and unrest in Ukraine since 2014, the EU, the United States and Canada have imposed sanctions on certain individuals and companies in Russia, including Gazprom. If these sanctions are extended, they could adversely affect Gazprom's ability to sell natural gas, the volumes of gas it transports through ICA, and the Company's ability to service Gazprom.

Gazprom's volume requirements for Turkmenistan, Uzbekistan and Kazakhstan gas transit are determined by demand for gas in Russia, Ukraine, eastern Europe and, to a lesser extent, western Europe, as well as the relationship between Russia and Turkmenistan and Uzbekistan. Factors affecting natural gas consumption in these countries, including weather (demand increases in winter months), electricity generation from gas and other end uses of gas, may have a significant effect on demand from these countries. Natural gas prices may also have an effect on demand for natural gas. More generally, international natural gas prices have in the past been typically linked to global prices for oil products, which fluctuate, have been low in recent years and over which the Company has no control. Gas prices are also affected by prices and availability of alternative fuels; global economic and political conditions; prices and availability of new

technologies; and weather conditions. A decline in global prices for gas products, a change in international demand or a change in Gazprom's demand for natural gas, as a result of changes in Gazprom's arrangements with its suppliers in Turkmenistan, Uzbekistan or Kazakhstan or otherwise, a change in the terms of ICA's contracts with Gazprom, a change in the ability of the Company to service Gazprom as a result of sanctions or otherwise or a failure of the Company to diversify its customer base, including through increased gas deliveries to China, could, each individually or in combination, have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

*The Company, which is indirectly controlled by the Government, is exposed to the risk of Government intervention.*

*The Government may cause the appointment or removal of members of the Company's management team.*

The Company was established as the national oil and gas company of Kazakhstan. The State, through Samruk-Kazyna and the NBK, indirectly wholly-owns the Company and, therefore, is in a position to appoint and remove, or influence the appointment and removal of, the members of the Boards of Directors and management of the Company and its subsidiaries.

In February 2014, Samruk-Kazyna expanded its "Business Transformation Programme", which was aimed at increasing the financial and operating efficiency of companies within the Samruk-Kazyna group, including the Company, implementing international standards of best practice and promoting diversification of the economy and social responsibility in Kazakhstan, all with a view to increasing the value of companies within its group. In line with this Business Transformation Programme, in March 2014, Mr. Frank Kuijlaars, who had served on the Board of Directors as an independent director since 2006, was appointed as Chairman of the Board of Directors. In September 2016, the Board of Directors approved a new organisational structure for the Company in line with the "Business Transformation Programme" and international best practice for vertically-integrated oil companies, which altered the composition of the Management Board. In June 2017, and in accordance with the provisions of the Company's corporate governance code, which sets a recommended maximum term of office for the Chairman of the Board of Directors, Samruk-Kazyna announced that Mr. Kuijlaars was stepping down as Chairman of the Board of Directors and would be replaced by Mr. Christopher Walton. See "Management".

By way of a further example of the Government's ability to appoint or remove members of the Company's management team, in 2016, Mr. Beisengaliyev, Ms. Grewal and Mr. Karabalin were appointed to the Board of Directors as representatives of the Samruk-Kazyna. In 2017, Mr. Whyte was appointed as a new independent director of the Company (replacing Mr. Beisengaliyev and Mr. Lane), in line with Samruk-Kazyna's corporate governance rules. There can be no assurance that the Government will not make further or frequent management changes at the Company, which could be disruptive to its operations.

In February 2018, the President also requested the Government and Samruk-Kazyna to further review Samruk-Kazyna's transformation programme and the effectiveness of management over companies within the Samruk-Kazyna group. Accordingly, depending on the outcome of this review, there could be further changes to the Government and Samruk-Kazyna's management of the Company.

*The Government may require the Company to privatise certain of its assets.*

The Government has also identified companies within the Group to be privatised. In September 2015, the Government of Kazakhstan announced plans to launch a new, large-scale privatisation programme. On 30 December 2016, the Government issued Resolution № 1141, which sets out the Government's "Complex Privatisation Plan" to be implemented between 2016 and 2020 (the "**2016 Complex Privatisation Plan**"). The 2016 Complex Privatisation Plan includes a list of national companies and subsidiaries of national companies, including the Company and certain of its subsidiaries, as well as national holding companies, which have been identified as candidates to be privatised. Pursuant to the Government's 2016 Complex Privatisation Plan, the Company disposed of 100% of the shares of Eurasia Air JSC ("**Eurasia Air**") on 8 November 2017 and is expected to dispose of certain additional non-core assets, including 51% of the shares of Kazmortransflot National Marine Shipping Company JSC ("**Kazmortransflot**") (which is targeted to be completed by the end of 2019, subject to identifying a suitable purchaser), 100% of the Company's interest in Kazakh-British Technical University and 100% of the shares of each of Rominserve Valves IAIFO, Global Security System SA and Palplast SA, each of which are subsidiaries of KazMunayGas International N.V. ("**KMG International**"). The method and timing of any such disposals have not yet been agreed and will be subject to review and consultation with independent consultants. In addition, there can be no assurance as to the terms on which any such disposals will take place, if at all.

While, the 2016 Complex Privatisation Plan also contemplates the disposal by the Company of certain interests in the Atyrau Refinery, Pavlodar Refinery and Shymkent Refinery, following the merger of KMG RM with the Company in

December 2017, the Government issued a resolution dated 10 March 2018, removing the refineries from the list. Any privatisation of the refineries is expected to be addressed in the context of any initial public offering or privatisation of the Company.

In line with the 2016 Complex Privatisation Plan, the Company entered into an agreement to sell 51% of the shares in KMG International to China Energy Company Limited (“CEFC”) in December 2016. On 15 December 2017, after public statements were made by the Prime Minister and the Minister of Energy of Romania indicating their refusal to extend an existing agreement with KMG International regarding the settlement of historical debts, the Company and CEFC signed an agreement to postpone the closing date of the Proposed KMG International/CEFC Sale (as defined below) to 30 June 2018, subject to completion of certain conditions precedent. Following the Proposed KMG International/CEFC Sale, the Company will continue to hold 49% of KMG International and, although the Company may in the future pursue sales of a further stake in KMG International, in the short- to medium-term, the Company expects to continue to sell a significant portion of its retail products through KMG International, providing the Company with access to, and a presence in, the downstream oil and gas segment in Europe without being required to make additional investments.

A potential initial public offering by Samruk-Kazyna of a minority stake in the Company is also contemplated by the 2016 Complex Privatisation Plan, although the terms and timing of any such offering have not been finalised.

*The Government may cause the Company or member of the Group to engage in business practices that may not be in the interests of the Noteholders.*

Through its ultimate control of the Company, the Government is in a position to influence the Company’s activities. There can be no assurance that the Government will not cause the Company to engage in business practices that may materially affect the Company’s ability to operate on a commercial basis or in a way that is consistent with the best interests of the Noteholders. As has been the case in the past with other Government-owned companies, the Government may cause the Company, and specifically its transportation subsidiaries, to indirectly subsidise local communities through regulated domestic transportation tariffs at rates lower than market rates. In addition, the Company may be required by the Government to sell gas at below market prices (as the Government has required the Company to do so in the previous years), engage in activities outside of its core activities or acquire assets not on an arm’s length basis. The Government may also impose other social duties, such as construction of social and recreational infrastructure, charitable activities and implementation of community development programmes on the Company, which will increase the Company’s capital expenditures.

***The Government has in the past and may in the future require the Company to make deliveries of crude oil to domestic refineries at prices that may be materially below international market prices in furtherance of the implementation of the Government’s social and economic development programmes.***

The Government has in the past required all oil producers in Kazakhstan, including the Company, to supply up to 50% of their crude oil production to domestic refineries to meet domestic energy requirements, primarily in the agriculture sector. Until April 2016, KMG EP had an obligation to supply 1.9 million tonnes of crude oil to the local market at discounted prices, which it fulfilled by providing crude oil to KMG RM, which then utilised the Atyrau Refinery to refine the oil before it was distributed through KMG RM’s distribution chain. Since April 2016, KMG EP has fulfilled its obligation to supply crude oil to domestic refineries by delivering crude oil to KMG RM (and, since 1 December 2017, following the merger of the Company and KMG RM, the Company) for processing (and paying a processing fee) and then selling such oil itself (rather than initially selling such oil to KMG RM). There can be no assurance that the Government will not reintroduce such requirements in the future, particularly, if international market prices increase. In addition, the Government regulates the prices of certain refined oil products that the Company sells at below-international market prices, as well as the quantities of such products to be sold, and the customers to whom such projects are to be sold, which may not be in line with a profitable output balance for the refineries.

As domestic consumption of oil and refined oil products rises, the Company may be compelled by the Government to sell a larger portion of its production in furtherance of socially-mandated policies. Between June 2008 and June 2015, the Government instituted a number of temporary bans on the export of gasoline and diesel fuel from Kazakhstan in order to stabilise the prices of oil products in the domestic market. On 26 June 2015, the Government imposed a further temporary ban on the export of light and medium distillates and products, carbon oil, gas oils and other petroleum derivatives for a period of six months. This ban was lifted in August 2016, following the devaluation of the Tenge. There can be no assurance, however, that additional bans will not be imposed in the future.

The Government also sets the maximum retail prices for certain types of gasoline and diesel fuel. See “*Regulation in Kazakhstan—Price Regulation*.” When the Company supplies crude oil and produces oil products pursuant to socially-mandated policies or a request by the Government or is subject to an export ban, its sales of the relevant products usually generate substantially less revenue than sales of crude oil and oil products in the export market at international market prices and the Company’s business, prospects, financial condition, cash flows or results of operations may be materially adversely affected.

***Regulated oil and gas transportation tariffs may be set by the Government at below market rates.***

The Company’s domestic transportation tariffs for oil and natural gas are subject to regulation and approval by the Committee for Regulation of Natural Monopolies Protection of Competition and Consumers’ Rights under the Ministry of the National Economy of the Republic of Kazakhstan (the “**Natural Monopolies Committee**”). JSC KazTransOil (“**KTO**”) and JSC KazTransGas (“**KTG**”) (each through their respective subsidiaries), each of which is classified as a natural monopoly in Kazakhstan, charge the Company’s subsidiaries, joint ventures and associates and other shippers flat tariffs for shipments through their pipeline systems. Once approved, the tariffs remain in effect subject to the Company’s right to apply to the Natural Monopolies Committee with a request to review and modify such tariffs. The Natural Monopolies Committee also has the right to initiate a review of the transportation tariffs.

Due to recent amendments introduced to Kazakhstan natural monopoly laws and regulations (See “*Regulation in Kazakhstan—Regulated Transportation Tariffs*”), only domestic transportation tariffs currently require the approval of the Natural Monopolies Committee, and, accordingly, tariffs for export and transit of crude oil by a trunk pipeline are no longer subject to approval by the regulator. Tariffs for export and transit transportation are, however, still affected by domestic transportation tariffs as the crude oil is transported through the same pipelines across Kazakhstan, irrespective of the final destination (export or domestic). In addition, KTO’s and KTG’s domestic transportation tariffs are significantly affected by social and political considerations and have historically been kept at artificially low levels. No assurance can be given that any actions of the Natural Monopolies Committee in setting domestic oil and gas transportation tariffs at lower than market rates will not have a material adverse effect on the Company’s business, prospects, financial condition, cash flows or results of operations.

***The Government has appointed KTG as the “national operator” for the transportation of gas.***

The Law “On Gas and Gas Supply” (Law № 532-IV, dated 9 January 2012) (the “**Gas Law**”) created the concept of a “national operator” for the transportation of gas, and KTG has been appointed as the national operator under the Gas Law. As national operator, KTG has been given a priority right to purchase all associated gas produced in Kazakhstan at a regulated price, which it will then sell on the domestic market at a premium, with a view to using a significant portion of the premium to modernise and extend the domestic network. There can be no assurance, however, that KTG will remain the national operator or what terms and conditions will continue to be imposed on KTG in this capacity by the Government. For example, KTG’s sale of trade gas on the wholesale market was not profitable for the period from 1 July 2015 to 31 December 2017 because the actual cost of the trade gas was substantially higher than the maximum wholesale prices approved by the Natural Monopolies Committee. KTG’s sale of trade gas on the wholesale market is expected to break-even by 2021. In addition, there is uncertainty as to the continued effect that the set price will have on the Company’s production and development assets in the future. Low prices may materially adversely affect the Company’s business, prospects, financial condition, cash flows or results of operations.

***The Company has been subject to, and may continue to be subject to, adverse regulatory developments.***

The oil and gas industry is central to Kazakhstan’s economy and its future prospects for development. The oil and gas industry can be expected to be the focus of continuing attention and debate. In similar circumstances in other developing countries, petroleum companies have faced the risks of expropriation or re-nationalisation, breach or abrogation of project agreements, application of laws and regulations from which such companies were intended to be exempt, denials of required permits and approvals, increases in royalty rates and taxes that were intended to be stable, application of exchange or capital controls and other risks.

On 3 November 2007, legislation came into force providing the Government with the right to initiate reviews of subsoil use terms and under certain circumstances to unilaterally terminate subsoil production sharing agreements (“**PSAs**”) and other contracts in respect of deposits of strategic importance. The Subsoil Code, which will enter into force on 29 June 2018, amends the criteria for determining deposits of strategic importance and, accordingly, the Kazakhstan Government is expected to approve a new list of deposits of strategic importance in the coming months. See “*Regulation in Kazakhstan—Regulation of Mineral Rights in Kazakhstan—2010 Subsoil Law—The State’s Pre-Emptive Right*”.

From time-to-time the Government announces temporary export bans on oil products, for a typical duration of up to six months (although such bans may be extended). Such bans are intended to shield domestic consumers from the soaring

cost of oil products, such as diesel and gasoline, by removing foreign demand for such products, which was believed to be driving up domestic prices. Economic sectors such as the agricultural sector were particularly badly affected by the high prices of petroleum products. On 1 July 2014, the Government imposed a temporary ban on export of light distillates and products, carbon oil, gas oils and other petroleum derivatives for a period of six months. On 26 June 2015, the Government imposed a further temporary ban on the export of light and medium distillates and products, carbon oil, gas oils and other petroleum derivatives for a period of six months. Furthermore, with effect from 1 January 2014, Kazakhstan banned exports of domestic light products, including gasoline and diesel fuel outside the boundaries of the Customs Union until 1 January 2019 pursuant to a bilateral treaty between Kazakhstan and Russia. The Ministry of Energy has announced that it is currently considering lifting the ban in order to support the profitability of Kazakhstan refineries. When the Company is required to supply crude oil and oil products domestically pursuant to a request by the Government or as a result of an export ban on products, such sales typically generate substantially less revenue than sales of crude oil and oil products in the export market at prevailing prices, which may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

In December 2017, Parliament adopted the Subsoil Code, which will enter into force on 29 June 2018 and replace the 2010 Subsoil Law (the key regulation governing the operation of the Company and its Group). While under the Subsoil Code, the Company retains all material privileges granted to it under the 2010 Subsoil Law as the national oil and gas company, there can be no assurance that further changes will not be made in the future that will negatively affect the Company's current rights and privileges.

In addition, on 25 December 2017, Kazakhstan enacted a new Tax Code, which became effective on 1 January 2018 (the "2018 Tax Code"). The 2018 Tax Code introduced, *inter alia*, an alternative tax on subsoil use applicable to certain types of oil deposits and makes several notable revisions to general principles of taxation in Kazakhstan.

While, as at the date of this Base Prospectus, the Company cannot assess whether the Subsoil Code or the 2018 Tax Code will have a material adverse impact on its business, financial condition or results of operations, as neither the Subsoil Code nor the 2018 Tax Code have been tested in practice, there can be no assurance that these codes will not have a material adverse effect on the Company in the future.

***The Company's operations in the ordinary course of business subject it to developing and uncertain environmental and operational health and safety regulations and requirements to comply with ecological standards, non-compliance with which could result in severe fines and suspension or permanent shut down of affected activities.***

The Company's operations are subject to the environmental risks inherent in virtually all aspects of its business, including oil and gas exploration, production, transportation and refining. There are environmental issues with current and past sites of operations caused by the Company's subsidiaries, joint ventures and associates and their predecessors. The Company's primary environmental liabilities currently result from land contamination, gas flaring, the disposal of waste water and oil spills.

Although the level of pollution and potential clean-up costs is difficult to assess, the Company's subsidiaries, joint ventures and associates, like most other oil and gas companies operating in the former Soviet Union, are burdened with a Soviet era legacy of environmental mismanagement. There are problems relating to the maturity of fields at past production sites, some of which have been exploited for more than 30 years. Poor environmental awareness in the past allowed a number of incidents of oil leakage due to pipeline failures. Temporary reservoirs for the storage of drilling mud, liquid waste and oil were not repaired or disposed of properly causing severe pollution of the Atyrau and Mangistau regions. More than 500 oil reservoirs in these regions contain 3.7 to 7.3 million barrels of oil production waste in aggregate, and saturation of the topsoil in some places is 10 to 15 centimetres deep. In total, an area of 2.0 km<sup>2</sup> is polluted by hydrocarbon waste products in the Atyrau and Mangistau regions.

The legal framework in Kazakhstan for environmental protection and operational health and safety is developing. Stricter environmental requirements, such as those governing discharges to air and water, the handling and disposal of solid and hazardous wastes, land use and reclamation and remediation of contamination, are being imposed and environmental authorities are moving towards a stricter interpretation of environmental legislation. In addition, the EEU has imposed deadlines for compliance with Euro 4 and Euro 5 standard ecological requirements by 2017 and 2018, respectively. There can be no assurance that either the Kazakhstan regulators or the EEU will not impose additional, more stringent environmental requirements on the Company. Compliance with such environmental requirements may make it necessary for the Company, at costs which may be substantial, to undertake new measures in connection with the storage, handling, transport, treatment or disposal of hazardous materials and wastes and the remediation of contamination.

The costs of environmental compliance in the future and potential liability due to any environmental damage that may be or may have been caused by the Company could be material. Moreover, the Company could be adversely affected by future actions and fines imposed on a subsidiary, joint venture or associate of the Company by the environmental

authorities, including the potential suspension or revocation of one or more of the Company's subsoil licences or environmental permits. To the extent that any provision in the Company's accounts relating to remediation costs for environmental liabilities proves to be insufficient, this could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Although the Company is obliged to comply with all applicable environmental laws and regulations, it cannot, given the changing nature of environmental regulations, guarantee that it will be in compliance at all times. Any failure to comply with these environmental requirements could subject the Company to, among other things, civil liabilities and penalty fees and the temporary or permanent shutdown of affected operations. Any imposition of environmental fines, increase in the costs associated with compliance or suspension or revocation of licences or contracts could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

In addition, in March 2009, the President of Kazakhstan signed the law on the ratification of the Kyoto Protocol (the "**Kyoto Protocol**") to the United Nations Framework Convention on Climate Change (the "**UNFCCC**"), which is intended to limit or discourage emissions of greenhouse gases such as carbon dioxide. Implementation of the Kyoto Protocol in Kazakhstan may have an impact on environmental regulation in Kazakhstan. In September 2015, Kazakhstan submitted its "Intended Nationally Determined Contribution" to the UNFCCC, in which Kazakhstan stated that it intends to achieve an economy-wide target of a 15% to 25% reduction in greenhouse gas emissions by 2030, as compared to 1990. While Kazakhstan had suspended certain statutory norms on greenhouse gases, including quota allocations and trades, until 1 January 2018, previous quotas have been replaced with new quota allocations in January 2018. See "*Regulation in Kazakhstan—Environmental permits*". The effect of ratification of the Kyoto Protocol in other countries is still unclear; accordingly, potential compliance costs associated with the Kyoto Protocol are unknown and may be significant. Nonetheless, the likely effect will be to increase costs for electricity and transportation, restrict emissions levels, impose additional costs for emissions in excess of permitted levels and increase costs for monitoring, reporting and financial accounting. Increases in such costs could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

***The operations of the Company's subsidiaries, joint ventures and associates are dependent on compliance with the obligations under their respective licences, contracts and field development plans.***

The Company's operations must be carried out in accordance with the terms of its Subsoil Use Agreements and annual working programmes and budgets as set forth in the Subsoil Use Agreements. The law provides that fines may be imposed and a Subsoil Use Agreement may be terminated early if a subsoil user fails to comply with its obligations under the relevant Subsoil Use Agreement.

In December 2017, Parliament adopted a subsoil code (the "**Subsoil Code**"), which will enter into force and replace the Law "On Subsoil and Subsoil Use" (№ 291-IV, dated 24 June 2010) (as amended, the "**2010 Subsoil Law**") on 29 June 2018. The Subsoil Code retains the Government's control over the natural resources industry, including oil and gas production. In particular, the Subsoil Code sets out certain circumstances in which Subsoil Use Agreements may be suspended or terminated early or fines may be imposed against subsoil users, such as the Company.

Government agencies can and do from time-to-time inspect the Company's compliance with its Subsoil Use Agreements and relevant laws. There can be no assurance that the views of the Government agencies regarding the development of the Company's fields or compliance with the terms of its Subsoil Use Agreements will coincide with the Company's views, which might lead to disagreements that cannot be resolved. The suspension, revocation or termination of any of the Company's Subsoil Use Agreements, as well as any delays in the continuous development of or production at the Company's fields caused by these disagreements, could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

***The Company faces drilling, exploration and production risks and hazards that may affect the Company's ability to produce crude oil and gas at expected levels and costs.***

The Company's future success will depend, in part, on its ability and the ability of its subsidiaries, joint ventures and associates to develop crude oil and gas reserves in a timely and cost-effective manner. The Company's drilling activities may be unsuccessful, and the actual costs incurred to drill and operate wells and to complete well workovers will have an impact on the Company's profits. Due to the geological complexity of the Caspian Sea basin, as well as the fact that the Caspian Sea has no outlet to the ocean, there are few service providers in the region that have suitable offshore drilling equipment. Oil operators in the region currently are experiencing long lead times to get use of existing off shore drilling rigs in the Caspian Sea. Lack of availability of service equipment, including drilling platforms, could slow exploratory work, particularly with respect to the Kashagan Field.

The Company may be required to curtail, delay or cancel any of its drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, premature declines in reservoirs, blowouts, uncontrollable flows of crude oil, natural gas or well fluids, pollution and other environmental risks, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. In addition, certain of the licences applicable to the Company's exploration activities impose restrictions, such as drilling depth.

In addition, the Company's crude oil and gas exploration programme may result in unproductive wells or wells that are not economically feasible to produce. In particular, commercial production at the Kashagan Field, which was initially expected to occur in 2005, was significantly delayed a number of times. Since the recommencement of commercial production in November 2016, there have been certain initial injection issues, which have impacted initial production levels from the Kashagan Field. There can be no assurance, that such injection issues will not reoccur or that further stoppages or delays, either at the Kashagan Field or elsewhere, will not occur.

The Company's production operations are also subject to risks associated with natural disaster, fire, explosion, blowouts, encountering formations with abnormal pressure, the level of water cut, cratering and crude oil spills, each of which could result in substantial damage to the crude oil wells, production facilities, other property, the environment or result in personal injury or death. Any of these risks could result in loss of crude oil and gas or could lead to environmental pollution and other damage to the Company's properties or surrounding areas and increased costs or claims against the Company's subsidiaries, joint ventures or associates.

Any of these drilling, production and exploration risks and hazards could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

***The Company is exposed to the Kazakhstan banking sector.***

For the past several years, the Company has distributed its excess liquidity approximately evenly among international banks (including local branches of international banks), on the one hand, and Kazakhstan banks, on the other. The Kazakhstan banking system overall is under stress with persistently high levels of non-performing loans. In 2017, the Kazakhstan banking sector reported a KZT 18.7 billion post-tax loss. There is also a high level of concentration in the banking sector, with the five largest banks holding more than half of all customer deposits. While measures have been taken to address and reduce systemic risk, such measures are ongoing and there remains a risk that further reforms may be required, the impact of which is not certain. There is also a risk further financial assistance to the banking sector may be needed from the Government, which it may not be willing and/or able to provide.

As at 31 December 2017, the Company's levels of current cash accounts and deposits held with Kazakhstan banks were U.S.\$2.3 billion (compared to U.S.\$3.2 billion as at 31 December 2016 and U.S.\$2.5 billion as at 31 December 2015), of which U.S.\$2.2 billion was held by the five largest Kazakhstan banks (compared to U.S.\$2.9 billion as at 31 December 2016 and U.S.\$2.2 billion as at 31 December 2015).

In October 2017, the Company recognised impairments with respect to deposits and cash on current accounts held in Bank RBK JSC, in an amount equal to KZT 27.9 billion, as a result of the declining financial condition of Bank RBK JSC. In accordance with its asset coverage ratio, the Company determined the revolving amount of deposits and recognised a loss on impairment on financial assets in the amount of KZT 7.0 billion. As a result, the carrying amount of deposits and cash on current accounts comprised KZT 20.9 billion following the impairment. In November 2017, the NBK, the Government and Kazakhmys Corporation LLC ("**KCC**") entered into a framework agreement to improve the financial condition of Bank RBK JSC. Pursuant to a resolution of the Government dated 7 November 2017, on 29 December 2017, the Company's deposits and cash on current accounts held in Bank RBK JSC with a carrying amount of KZT 27.9 billion were converted into 15-year bonds, with a par value of KZT 1 per bond and which bear interest at a rate of 0.01% *per annum*. Pursuant to the terms of these bonds, KCC has guaranteed to repay KZT 7.7 billion to the Company at the end of five years. There can be no assurance, however, that the full principal amount of the bonds will be repaid by Bank RBK upon maturity or that KCC will repay the amounts guaranteed by it.

In 2017, the Specialised Interdistrict Economic Court of Astana approved settlement agreements related to civil cases among the Company, KMG RM and Delta Bank JSC ("**Delta Bank**") in respect of the recovery of the Company's and KMG RM's bank deposits, as well as penalty interest, according to which Delta Bank is required to make payments within six months. There can be no assurance, however, that Delta Bank will make such payments and, accordingly, the Company has fully provisioned an impairment charge of KZT 11.6 billion (U.S.\$36.2 million) in respect of these deposits in the 2017 Financial Statements. There can be no assurance that the Company will not suffer further losses as a result of its exposure to the Kazakhstan banking sector. In the event that the Kazakhstan banking sector encounters difficulties, it could result in a *de facto* or *de jure* freezing of all or a portion the Company's cash, which could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

***The Company is required to comply with certain financial and other restrictive covenants.***

The Company is subject to certain financial and other restrictive covenants under the terms of its indebtedness (both in Notes previously issued under the Programme and its syndicated and bilateral debt facilities) that limit its ability to borrow and impose other restrictions on the Company. The Company's ability to meet its financial covenants and tests under the terms of its indebtedness are, to an extent, affected by events beyond the Company's control. In 2015, the Company, through a consent solicitation in respect of Notes outstanding under the Programme and separate request for waivers and amendments in respect of certain of its syndicated and bilateral facilities, succeeded in amending certain definitions applicable to the financial and other restrictive covenants under the terms of its indebtedness (including the net debt to EBITDA ratio), *inter alia*, in order to minimise the impact of the devaluations of the Tenge and the decline in crude oil prices on its financial and other restrictive covenants. On 3 April 2018, the Company launched a tender offer and consent solicitation (the "**Liability Management Transaction**") to repurchase (through the tender offer or by insertion of a mandatory redemption provision) certain series of Notes issued under the Programme which include a debt incurrence ratio and other financial and other restrictive covenants which differ to those contained in the "*Terms and Conditions*" set out in this Base Prospectus. If successful, the settlement date of the Liability Management Transaction is expected to be on or around 4 May 2018.

In addition, certain of the Company's subsidiaries have issued unsecured or guaranteed debt. For example, in September 2017, KTG issued Eurobonds in an aggregate principal amount of U.S.\$750 million, which are guaranteed by ICA. Notes issued under the Programme are structurally subordinated to debt issued or incurred by the Company's subsidiaries, due to the fact that in an insolvency the creditors of subsidiary debt will have access to the assets of such subsidiaries before creditors of the Company.

While the Company and its subsidiaries are currently in compliance with all financial covenants applicable to them, the Company's management cannot give any assurance that the Company or its subsidiaries will be able to meet the tests imposed by the financial and other restrictive covenants under the terms of its respective indebtedness or that it will be able to obtain consents to amend or waivers in respect of such covenants in the future. If the Company or its subsidiaries are unable to comply with the restrictions and covenants in its existing or future debt and other agreements, a default under the terms of those agreements may result. In the event of a default under these agreements, the parties may terminate their commitments to further lend to the Company or the relevant subsidiaries or accelerate the loans and declare all amounts borrowed due and payable triggering events of default in other finance agreements, including pursuant to the Term and Conditions of the Notes. If any of these events occurs, the Company cannot guarantee that available assets would be sufficient to repay in full all of the affected indebtedness, or that the Company would be able to secure alternative financing. Even if the Company could obtain alternative financing, the Company's management cannot guarantee that such financing would be on terms that are favourable or acceptable to the Company.

***Prior to 2016, KMG International's financial results were negative and had an adverse effect on the Company's downstream results of operations.***

Since its acquisition by the Company and until 2016, KMG International was not profitable. KMG International reported net profit of U.S.\$28.9 million for the year ended 31 December 2017 and net profit of U.S.\$14.0 million for the year ended 31 December 2016, as compared to a net loss of U.S.\$45.1 million for the year ended 31 December 2015. KMG International's negative results for the years prior to 2016 were exacerbated by the volatility of external and domestic prices for raw materials and end products, as well as a decrease in the margin on the refining of end products. Exchange rate fluctuations, labour costs and KMG International's ongoing investment programme have also adversely impacted KMG International's results during the period. While KMG International generated a profit in 2016 and 2017, the Company cannot be certain that KMG International will not incur further losses in the future; any such losses could adversely affect the Company's business, prospects, financial condition, cash flows or results of operations. In addition, certain debt facilities entered into by KMG International may need to be refinanced in the coming years. There can be no assurance that the Company will not be required to provide funding or guarantees to cover all or a portion of such refinancing or that KMG International will be able to secure such financing on favourable or acceptable terms, or at all.

In line with the Group's overall strategy to focus on its operations in Kazakhstan, as well as the Government's Complex Privatisation Programme, in December 2015, the Company announced that it had entered into an agreement with CEFC China Energy Company Limited (the "**CEFC Agreement**") to sell 51% of the shares of capital stock it holds in KMG International to CEFC for a purchase price payable by CEFC to KMG of U.S.\$680 million (the "**Proposed KMG International/CEFC Sale**"). The Proposed KMG International/CEFC Sale was signed in December 2016 and, in July 2017, the Company received the approval from Romania's Supreme Council of National Defence and the Romanian anti-trust regulator to proceed with the Proposed KMG International/CEFC Sale. However, on 15 December 2017, after public statements were made by the Prime Minister and the Minister of Energy of Romania indicating their refusal to extend an existing agreement with KMG International regarding the settlement of historical debts, the Company and CEFC signed an agreement to postpone the closing date of the Proposed KMG International/CEFC Sale to 30 June 2018. The principal conditions precedent for the completion of the Proposed KMG International/CEFC Sale are the redemption of a 26.7%



stake in Rompetrol Rafinare from the Romanian Government and the creation of a Kazakhstan-Romanian investment fund, through which KMG International is expected to make an equity contribution of U.S.\$150 million. See “*Business—Refining Marketing and Trading—KMG International—Rompetrol Convertible Note*”. Following the Proposed KMG International/CEFC Sale, the Company will continue to hold 49% of KMG International and, although the Company may in the future pursue sales of a further stake in KMG International, in the short- to medium-term, the Company expects to continue to sell a significant portion of its retail products through KMG International, providing the Company with access to, and a presence in, the downstream oil and gas segment in Europe without being required to make additional investments. The Company expects that the Proposed KMG International/CEFC Sale will reduce the level of KMG’s consolidated debt and that, consequently, the Proposed KMG International/CEFC Sale will reduce the Group’s debt service and thereby improve its overall liquidity position, while also providing funds to the Group to be used for the purposes of maintaining the Group’s financial stability. There can be no assurance, however, that the proposed sale will be completed as contemplated, if at all. In the event that the proposed sale is not completed, the financial results of KMG International will continue to have a significant effect on the Company’s business, prospects, financial condition, cash flows and results of operations in the future, which may be positive or negative.

***The Company may be required to record a significant charge to earnings if it must reassess goodwill or other intangible assets as a result of changes in assumptions underlying the recorded value in use of certain assets.***

As at 31 December 2017, the Company had KZT 90.0 billion in goodwill, as compared to KZT 90.0 billion as at 31 December 2016 and KZT 90.0 billion as at 31 December 2015. Goodwill and other intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill may be impaired.

The Company recorded impairment of goodwill of KZT 11.9 billion for the year ended 31 December 2015. The Company did not record any impairment of goodwill for the years ended 31 December 2016 and 31 December 2017. In performing goodwill impairment tests, the Company is required to estimate the value in use of the related cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows of the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Accordingly, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounted cash flow techniques. Although the Company believes its estimates and projections are appropriate based on currently available information, the actual operating performance of an asset or group of assets, which has been tested for impairment, may differ significantly from current expectations. Moreover, the Company may make changes in the assumptions used in estimating value in use of its cash generating units. In such an event, the carrying value of goodwill may be required to be reduced from amounts currently recorded. Any such reductions may materially adversely affect asset values and the Company’s financial condition and results of operations. No assurance can be given as to the absence of significant goodwill impairment charges in future periods.

***Certain of the Company’s customers and business associates are subject to U.S. and EU sanctions, and the ongoing or future impact of such sanctions may have an adverse effect on the Company.***

The U.S. government imposes economic sanctions and trade embargoes with respect to certain countries in support of its foreign policy and national security goals. These laws and regulations are administered by the U.S. Treasury Department’s Office of Foreign Assets Control (“**OFAC**”) and, in certain instances, by the U.S. State Department. U.S. economic sanctions impose restrictions on U.S. persons and, in certain circumstances, non-U.S. persons with respect to activities or transactions with certain countries, governments, entities or individuals that are the target of the relevant U.S. economic sanctions. Under applicable U.S. economic sanctions, U.S. persons also are prohibited from facilitating such activities or transactions, and non-U.S. persons are prohibited from causing other persons to violate applicable prohibitions. The United Kingdom, the other Member States of the European Union (the “**European Union**” or “**EU**”) and various other countries (such as, Australia, Canada, Japan and Switzerland), as well as the United Nations, have also implemented measures aimed at prohibiting or restricting engagements in financial and other dealings with sanctioned countries, entities and individuals.

In connection with the instability and unrest in Ukraine since 2014, the United States and the EU imposed sanctions on certain individuals and companies in Russia, including Gazprom (a Russian state-owned oil and gas company), Transneft (a Russian state-owned pipeline company) and Lukoil (a publicly-traded Russian energy company). The Company has business relationships with each of Transneft, Lukoil and Gazprom and, in particular, generates significant revenues from the volumes of natural gas transported by Gazprom through the Company’s pipelines.

While the Company has not been sanctioned and has not engaged in, and does not expect to engage in, any actions that would cause it to be sanctioned by any relevant authority, there can be no assurance that the Company will not be sanctioned in the future. If the Company were to be sanctioned in the future, some of its investors, in the United States, in the EU and in other jurisdictions where sanctions similar to the U.S. economic sanctions apply, may be required (by

operation of law or regulations or under internal investment policies, or both) to divest their interests in Notes, and some potential investors may forgo the purchase of Notes. Moreover, under such circumstances, other counterparties to the Company, both U.S. and non-U.S. and including various sources of funding for the Company, may be required, or may decide for reputational reasons or otherwise, to cease their business relationships with, or divest their investments in, the Company. Any of these factors could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

In addition, the Company and its affiliates are borrowers under a number of loan agreements with Russian banks, certain of which, including Sberbank, are included on the list of sanctioned entities. As a result of the imposition of sanctions on certain Russian financial institutions, the Company's continued and future access to funding from Russian banks may be limited as such banks may be unable to offer funds, particularly in U.S. Dollars, to companies at an acceptable cost, if at all. Accordingly, the Company's available funding sources may become more limited and there can be no assurance that the Company will be able to find alternative available funding on the same or better terms, if at all.

***Failure to integrate recent or future acquisitions successfully or to complete prospective acquisitions may lead to increased costs or losses for the Company.***

The Company has expanded its operations significantly through acquisitions and expects to continue to do so in the future. The integration of acquired businesses requires significant time and effort on the part of the Company's senior management and may require additional capital expenditures. Integration of new businesses can be difficult because the Company's operational and business culture may differ from the cultures of the businesses it acquires, cost cutting measures may be required (which can result in initial cash expenditures) and internal controls may be more difficult to maintain, including control over cash flows and expenditures. Moreover, even if the Company is successful in integrating newly-acquired businesses, expected synergies and cost savings may not materialise, resulting in lower than expected profit margins. Any failure to successfully integrate past or future acquisitions, to recruit and retain qualified staff to oversee such acquisitions or to realise synergies or control costs could adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

***The Company has conducted and is considering further internal reorganisations.***

The Company has reorganised certain aspects of its corporate structure, in order, *inter alia*, to improve operational efficiency and achieve cost savings. For example, in December 2017, the Company completed its merger with KMG RM, as a result of which, *inter alia*, the Company holds a direct interest in the Atyrau Refinery and the Pavlodar Refinery and an indirect interest in the Shymkent Refinery through Valsera Holdings B.V. As a result of this merger, the Company holds a direct interest in KMG Retail LLP, which owns the network filling stations and other operational facilities previously owned by KMG RM. The aim of the merger was to increase efficiency and eliminate the duplication of activities and responsibilities within the Company's corporate group. See "*Business—Refining, Marketing and Trading—Refining—KMG RM Merger*".

Pursuant to a tender offer and share offer launched by KMG EP in December 2017 and January 2018, respectively, on 20 February 2018, KMG EP announced that, following the first settlement date of such offers, the Company and KMG EP together held a total of 47,194,539 common shares and 134,781,116 GDRs of KMG EP, which represented approximately 99.2% of the total common shares of KMG EP. On 13 March 2018, KMG EP announced that, as at 8 March 2018, KMG EP had acquired or received valid acceptances pursuant to the tender offer in respect of a total of 135,328,231 GDRs, which, as at 18 February 2018, represented approximately 98.6% of the outstanding GDRs and, at the close of trade on the KASE on 12 March 2018, KMG EP had acquired or received bids for sale pursuant to the share offer in respect of a total of 331,677 outstanding common shares, which, as at 18 March 2018, represented approximately 0.5% of the outstanding common shares (including common shares represented by GDRs). As a result of the tender offer and share offer, the percentage of ordinary voting shares of KMG EP owned by the Company will increase. The Company is in the process of considering its options in respect of the re-integration of KMG EP into the Company in the context of its other transformation programmes. The final settlement date of the KMG tender offer and share offer is expected to be 5 April 2018.

Reorganisations, such as these, have required, and may continue to require, the use of significant internal resources and attention from the Company's management, both of which could otherwise be deployed on other matters and projects. There can be no assurance that any future reorganisations, if implemented, will be successful at improving efficiency or achieving savings or will not face other barriers to completion that the Company has not yet anticipated. Failure to successfully implement any such reorganisations may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operation.

***The Company has large interests in joint ventures in which it has a non-controlling interest.***

The Company directly, or through its subsidiaries, is party to several joint ventures, some of which are a significant part of the Company's current and prospective net profit, such as TCO, JV KazRosGas LLP ("**KazRosGas**"), NCPC, "JV "Kazgermunai" LLP ("**Kazgermunai**"), JSC Mangistaumunaigas ("**MMG**") and, since June 2012, KPO, a consortium operating under a joint operating agreement in which the Company (through its wholly-owned subsidiary, KMG Karachaganak LLP) has a 10.0% interest (as at 31 December 2017). The Company may in the future enter into additional joint ventures as a means of conducting its business. The Company cannot fully control the operations or the assets of these entities, nor can it unilaterally make major decisions with respect to such entities. This lack of control constrains the Company's ability to cause such entities to take action that would or might be in the best interests of the Company or refrain from taking action that would or might be materially adverse to the interests of the Company.

In particular, the Company and its subsidiaries are party to several significant joint ventures or investments with Chinese government-controlled entities as China continues to enhance its presence in Kazakhstan's oil and gas industry. Additionally, Chinese government-controlled entities have also provided financing or guaranteed the financing required to fund certain of these projects. These joint ventures and associates include, among others: (i) PetroKazakhstan Inc. ("**PKI**"), an oil producer which is majority owned by China National Petroleum Corporation ("**CNPC**"); (ii) CITIC Canada Energy Limited ("**CCEL**"), a joint venture with CITIC Resources Holding Limited ("**CITIC**"); (iii) Limited Liability Partnership Kazakhstan-China Pipeline ("**KCP**"), a joint venture of KTO with China National Oil and Gas Exploration and Development Corporation ("**CNOOC**") formed to construct and operate the Kazakhstan-China pipeline network (the "**KC Pipeline**"); (iv) Asia Gas Pipeline LLP ("**AGP**"), a joint venture of KTG with CNPC (acting through Trans-Asia Gas Pipeline Company Limited) to construct the Turkmenistan-China gas pipeline across Kazakhstan, which transmits gas from the other Central Asian Republics to China; (v) Beineu-Shymkent Gas Pipeline LLP ("**BSGP**"), a joint venture between KTG and CNPC (acting through Trans-Asia Gas Pipeline Company Limited) to construct and operate the Beineu-Bozoi-Shymkent Gas Pipeline (vi) MMG, an oil producer owned by Mangistau Investments B.V. ("**MIBV**"), a 50-50 joint venture (as at 31 December 2017) with CNPC Exploration and Development Company Ltd ("**CNPC E&D**"); and (vii) JSC MunayTas North West Pipeline Company JV ("**MunayTas**"), which operates the Kenkiyak-Atyrau pipeline and in which CNPC E&D owns a 49.0% interest. Chinese entities, whether privately or publicly owned, exercise considerable control over these projects. Although, relations between the Company and its Chinese partners are generally positive and the Company's management does not foresee any deterioration in its relationship with its Chinese partners, the Company cannot be sure that relations will remain so in the future. In addition, Kazakhstan's National Security Law permits restrictions on investments if such investments may harm national security. Consequently, a deterioration in the Company's relationship with its Chinese partners or a deterioration in the Government's relationship with the Chinese government could have a material adverse impact on these various joint ventures and, accordingly, the Company's business.

***The Company is subject to legal proceedings from time-to-time.***

In common with many large companies, the Company is subject to legal proceedings, regulatory investigations and examinations and other forms of litigation brought by third parties from time-to-time. Due to the nature of these proceedings, the Company is not able to forecast or determine the final results of all such proceedings. It is also possible that a regulator in one of the jurisdictions in which the Company conducts its business may carry out a review of prior transactions, including in respect of circumstances at members of the Group before the Company had acquired the relevant company. For example, KMG International is involved in a number of proceedings initiated by the Romanian Department of Investigation of Organised Crime and Terrorism in respect of allegations of, among others, embezzlement, money laundering, insider trading and manipulation of capital markets against the then-chairman of the Board of Directors and CEO and a former minority shareholder, as well as the former CFO of KMG International (then, The Rompetrol Group N.V.), and ten others, all of whom are, or were at the relevant time, officials in Romanian state agencies, licenced securities brokers or traders or businessmen. The initial proceedings were brought in 2006 prior to the Company's acquisition of KMG International in 2007. A number of related proceedings have also been brought more recently. On 22 April 2016, the Department of Investigation of Organised Crime and Terrorism resumed its investigation into 26 suspects under charges of organised crime, of which 14 were employees of KMG International (and one individual who is still an employee of KMG International). The aggregate amount of the claim is equivalent to U.S.\$760 million. Several civil parties were also added to the case, including KMG International and Rompetrol S.A. as possible defendants. See "*Business—Litigation*". While the Company is defending its interests in this and other proceedings brought against the Company and other Group members, there can be no assurance that such proceedings, or any future proceedings, will be resolved in the Company's favour and any adverse determination of such proceedings could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Government and Samruk-Kazyna, the indirect and direct shareholders of the Company, are also subject to legal proceedings from time-to-time, which may, in turn, impact upon the Company's business. For example, in January 2018, the Amsterdam District Court issued a judgment in which it upheld an earlier *ex parte* attachment granted to Anatolie Stati, Gabriel Stati, Ascom Group S.A. and Terra Raf Trans Trading Ltd (collectively, the "**Stati Parties**") with respect to the Republic of Kazakhstan's 8.44% shareholding in KMG Kashagan B.V., which is held through Samruk-Kazyna and under trust management for Samruk-Kazyna by the Company. Samruk-Kazyna has publicly stated that the attachment has no effect on the day-to-day management of its stake in KMG Kashagan B.V., save for imposing a restriction on the payment of dividends by KMG Kashagan B.V. to Samruk-Kazyna. While the attachment does not relate to the 8.44% interest the Company holds directly in KMG Kashagan B.V., if the attachment remains in place, or is enforced, the Company will not be able to benefit from its call option to repurchase the 8.44% interest in KMG Kashagan B.V. held by Samruk-Kazyna. See "*Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—NCPC—Transfer of Interest to Samruk-Kazyna*".

There can be no assurance that current or future proceedings brought against the Government or Samruk-Kazyna will not seek to attach assets held directly by the Company or otherwise adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

***Oil at several of the Company's fields has a high sulphur content and produces a high level of sulphur by-product that must be managed carefully.***

Several of the fields operated by the Company's subsidiaries and joint ventures and associates produce crude oil that contains significant amounts of hydrogen sulphide. The production of oil and gas with high hydrogen sulphide content requires additional processing to convert the hydrogen sulphide into elemental sulphur, a useful product. Elemental sulphur is stored in block form until it can be sent to market. TCO estimates that, as at 31 December 2017, 0.2 million tonnes of sulphur by-product were stored in the form of large sulphur blocks. TCO aims to store block sulphur according to internationally-accepted practices and has included the storage of sulphur in its annual environmental use permits and pays fees accordingly. The potential environmental and health impacts from open storage of sulphur has been studied by various institutes selected by an inter-departmental co-ordination council made up of the Committee of Environmental Regulation and Control of the Ministry of Energy (formerly, the Ministry of Environmental Protection of Kazakhstan (the "**MEP**")) and the Ministries of Health and Emergency Situations. The results of this study were presented in a public hearing in Atyrau in 2009 and have been expertised by the Committee of Environmental Regulation and Control. The conclusions of this study confirmed that the impact from open storage of sulphur beyond the immediate area of the blocks is insignificant.

Since 2008, TCO has sold sulphur to third parties in order to decrease the amount of sulphur that it is required to store and thereby reduce the risk of incurring fines connected to sulphur storage in the future. TCO sold 2.5 million tonnes of sulphur and produced 2.6 million tonnes of sulphur in 2017. Although all matters with respect to fines imposed on TCO in the past in respect of sulphur storage have been resolved, there can be no assurance that TCO will not incur penalties in the future, in which case, there may be a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations in the future.

***The Company's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions.***

The Company has a unified insurance programme for substantially all of its subsidiaries and affiliates. This insurance programme covers third party environmental liability, third party liability coverage (including employer's liability insurance and hazardous object insurance) and directors' and officers' liability insurance. The amount of such insurance coverage is, however, more limited than that which would normally be acquired by similar companies in more developed economies. For example, as it is not a common insurance product in Kazakhstan, insurance for production interruption risks is maintained in respect of only certain of the Company's subsidiaries. The insurance programme also does not mandate and the Company does not carry insurance against environmental damage caused by its own operations, sabotage or terrorist attacks. The Company can give no assurance that the proceeds of insurance are adequate to cover increased costs and expenses relating to these losses or liabilities. Accordingly, the Company may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage.

***The Company's corporate governance procedures differ significantly from those applicable to comparable companies in other jurisdictions.***

The Company's corporate governance policies are based upon the laws governing companies incorporated in Kazakhstan. The corporate governance policies of the Company under Kazakhstan law are different from, and may be less stringent than, those generally applicable to companies organised in the United Kingdom, the United States or other jurisdictions. While the Company's management believes that the Company's corporate governance regime in effect is more developed

than those of certain of its peer companies in Kazakhstan (for example by the inclusion of Independent Directors on its Board of Directors and having an Independent Director as the Chairman of the Board of Directors) any deficiencies in the Company's corporate governance policies could subject the Company to civil penalties, which could, in turn, materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

***The Company may not be able to manage its growth and expansion effectively if it cannot hire a sufficient number of experienced managers.***

The Company expects to continue to expand its business, primarily through internal growth, in the future. The Company's management of that growth will require, among other things, stringent control of financial systems and operations, the continued development of the Company's management control, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the continued consistency in the quality of its services. Failure to successfully manage growth and development, including through the retention of qualified and experienced managers, could have a material adverse effect on the overall growth of the Company's business, prospects, financial condition, cash flows or results of operations.

***The Company relies on the services of third parties.***

The Company relies to a large extent on external contractors to carry out maintenance of the Company's assets and infrastructure. For example, although the Company is actively seeking to perform certain of these services internally, a significant majority of the maintenance work relating to upstream and midstream operations performed by the Company is carried out by external contractors and, in line with the Company's strategy and its goal of headcount optimisation in the Company's upstream activities, work related to non-core assets is expected to continue to be outsourced. The Company relies on external contractors in all regions of Kazakhstan to perform major works, such as wells workovers and maintenance, repairs and maintenance of equipment, drilling systems, pumping units, pipe isolation systems and electrochemical protection systems, maintenance and replacement of pipes and maintenance of other general buildings and structures. As a result, the Company is largely dependent on the satisfactory performance by its external contractors and the fulfilment of their obligations. If an external contractor fails to perform its obligations satisfactorily, this may lead to delays or curtailment of the production, transportation, refining or delivery of oil and gas and related products, which could have an adverse effect on the Company's results of operations.

***Labour unrest may materially adversely affect the Company's business.***

Approximately 25% of the Company's employees are represented by trade unions. The Company experienced two strikes in 2013, following which the Company increased the wages of certain workers at AktauNefteService LLP ("ANS") by 22% and the Company and the Labour Union of Oil Construction Company approved an action plan to, *inter alia*, eliminate wage discrepancies with workers performing similar tasks at different fields. A unified remuneration system for employees working in the exploration and production activities has been put in place. Other than certain strikes at privately-owned oil service companies, none of which had a material impact on the Company's operations, there have been no further instances of strikes at KMG or its subsidiary companies. Despite the Company's management's focus on social responsibility and its efforts to improve employee relationships, there can be no assurance that strikes will not occur in the future, that there will be sufficient alternative staff and employees to run production activities in the event of further strikes, that any such labour unrest will be satisfactorily resolved and that further disturbances will not arise. In addition, there can be no assurance that any future strike would not result in ongoing reductions in production or a need to devote significant financial resources to restore production. Labour unrest may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations as a result of a disruption in production.

***A breach of the Company's digital security or failure of the Company's information technology systems could adversely affect its operations***

The Company's information technology ("IT") systems, are at risk of power outages and other disruptions. Despite precautions taken by the Company, a breach or failure of the Company's IT systems due to intentional actions such as attacks on its cyber security, negligence or other factors, could seriously disrupt the Company's operations and could result in the loss or misuse of data or sensitive information, injury to people, disruption to the business, harm to the environment or the Company's assets, legal or regulatory breaches and potentially legal liability. Any of the above could result in significant costs or reputational consequences and could adversely affect the Company's business, prospects, financial condition, cash flows and results of operations.

## **Risk Factors Relating to the Republic of Kazakhstan**

*The Company is subject to Kazakhstan-specific risks, including, but not limited to, currency devaluation, civil disturbances, changes in exchange controls or lack of availability of foreign currency, changes in energy prices, changes with respect to taxes, withholding taxes on distributions to foreign investors, changes in anti-monopoly legislation, nationalisation or expropriation of property and interruptions or embargos on the export of hydrocarbons or other strategic material and the potential impact of international sanctions. The occurrence of any of these factors or any of the factors described below could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.*

***Emerging markets are generally subject to greater risk than more developed markets and actual and perceived risks associated with investing in emerging economies could dampen foreign investment in Kazakhstan.***

The disruptions experienced due to the impact of the global financial and economic crisis in the international and domestic capital markets led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets such as Kazakhstan may be particularly susceptible to such disruptions, reductions in the availability of credit and increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by the level of investor confidence in such markets as a whole and, as such, any factors that affect investor confidence (for example, a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within any of these markets.

Investors in emerging markets such as Kazakhstan should be aware that these markets are subject to greater risk than more developed markets, including, in some cases, significant legal, economic and political risks. For example, the continued instability and unrest in Ukraine and related events have had and may continue to have an adverse effect on the economy in Russia, which could, in turn, have a "contagion effect" on economies in the region, including, in particular, Kazakhstan, which is a close trading partner of Russia. In connection with such instability and unrest in Ukraine, the EU, the United States and Canada have imposed sanctions on certain individuals and companies in Russia and Russia has, in turn, imposed trade sanctions on certain goods and services originating in the EU and the United States. If the instability in Ukraine continues, tensions between Russian and Ukraine escalate further or new tensions between Russia and other countries emerge, or if further economic or other sanctions, such as further limitations on trade, are imposed in response to such instability and tensions, this could have a further adverse effect on the economies in the region, including the Kazakhstan economy, as well as on companies active in the region, including the Company. Such risks may be of particular significance to the Company given its reliance on the volumes of natural gas transported through its system by Gazprom, which is currently subject to both EU and U.S. sanctions.

Investors should also note that emerging economies such as Kazakhstan's are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Financial problems or an increase in the perceived risks associated with investing in emerging economies may dampen foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. In addition, companies operating in emerging markets can face severe liquidity constraints as foreign funding resources are withdrawn. Thus, whether or not Kazakhstan's economy is relatively stable, financial turmoil in any emerging market country, in particular those in the Commonwealth of Independent States ("CIS") or Central Asian regions which have recently experienced significant political instability (including terrorism), could seriously disrupt the Company's business, which could, in turn, have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

***Most of the Company's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Company is largely dependent on the economic and political conditions prevailing in Kazakhstan.***

Kazakhstan became an independent sovereign state in 1991, as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan, under President Nursultan Nazarbayev, has experienced significant changes as it emerged from a centrally controlled command economy to a market-oriented economy. The transition was initially marked by political uncertainty and tension, a stagnant economy marked by high inflation, instability of the local currency and rapid, but incomplete, changes in the legal environment. However, Kazakhstan actively pursued a programme of economic reform designed to establish a free market economy through privatisation of Government-owned enterprises and deregulation and it is more advanced in this respect than some other countries of the former Soviet Union. Under President Nazarbayev's leadership, Kazakhstan has moved toward a market-oriented economy. If the current administration changes its outlook or, in the event of a change in administration, such future administration has a different outlook, the economy in Kazakhstan could be adversely affected. Changes to Kazakhstan's economy, including in property, tax or regulatory regimes or other changes could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, natural gas, steel, copper, ferro-alloys, iron ore, aluminium, coal, lead, zinc and wheat. Thus, Kazakhstan is dependent upon good relations with its neighbours to ensure its ability to export. Should access to these export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Moreover, adverse economic factors in regional markets may adversely impact Kazakhstan's economy.

Additionally, like other countries in Central Asia, Kazakhstan could be adversely affected by terrorism or military or other action taken against sponsors of terrorism in the region. Moreover, adverse economic, political or social factors in other jurisdictions within or outside the region may also adversely impact the Kazakhstan economy.

Since the dissolution of the Soviet Union, a number of former Soviet republics have experienced periods of political instability, civil unrest, military action and popular changes in government or incidents of violence. Kazakhstan has had only one president, Nursultan Nazarbayev, who is 77 years old as at the date of this Base Prospectus. Under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including the privatisation of state assets, liberalisation of capital controls, tax reforms and pension system development and the country has been largely free from political violence. In 2007, Kazakhstan's Parliament amended Kazakhstan's constitution to allow President Nazarbayev to run in an unlimited number of consecutive elections. In April 2015, President Nazarbayev was re-elected with 97.8% of the votes for a new five-year term.

In the last quarter of 2016, President Nazarbayev announced planned constitutional reforms that contemplate a distribution of authority among government bodies. The law amending the constitution was signed by President Nazarbayev on 10 March 2017. The law provides for 26 amendments, which transfer certain powers of the President to the Parliament and the Government. Despite this, given that Kazakhstan has not had a presidential succession and that there is no clear successor to Mr. Nazarbayev, there can be no assurance that any succession will result in a smooth transfer of power and maintain current economic policies. Thus, should he fail to complete his current term of office for any reason or should a new president be elected at the next election, Kazakhstan's political situation and economy could become unstable and the investment climate in Kazakhstan could deteriorate. If a future president is elected with a different political outlook, the business regime in Kazakhstan could change. Political instability in Kazakhstan or changes to its property, tax or regulatory regimes or other changes, resulting from a new administration or otherwise, could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

On 7 December 2017, the Government adopted its budget for 2018-2020 (the "**2018-2020 Budget**"). The 2018-2020 Budget allocates funds for the implementation of key Government projects and economic reform programmes. Kazakhstan's economy and finances have and continue to experience slower levels of growth since the global financial crisis which began in 2008. According to Government statistics, real GDP growth was 1.2% in 2015, 1.0% in 2016 and 4.3% for the nine months ended 30 September 2017. The International Monetary Fund (the "**IMF**") forecasts real GDP growth to be 2.8% in 2018.

Weaknesses in the global financial markets since the onset of the global financial crisis also contributed to several major bank failures in Kazakhstan and subsequent restructurings. See "*—Risk Factors Relating to the Company's Business—The Company is exposed to the Kazakhstan banking sector*".

While S&P revised the outlook of Kazakhstan's credit rating from negative to stable in September 2017, any future negative changes to the outlook or rating downgrade is likely to result in a rating downgrade of the Company's ratings. Any future downgrade of Kazakhstan's sovereign credit rating and liquidity problems in Kazakhstan's economy could adversely affect its economic development, which could in turn, materially and adversely affect the Company's prospects,

business, financial condition and results of operations. In November 2017, S&P revised the Company's long-term foreign currency rating from BB to BB-, citing the reduced readiness of the Government to support the Company, as well as the complicated procedure for state support, via Samruk-Kazyna. In the past, the Company's credit rating has also been affected by its exposure to the Kazakhstan banking sector. In August 2017, Moody's affirmed the Company's long-term foreign currency rating and revised the outlook on the rating from negative to stable. In June 2017, Fitch affirmed the Company's long-term foreign currency rating and outlook.

Additionally, the Company's subsidiaries, joint ventures and associates are in many regions the largest employers in cities in which they operate. While the Company does not have any specific legal obligation or responsibilities with respect to these regions, its ability to reduce the number of its employees may nevertheless be subject to political and social considerations. Any inability to reduce the number of employees or make other changes to the Company's operations in such regions could have an adverse effect on the Company's business, prospects, financial condition or results of operations.

***Sustained periods of high inflation could adversely affect the Company's business.***

The Company's operations are located principally in Kazakhstan, and a majority of the Company's costs are incurred in Kazakhstan. Since the majority of the Company's expenses are denominated in Tenge, inflationary pressures in Kazakhstan are a significant factor affecting the Company's expenses. For example, employee and contractor wages, consumable prices and energy costs have been, and are likely to continue to be, particularly sensitive to monetary inflation in Kazakhstan. On 11 February 2014, the NBK devalued the Tenge by 18.3% to KZT 184.50 per U.S.\$1.00. The NBK stated that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble over the course of 2013 and 2014. In August 2015, the NBK announced its adoption of a free-floating exchange rate and medium-term inflation targeting policy. According to the NBK, annual consumer price inflation for the nine months ended 30 September 2017 was 7.1%, as compared to 8.5% and 13.6% for the years ended 31 December 2016 and 2015, respectively. On 30 January 2018, the Chairman of the NBK confirmed the NBK's intention to continue to pursue its free-floating exchange rate and medium-term inflation targeting policy. There can be no assurance, however, that the rate of inflation will be reduced, or that inflation will be maintained at the current rate.

The IMF forecasts inflation to be 6.5% in 2018. In a low oil price environment, the Company may not be able to sufficiently increase the prices that it receives from the sale of crude oil, gas and oil products in order to preserve existing operating margins, particularly in the case of the Company's domestic crude oil and oil product sales.

Any further increase in inflation could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

***Further devaluations of the Tenge or the adoption of a new exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy.***

Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions outside Kazakhstan. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly and the NBK has adopted a number of exchange rate policies. The Tenge had generally appreciated in value against the U.S. Dollar over the previous decade until its devaluation by the NBK in February 2009. In February 2009, the NBK established a trading band of KZT 150: U.S.\$1.00 +/- 3%. This trading band was widened in February 2010 and set at an asymmetric KZT 150/U.S.\$1.00 +10/-15%. In February 2011, the trading band was officially abolished, and the formal exchange rate arrangement was changed from a pegged exchange rate within horizontal bands to a managed floating exchange rate regime. On 11 February 2014, the NBK devalued the Tenge by 18.3% against the U.S. Dollar to KZT 184.50 per U.S.\$1.00, stating that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble in 2013 and 2014, as well as the overall situation in the global financial and commodity markets. In September 2014, the NBK re-established the trading band at KZT 170-188: U.S.\$1.00. In August 2015, the NBK announced the adoption of a free-floating exchange rate and medium-term inflation targeting policy, which resulted in a 26.2% depreciation against the U.S. Dollar. As at 31 December 2017, the official KZT/U.S.\$ exchange rate reported by the KASE was KZT 332.33 per U.S.\$1.00, as compared to KZT 333.29 per U.S.\$1.00 as at 31 December 2016, KZT 339.47 per U.S.\$1.00 as at 31 December 2015 and KZT 182.35 per U.S.\$1.00 as at 31 December 2014. On 30 January 2018, the Chairman of the NBK confirmed the NBK's intention to continue to pursue the free-floating exchange rate and medium-term inflation targeting policy.

While certain of the Company's subsidiaries, which have significant U.S. Dollar revenue and a significant share of Tenge-denominated costs and relatively minor U.S. Dollar denominated liabilities, such as KMG EP, may benefit from a devaluation of the Tenge against the U.S. Dollar, because a significant majority of the Company's borrowings and accounts payable are in U.S. Dollars, the Company's accounts are sensitive to currency exchange rate fluctuations, and the devaluation of the Tenge against the U.S. Dollar may have an overall adverse effect on the Company. In addition,



certain of the Company's subsidiaries and joint ventures are regulated companies that operate on the basis of tariffs or maximum prices established by the regulator in Tenge, such tariffs may not always be amended to reflect currency exchange fluctuations in a timely manner or at all.

In addition, there can be no assurance that the NBK will maintain its managed exchange rate policy. Any change in the NBK's exchange rate policy could have an adverse effect on Kazakhstan's public finances and economy, which could, in turn, have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

***Sanctions imposed on Russia could have an indirect adverse impact on Kazakhstan's economy.***

The U.S. and the EU (as well as other nations, such as Australia, Canada, Japan and Switzerland) have since 2014 progressively extended sanctions on certain Russian and Ukrainian persons and entities in connection with the current conflict in Ukraine. The sanctions imposed to date have had an adverse effect on the Russian economy, prompting downward revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access the international capital markets. The governments of the United States and certain EU member states, as well as certain EU officials, have indicated that they may consider additional sanctions should such tensions between Russia and Ukraine continue.

While Kazakhstan maintains strong independent diplomatic relationships with both Russia and Ukraine and has confirmed its neutral position with respect to the tensions between Russia and Ukraine, Kazakhstan has significant economic and political relations with Russia.

In 2014, Kazakhstan, Russia and Belarus signed the treaty establishing the EEU (which came into force in 2015), marking a milestone of economic integration, ensuring the free movement of goods, services, capital and labour within the EEU and establishing coordinated, coherent and unified policies in key sectors of the economy. A new code on customs regulation in the Republic of Kazakhstan (the "**Customs Code**") was adopted on 26 December 2017. The Customs Code is based on and reflects the provisions of the EEU Customs Code, which came into force on 1 January 2018. The Government has announced that it expects that the Customs Code will increase transit and export potential and will facilitate the conduct of foreign economic activity. As a result of Kazakhstan's membership of the EEU, as well as Kazakhstan's economic relations with Russia are expected to strengthen going forward. Russia is Kazakhstan's third largest export partner (after Italy and China) and, in 2017, based on actual trade flows, Kazakhstan's imports from Russia accounted for 39.1% of Kazakhstan's total imports, and its exports to Russia accounted for approximately 9.5% of its total exports. Key exports to Russia include oil, chemicals and minerals.

Kazakhstan's close economic links with Russia, the existing sanctions imposed on Russia or any future sanctions could have a material adverse effect on Kazakhstan's economy, which could, in turn, have an adverse effect on the Company's business, prospects, financial condition or results of operations.

***Currency control laws affect the Company's foreign currency dealings.***

In July 2009, the President of Kazakhstan signed a law on the introduction of various amendments to Kazakhstan's currency control legislation, which came into force on 10 August 2009. The amendments empowered the President, by special action and under circumstances when the economic stability of Kazakhstan is threatened, to introduce a special currency regime that would (i) require the compulsory sale of foreign currency received by Kazakhstan residents; (ii) require the placement of a certain portion of funds resulting from currency transactions into a non-interest bearing deposit in an authorised bank or the NBK; (iii) restrict the use of accounts in foreign banks; (iv) limit the volumes, amounts and currency of settlements under currency transactions; and (v) require a special permit from the NBK to conduct currency transactions. Moreover, the Government may impose other requirements and restrictions on currency transactions when the economic stability of Kazakhstan is threatened.

In July 2017, further amendments were introduced to the currency control legislation, which, *inter alia*, transferred the authority to introduce a special currency regime from the President to the Government.

In order for Kazakhstan to remain in compliance with its membership obligations under the charter of the IMF, the currency regime cannot restrict residents from repaying foreign currency-denominated obligations. As at the date of this Base Prospectus, the President has not invoked the provisions of these amendments. Accordingly, it is unclear how any implementation of the new currency regime would ultimately impact the Company. However, any imposition of significant restrictions on the Company's foreign currency dealings could have a material adverse effect on the Company's business, prospects, financial condition or results of operations.

*The outcome of the implementation of further market-based economic reforms is uncertain.*

In recent years, the Government has introduced a number of measures to encourage privatisation and competition among Kazakhstan entities. In 2012, the Government launched the programme of “People’s IPOs” in order to, among other aims, stimulate the domestic equities market. In December 2012, approximately 9.99% of the shares of KTO were sold to Kazakhstan investors as part of this programme. The “People’s IPO” programme was terminated at the end of 2015.

In January 2014, President Nazarbayev instructed the Government to prepare a list of state-owned companies that should be privatised and approve a comprehensive privatisation programme for 2014-2016. On 31 March 2014, the Government adopted Resolution № 280, which set out its 2014-2016 “Complex Privatisation Plan” (the “**2014 Complex Privatisation Plan**”). Samruk-Kazyna sold 37 assets for an aggregate consideration of KZT 49.97 billion pursuant to the 2014 Complex Privatisation Plan. In September 2015, the Government announced plans to launch a new, large-scale privatisation programme. On 30 December 2015, the Government issued the 2016 Complex Privatisation Plan to be implemented between 2016 and 2020. The 2016 Complex Privatisation Plan includes a list of national companies and subsidiaries of national companies, including a number of members of the Group, as potential targets for privatisation. See “—*Risk Factors Relating to the Company’s Business—The Company, which is indirectly controlled by the Government, is exposed to the risk of Government intervention.*” Pursuant to data published by the Register of Privatisation Assets, for the period from 1 January 2016 to 31 December 2017, 323 assets had been sold pursuant to the 2016 Complex Privatisation Plan for aggregate consideration of KZT 179.4 billion, including 11 companies that had been members of the Group.

The Government’s privatisation programme is driven by the need for substantial investment in many enterprises. The programme has, however, excluded certain enterprises deemed strategically significant by the Government, and there remains a need for substantial investment in many sectors of the Kazakhstan economy, including business infrastructure. Further, the significant size of the shadow economy (or “black market”) in Kazakhstan may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving the business infrastructure and tax administration and by continuing the privatisation process. There can be no assurance, however, that these measures will be effective or that any failure to implement them will not have a material adverse effect on the Company’s business, prospects, financial condition, cash flows or results of operations.

*Kazakhstan is heavily dependent upon export trade and commodity prices, particularly with respect to the oil and gas industry, and weak demand for its export products and low commodity prices may adversely affect Kazakhstan’s economy in the future.*

Countries in the Central Asian region, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil and oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility or a sustained decline in oil and other commodity prices or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects. Such negative effects have been visible in recent years as a result of the lower global oil price environment.

As Kazakhstan is negatively affected by low commodity prices, as well as economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy. In 2000, the Government established the Kazakhstan’s National Fund (the “**National Fund of Kazakhstan**”) to support the financial markets and the economy of Kazakhstan in the event of any sustained drop in oil revenues, although as a result of substantial spending by the National Fund of Kazakhstan to date, the status of future funding from the National Fund of Kazakhstan is uncertain. Notwithstanding these efforts, weak demand in its export markets and low commodity prices, especially with respect to the oil and gas industry, may adversely affect Kazakhstan’s economy in the future, which may materially adversely affect the Company’s business, prospects, financial condition, cash flows or results of operations.

Following the decrease in global oil prices in 2014, and the devaluation of the Tenge against the U.S. Dollar in 2015, the Government’s budget set projections based on U.S.\$40 per barrel for 2016-2018; the Government’s budget was revised in 2016 to reflect an assumed world oil price of U.S.\$35 per barrel for 2017-2019. The 2018-2020 Budget has set projections at U.S.\$45 per barrel for 2018-2020. The discrepancy between the State’s estimates and the Company’s and the EIA’s estimates for world oil price during these periods is primarily due to the time at which such estimates are made (i.e., medium or long term estimates or estimates made on a rolling basis). There can be no assurance that further revisions of the State budget will not be required in light of continuing oil price volatility.

Any fluctuations in the value of the U.S. Dollar relative to other currencies may cause volatility in earnings from U.S. Dollar-denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities or weakening of the U.S. Dollar relative to other

currencies would have a material adverse effect on the Kazakhstan economy, which, in turn, could indirectly have an adverse effect on the business, financial condition and results of operations of the Company.

While real GDP has grown in Tenge terms following the adoption of a free-floating exchange rate policy in August 2015, and is forecast by the IMF to grow by 2.8% in 2018; there can be no assurance that GDP will continue to grow and any decline or future slowdown in GDP growth could adversely affect the development of Kazakhstan and, in turn, the Company's business, financial condition, results of operations and prospects.

***Kazakhstan's legislative, tax and regulatory framework is underdeveloped and evolving; therefore, court decisions can be difficult to predict and tax liabilities can be difficult to ascertain.***

Although a large volume of legislation has been enacted since early 1995, the legal framework in Kazakhstan (although one of the most developed among the countries of the former Soviet Union) is still evolving compared to countries with established market economies.

The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces. For example, there have been instances of improper payments being made to public officials. Therefore, court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law-based jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions.

Further, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

In summer 2010, the Government re-introduced an export customs duty on crude oil. In February 2016, the Minister of National Economy of Kazakhstan introduced a progressive scale of export customs duty rates on crude oil. Under the new regime, export duty rates are calculated on the mean market prices of Brent Crude and Urals oil trading classifications. Increases in export customs duties have in the past increased the Company's export costs and, accordingly, reduced profitability. No assurance can be given that further increases of export customs duties will not occur and the Company expects that any such further increases will continue to have a significant negative impact on its costs and profitability.

In past years, the Company's tax burden has increased as a result of changes to tax legislation. Kazakhstan's tax system is still in a transitional phase, and it is expected that tax legislation in Kazakhstan will continue to evolve with the introduction of the 2018 Tax Code. There can be no assurance that new taxes and duties or new tax rates will not be introduced during the life of the Programme or that any tax legislation passed in the future will not materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

On 1 January 2018, the 2018 Tax Code came into force, introducing new concepts to the general principles of taxation and the taxation of subsoil users, in particular, including the introduction of an alternative subsoil tax for subsoil users.

As the 2018 Tax Code has not been tested in practice, there can be no assurance that it will not have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

See "*—Risk Factors Relating to the Company's Business—The Company has been subject to, and may continue to be subject to, adverse regulatory developments.*".

In addition, investors in Notes should be aware that further changes in the withholding tax regime may give the Company the right to redeem Notes prior to their stated maturity.

***Kazakhstan has a less developed securities market than the United States, the United Kingdom and the rest of Western Europe, which may hinder the development of Kazakhstan's economy.***

Kazakhstan has a less-developed securities market than the United States or the United Kingdom and other western European countries, which may hinder the development of the Kazakhstan economy. An organised securities market was established in Kazakhstan only in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, including an initiative to develop Almaty as a regional financial centre, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets

have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan as they are in the United States or the United Kingdom and other western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan-based entities, such as the Company's subsidiaries, joint ventures and associates, may be publicly-available to investors in such entities than is available to investors in entities organised in the United States or the United Kingdom and other western European countries. The above-mentioned factors may impair foreign investment in Kazakhstan and hinder the development of Kazakhstan's economy.

***There are risks of corruption and other business environment weaknesses in Kazakhstan.***

As in many other emerging market jurisdictions, the incidence and perception of elevated levels of corruption remains a significant issue in Kazakhstan. Kazakhstan was ranked 131<sup>st</sup> out of 176 countries in Transparency International's 2016 Corruption Perceptions Index. Kazakhstan's score in the 2016 index was 29 (with 1 the most corrupt score and 100 being the least corrupt). Kazakhstan's business climate and competitive indicators are also negatively affected by the need for reform in investor protection arrangements, the cost of establishing a business, the tax system, resolving insolvency and contract enforcement. In the World Economic Forum 2017-18 Global Competitiveness Index, Kazakhstan was ranked 57<sup>th</sup> out of 137 countries.

Failure to address continued or perceived corruption and governance failures in the public sector and any future allegations, or perceived risk, of corruption in Kazakhstan, could have a material adverse effect upon Kazakhstan's ability to attract foreign investment, which could, in turn, have a material adverse effect on Kazakhstan's economy and on the Company's business, prospects, financial condition, cash flows or results of operations.

***The Company cannot ensure the accuracy of official statistics and other data in this Base Prospectus published by Government authorities.***

Official statistics and other data published by Government authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. Neither the Issuer nor the Company has independently verified such official statistics and other data and any discussion of matters relating to Kazakhstan in this Base Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Base Prospectus has been extracted from official Government sources and was not prepared in connection with the preparation of this Base Prospectus.

In addition, certain information contained in this Base Prospectus is based on the knowledge and research of the Company's management using information obtained from non-official sources. The Company has accurately reproduced such information and, so far as the Company is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. This information has not been independently verified and, therefore, is subject to uncertainties due to questions regarding the completeness or reliability of such information, which was not prepared in connection with the preparation of this Base Prospectus.

**Risk Factors Relating to the Structure of a Particular Issue of Notes**

*A wide range of Notes may be issued under the Programme. A number of these Notes may have features, which contain particular risks for potential investors. Set out below is a description of the most common such features:*

***The Company's payment obligations under the Notes and Guarantee, if applicable, will be structurally subordinated to the creditors of the Company's subsidiaries, joint ventures and associates.***

In a case where KMG Finance is the Issuer, such Notes are required to, and will, be, guaranteed by the Company under the Guarantee. The Guarantee is exclusively an obligation of the Company. The Company's subsidiaries, joint ventures and associates are separate and distinct legal entities and they have no obligation to pay any amounts due under the Notes or the Guarantee or to necessarily make any funds available for that purpose, whether by dividends, distributions, loans or other payments.

In recent years, a significant amount of the Company's cash flows has been derived from dividends paid to the Company by its subsidiaries, joint ventures and associates; however, future dividends to the Company may decrease to the extent the subsidiaries, joint ventures and associates of the Company are required to fund capital expenditures or meet other costs or fines, including environmental fines, among other things, out of cash. The Company can give no assurance that future dividends from the Company's subsidiaries, joint ventures and associates, if forthcoming, will be of a similar magnitude as those received over the past few years.

Additionally, the Company's right to receive any assets of any of the Company's subsidiaries, joint ventures or associates upon their liquidation or reorganisation, and therefore the right of the holders of the Guarantee to participate in those assets, will be effectively subordinated to the claims of that subsidiary, joint ventures or associate's creditors, including trade creditors. In addition, even if the Company were a creditor of any of its subsidiaries, joint ventures or associates, the Company's rights as a creditor would be subordinate to any security interest in the assets of the Company's subsidiaries, joint ventures or associates and any indebtedness of those entities senior to that held by the Company.

***Notes subject to optional redemption by the relevant Issuer.***

An optional redemption feature of Notes is likely to limit their market value. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Inverse floating rate Notes.***

Inverse floating rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate (LIBOR or EURIBOR). The market values of these Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of such Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

***Fixed/floating rate Notes.***

Fixed/floating rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the relevant Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the fixed/floating rate Notes may be less favourable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

***Notes issued at a substantial discount or premium.***

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

***Interest rate risks exist because Notes have a fixed rate and the prevailing interest rates in the future may be higher than the fixed rate.***

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

***Risks related to Notes which are linked to "benchmarks"***

The London Interbank Offered Rate ("LIBOR"), the Euro Interbank Offered Rate ("EURIBOR") and other interest rates or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "FCA Announcement"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest provisions of the Conditions or result in other consequences, in respect of any

Notes linked to such benchmark (including but not limited to floating rate notes whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes.

### **Risk Factors Relating to the Notes**

#### ***Trading in the clearing systems.***

The Terms and Conditions of the Notes provide that Notes shall be issued with a minimum denomination of €100,000 (or its equivalent in another currency) and integral multiples of an amount in excess thereof in the relevant Specified Currency. Where Notes are traded in a clearing system, it is possible that the clearing systems may process trades, which could result in amounts being held in denominations smaller than the minimum denominations specified in the relevant Final Terms related to an issue of Notes. If Definitive Notes are required to be issued in relation to such Notes in accordance with the provisions of the terms of the relevant Global Notes, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of its entitlement in the form of Definitive Notes unless and until such time as its holding becomes an integral multiple of the minimum denomination.

#### ***An active trading market for Notes may not develop.***

Notes issued under the Programme may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Application has been made for the listing of Notes on the Official List and for trading on the Regulated Market of the London Stock Exchange. In addition, unless otherwise agreed with the relevant Dealer(s) and provided for in the Final Terms, the Company will cause all Notes issued by the Company and KMG Finance under the Programme to be admitted to the to the “bonds” category of the “debt securities” sector of the “main” platform of the official list of the KASE, and no Notes issued under the Programme may be issued or placed without the prior permissions of the NBK. There can be no assurance that either such listings or declaration will be obtained or, if such listings or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for Notes will depend on the number of holders of Notes, the interest of securities dealers in making a market in Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for Notes.

#### ***The market price of Notes may be volatile.***

The market price of Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Company’s operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Company operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for notes issued by or on behalf of Kazakhstan as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of Notes without regard to the Company’s business, prospects, financial condition, cash flows or results of operations. Factors including increased competition, fluctuations in commodity prices or the Company’s operating results, the regulatory environment, availability of reserves, general market conditions, natural disasters, terrorist attacks and war may have an adverse effect on the market price of Notes.

#### ***Financial turmoil in emerging markets may lead to unstable pricing of Notes.***

The market price of Notes is influenced by economic and market conditions in Kazakhstan and, to a varying degree, economic and market conditions in other CIS countries and emerging markets generally. Financial turmoil in other emerging markets in the past has adversely affected market prices in the world’s securities markets for companies that operate in those and other developing economies. Even if Kazakhstan’s economy remains relatively stable, financial turmoil in other emerging markets could materially adversely affect the market price of Notes.

***Insolvency laws in Kazakhstan may not be as favourable to holders of Notes as English or U.S. insolvency laws or those of another jurisdiction with which the Noteholders may be familiar.***

The Company is organised in Kazakhstan and is subject to the bankruptcy law of Kazakhstan. Kazakhstan bankruptcy law may prohibit the Company from making payments pursuant to the Guarantee under certain circumstances. From the moment bankruptcy proceedings are initiated in court, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions.

After the initiation of bankruptcy proceedings, creditors of the debtor may not pursue any legal action to obtain payment to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor until completion of the bankruptcy procedure. Contractual provisions, such as those contained in the Guarantee, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, would accelerate the amount due but each accelerated amount becomes part of the total liabilities within the proper priority class.

Specifically, Kazakhstan bankruptcy law provides that transactions of a debtor can be recognised as invalid if they are entered into or made within three years prior to the institution of the bankruptcy or rehabilitation proceedings and contain elements which can form the grounds of invalidation under Kazakhstan Civil Code or contain the following elements: (i) the price of the transaction or other conditions which are more onerous for the debtor than the price and conditions for similar transactions in the market concluded under similar circumstances; (ii) transactions that are beyond the framework of activities authorised for the debtor by the law, its constituent documents or the competence of the corporate bodies of the debtor; (iii) assets transferred free of charge or at price which was worse for the debtor than a price of other transactions under similar economic circumstances or otherwise the transfer infringes the interests of the creditors; (iv) transactions were entered into six months before the bankruptcy or rehabilitation proceedings and resulted in preferential payments to certain creditors; (v) the debtor has gifted its assets and entered in transactions, which are significantly different from the transactions entering into during the year before the institution of bankruptcy or rehabilitation proceedings. Since Kazakhstan's courts are not experienced with complex commercial issues, there is no way to predict the outcome of a bankruptcy proceeding.

***Exchange rate risks exist to the extent payments in respect of Notes are made in a currency other than the currency in which an investor's activities are denominated.***

The relevant Issuer will pay principal and interest on the Notes and the Guarantor, if any, will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. In addition, such risks generally depend on economic and political events over which the relevant Issuer and the Guarantor, if any, have no control. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of payment of principal or interest, if any, on Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note not denominated in U.S. Dollars would not be available at the maturity of a series of Notes. In that event, the relevant Issuer or the Guarantor, if any, as the case may be, would make required payments in U.S. Dollars on the basis of the market exchange rate on the date of such payment, or if such rate of exchange is not then available, on the basis of the market exchange rate as at the most recent practicable date.

***Credit ratings do not reflect all risks.***

The Company's credit ratings are an assessment by the relevant rating agencies of its ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure and marketing of Notes issued under this Base Prospectus, and other factors

that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

***It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Company and its management.***

The Company is a company organised under the laws of Kazakhstan and a substantial part of its businesses, assets and operations are located in Kazakhstan. In addition, a substantial majority of its directors and executive officers reside in Kazakhstan and substantially all of their assets are located in Kazakhstan. As a result, it may not be possible to effect service of process within the United States or elsewhere outside Kazakhstan upon the Company or such directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable United States state securities laws. Moreover, Kazakhstan does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and many other countries. As a result, recognition and enforcement in Kazakhstan of judgments of a court in the United States, the United Kingdom and many other jurisdictions in relation to any matter may be difficult. See “*Enforcement of Civil Liabilities*”.

In February 2010, the Parliament passed legislation amending Kazakhstan law to provide for certain immunities to government entities, including national companies, such as the Company, in the context of arbitration and foreign court judgments. While these immunities should apply only to government entities to the extent they are performing sovereign functions and not commercial activities, and the issuance of Notes under the Programme should be considered a commercial activity (and, under the Trust Deed, the Company has, to the full extent permitted by applicable laws, waived any immunity that may be attributed to it in respect of the Notes or the Guarantee, if any), under the amendments, whether a particular activity is deemed to be sovereign or commercial in nature is subject to determination by a Kazakhstan court on a case by case basis.

On 8 April 2016, the Arbitration Law was signed by the President of Kazakhstan. Whilst the introductory language to the Arbitration Law, as well as other provisions of this law, imply that the Arbitration Law should only apply where the matter involves dispute resolution in Kazakhstan (*i.e.*, in respect of arbitration bodies with a seat in Kazakhstan) and should not apply to foreign arbitration such as the LCIA. In particular, the preamble to the Arbitration Law states that: “*This [l]aw regulates social relations arisen in the process of arbitration activity on the territory of the Republic of Kazakhstan as well as the procedure and terms of recognition and enforcement of arbitral awards in Kazakhstan...*”. There are, however, certain novelties in the Arbitration Law which may have implications (as described below) in respect of the arbitration provisions contained in the Notes and the Trust Deed. In particular, the provisions of the Arbitration Law do not clearly differentiate between domestic and foreign arbitration. However, given that the Arbitration Law has not been tested in practice, there can be no assurance that Kazakhstan courts would support the interpretation of the Arbitration Law set out in “*Enforcement of Civil Liabilities*” and that an award against the Company and/or KMG Finance in arbitral proceedings in London under English law would be enforced in Kazakhstan. If the Arbitration Law applies to disputes under the Notes and the Trust Deed, there is a risk that an LCIA award in a proceeding related to the Notes and the Trust Deed may not be recognised and enforced in Kazakhstan as being contrary to Kazakhstan public order and/or a dispute under the Notes and the Trust Deed cannot be resolved by arbitration. Furthermore, an event of default could occur under the Notes and the Trust Deed to the extent that the Company’s and/or KMG Finance’s obligations under the Notes and/or the Trust Deed to settle disputes by arbitration in the LCIA and/or under English law become illegal or unenforceable.

***Return on an investment in Notes will be affected by charges incurred by investors.***

An investor’s total return on an investment in any Notes will be affected by the level of fees charged by any Agent, nominee service provider and/or clearing system used by the investor. Such a person or institution may charge fees for the opening and operation of an investment account, transfers of Notes, custody services and on payments of interest and principal. Potential investors are, therefore, advised to investigate the basis on which any such fees will be charged on the relevant Notes.

***English law governs Notes and all agreements under the Programme.***

Prospective investors should note that each Series of Notes will be governed by and construed in accordance with the laws of England and that the courts of England or arbitration proceedings in accordance with the Rules of the LCIA (solely for the purpose of any legal action or proceeding brought to enforce the relevant Issuer’s or the Guarantor’s, if any, obligations under this Base Prospectus) shall have exclusive jurisdiction in respect of any disputes involving the Notes. English law may be materially different from the equivalent law in the home jurisdiction of prospective investors in its application to the Notes. If a prospective investor is in doubt as to the implication of English law being the governing law in respect of the Notes, such investor should consult its legal advisors.



No assurance can be given as to the impact of any possible judicial decision or changes in English law or administrative practice after the date of this Base Prospectus. See “—It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Company and its management”.

***Provisions of Notes permit defined majorities to bind all Noteholders and the Trustee to take certain action without Noteholder consent.***

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to: (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes; (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such; or (iii) the substitution of the Guarantor or any of their Subsidiaries as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 17(c).

***The protection afforded by the negative pledge contained in the Terms and Conditions of the Notes is limited, which may adversely affect the value of investments in the Notes.***

The Company has agreed in Condition 4 of the Terms and Conditions of the Notes not to, and not to permit any Material Subsidiary (as defined in the Terms and Conditions of the Notes) to, create, incur, assume or suffer to exist any Security Interest other than a Permitted Security Interest (each as defined in the Terms and Conditions of the Notes) upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (as defined in the Terms and Conditions of the Notes) any payment in respect of or relating to any Relevant Indebtedness without procuring that the notes are secured equally and rateably with such Relevant Indebtedness to the satisfaction of the Trustee. The application of this negative pledge and the protection that it affords to holders of the notes, however, is limited. For example, the definition of Relevant Indebtedness is limited to present or future Indebtedness (as defined in the Terms and Conditions of the Notes) in the form of, or represented by, notes, debentures, bonds or other similar capital market instruments which is ordinarily quoted, listed or purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market. In addition, pursuant to an exemption from the negative pledge, the Company will be permitted to secure an aggregate amount of Relevant Indebtedness not exceeding 20% of the value of consolidated total assets, as determined by reference to the most recently available consolidated financial statements prepared in accordance with IFRS of the Company, without any obligation to afford any equal and rateable security to holders of the Notes. As a result, the Company will be permitted to secure a range of other forms of Indebtedness and may also create security in respect of a significant amount of Relevant Indebtedness without, at the same time, being obliged to grant equal and rateable security in respect of the Notes or the Guarantee, as the case may be, which may adversely affect the value of an investment in the Notes and/or cause holders of the Notes to rank in terms of priority behind such secured creditors.

***Payments made in respect of Notes may be subject to withholding tax and have other tax consequences for investors.***

Generally, payments of interest on borrowed funds made by a Kazakhstan entity to a non-resident are subject to Kazakhstan withholding tax at the rate of 15% for legal entities, unless (i) such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty or (ii) the interest is payable under the Notes, which are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE).

If payments in respect of any Notes are subject to withholding of Kazakhstan tax as a result of which the relevant Issuer or the Guarantor (as the case may be) would reduce such payments by the amount of such withholding, the relevant Issuer or the Guarantor (as the case may be) is obliged to increase payments as may be necessary so that the net payments received by holders of Notes will not be less than the amounts they would have received in the absence of such withholding. It should be noted, however, that gross-up provisions, as well as and tax indemnity provisions and indemnities for costs or expenses that may include taxes payable in connection therewith may not be enforceable under Kazakhstan law where such provisions may be viewed by the Kazakhstan tax authorities as constituting payments of taxes on behalf of third parties.

***Payments under the Notes may be subject to withholding tax pursuant to FATCA.***

With respect to (i) Notes issued after the date that is six months after the date the term “foreign passthru payment” is defined in regulations published in the U.S. Federal Register (the “Grandfather Date”) or (ii) Notes issued on or before the Grandfather Date but materially modified after such date, the Issuer may, under certain circumstances, be required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations

promulgated thereunder (“**FATCA**”) to withhold U.S. tax at a rate of 30% on all or a portion of payments of principal and interest which are treated as “foreign passthru payments” made on or after 1 January 2019, or the date that final regulations defining the term “foreign passthru payment” are published, to an investor or any other financial institution through which payment on the Notes is made that is a non-U.S. financial institution that is not in compliance with FATCA. However, if additional Notes (as described under “*Terms and Conditions of the Notes—Condition 21. Further Issues*”) are issued after the Grandfather Date and are subject to withholding under FATCA, and such additional notes are not distinguishable from previously issued Notes, then withholding agents may treat all such Notes, including any such Notes offered prior to the Grandfather Date, as subject to withholding under FATCA. As of the date of this Base Prospectus, regulations defining the term “foreign passthru payment” have not yet been published.

The Netherlands and the United States have entered into an intergovernmental agreement (an “**IGA**”) to help implement FATCA for certain Netherlands entities. Under the IGA, payments of U.S. source income to Netherlands “financial institutions,” as defined under the IGA (which may include KMG Finance), would not be subject to FATCA withholding provided that they are in compliance with the IGA. However, Netherlands financial institutions would be required to report certain information regarding their respective U.S. account holders to the government of the Netherlands, which information may ultimately be reported to the U.S. Internal Revenue Service. The IGA does not currently require withholding on “foreign passthru payments” (which may include payments on the Notes). Kazakhstan has entered into an intergovernmental agreement with the United States. If applicable, FATCA will be addressed in the relevant Final Terms with respect to Notes issued after the Grandfather Date.

The application of FATCA to interest, principal or other amounts paid on or with respect to the Notes is not currently clear. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

## OVERVIEW

*This overview must be read as an introduction to this Base Prospectus and is qualified by the information contained herein. Any decision to invest in Notes should be based on a consideration of this Base Prospectus, as a whole.*

### Overview of the Company

The Company is the national oil and gas company of Kazakhstan with vertically-integrated upstream, midstream and downstream operations located principally in Kazakhstan. The Company's management believes, based on statistics provided by the Statistics Committee, and the Company's internal information, that, as at 31 December 2017, on a consolidated basis (including the proportionate interest of joint ventures and associates), the Company was the largest crude oil producer in Kazakhstan in terms of production volume. According to information obtained from the Statistics Committee, and the Company's internal information, the Company also operates the largest crude oil and gas pipeline networks in Kazakhstan in terms of length and throughput capacity (primarily through KTO and KTG, respectively). In addition, the Company holds a significant or controlling interest in each of the three principal refineries in Kazakhstan, as well as a major refinery in Romania. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Acquisitions, Discontinued Operations and Loss of Control—KMG International*".

In the year ended 31 December 2017, the Company's production was 23.4 million tonnes (9.9 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of crude oil and 8.2 bcm (3.2 bcm, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of gas. In the year ended 31 December 2016, the Company's production was 22.6 million tonnes (9.8 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of crude oil and 7.4 bcm (3.1 bcm, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of gas.

Based on the Company's internal information and information obtained from the Statistics Committee, the Company's production of crude oil (including the proportionate share of the Company and its subsidiaries in joint ventures and associates) represented 27.1%, 29.0% and 28.5% of the total crude oil production in Kazakhstan in 2017, 2016 and 2015, respectively, while the Company's production of gas (including the proportionate share of the Company and its subsidiaries in joint ventures and associates) represented 15.5%, 15.9% and 16.0% of the total gas production in Kazakhstan in 2017, 2016 and 2015, respectively.

As at 31 December 2017, the total length of the crude oil pipeline networks that the Company owns and operates was 8,037.0 km, and the total length of the gas pipeline networks that the Company owns and operates was 14,031.0 km (primarily through KTO and KTG, respectively). In addition, as at 31 December 2017, the Company had an interest in a further 2,657 km of crude oil pipeline network and 2,759 km of gas pipeline network as part of its joint-venture network.

The Company produced a total of 18.9 million tonnes (16.8 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of refined oil products in 2017, 18.4 million tonnes (16.3 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of refined oil products in 2016 and 18.3 million tonnes (16.1 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of refined oil products in 2015.

The Company calculates its reserves using the Kazakhstan methodology, which differs significantly from the internationally accepted classifications and methodologies established by PRMS and SEC Standards. In particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

According to Kazakhstan methodology, as at 31 December 2017, the Company's A+B+C1 reserves of crude oil were 639.7 million tonnes (219.6 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates), the Company's A+B+C1 reserves of gas condensate were 43.3 million tonnes (34.0 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) and the Company's A+B+C1 reserves of gas were 418.8 bcm (191.9 bcm, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates). The decrease in the Company's A+B+C1 reserves in 2017 primarily reflected the reassessment of the reserves of the Karachaganak Field conducted in 2017, as a result of the recalculation of the extraction factor. In 2017, the Company's A+B+C1 reserves replacement ratio for crude oil (calculated by comparing net new proved crude oil reserves additions in tonnes to yearly crude oil production in tonnes) was (0)% compared to 32.0% (57% excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) in 2016. The decrease in the Company's A+B+C1 reserves replacement ratio in 2017 primarily reflected the reassessment of the reserves of the Karachaganak Field conducted in 2017, as a result of the recalculation of the extraction factor.

The Company's total revenue increased by 32.4% to KZT 2,458.8 billion for the year ended 31 December 2017 from KZT 1,857.4 billion for the year ended 31 December 2016, which itself represented an increase of 69.8% compared to KZT 1,093.8 billion for the year ended 31 December 2015. The Company's net profit increased by 44.2% to KZT 519.5 billion for the year ended 31 December 2017 from KZT 360.2 billion for the year ended 31 December 2016, which itself represented a decrease of 27.2% compared to KZT 494.7 billion for the year ended 31 December 2015.

As at 31 December 2017, the Company had total assets of KZT 13,388.8 billion, as compared to total assets of KZT 11,883.1 billion as at 31 December 2016 and KZT 10,709.7 billion as at 31 December 2015.

The following table sets forth the Company's principal subsidiaries, joint ventures and associates, their principal line of operations and certain information related thereto as at the date of this Base Prospectus:

Name and Line of Operation	% interest as at 31 December 2017	Summary Description of Operations
<i>Upstream Assets</i>		
JSC KazMunaiGas Exploration Production (KMG EP)	63.01 <sup>(1)</sup>	<p>KMG EP is the Company's principal onshore exploration and production subsidiary and is its largest subsidiary based on reserves and production volumes. KMG EP extracts oil and gas from 47 oil and gas fields located in western Kazakhstan, including the Uzen Field, which, as at 31 December 2017, accounted for 14.5% of the Company's reserves of crude oil. In the year ended 31 December 2017, KMG EP produced 8.3 million tonnes of crude oil and 748.6 mcm of gas. As at 31 December 2017, KMG EP had A+B+C1 reserves of crude oil of 191.8 million tonnes, A+B+C1 reserves of gas condensate of 4.4 million tonnes and A+B+C1 reserves of gas of 56,120.1 mcm.</p> <ul style="list-style-type: none"> <li>• <u>"JV "Kazgermunai" LLP (Kazgermunai) – 50.00% (as at 31 December 2017):</u> Kazgermunai is a joint venture between KMG EP and PKI (through a subsidiary), each with a 50% interest, which operates the Akshabulak Field in southern Kazakhstan. In the year ended 31 December 2017, Kazgermunai produced 1.4 million tonnes of crude oil and 279.9 mcm of gas attributable to KMG EP. As at 31 December 2017, Kazgermunai had A+B+C1 reserves of crude oil of 13.6 million tonnes, A+B+C1 reserves of gas condensate of 0.2 million tonnes and A+B+C1 reserves of gas of 3,325.0 mcm attributable to KMG EP.</li> <li>• <u>PetroKazakhstan Inc. (PKI) – 33.00% (as at 31 December 2017):</u> In December 2009, KMG EP completed its acquisition from the Company of 100% of the common shares of KMG PKI Finance, which, in turn, holds a 33% interest in PKI. PKI is KMG EP's principal oil exploration and production associate; it is majority owned by CNPC. PKI operates five production fields in southern Kazakhstan. In the year ended 31 December 2017, PKI produced 11.8 million tonnes of crude oil and 0.1 mcm of gas attributable to KMG EP. As at 31 December 2017, PKI had A+B+C1 reserves of crude oil of 11.8 million tonnes, A+B+C1 reserves of gas condensate of 0.1 million tonnes and A+B+C1 reserves of gas of 4,120.9 mcm attributable to KMG EP.  PKI, in turn, holds a 50% interest in each of the Kazgermunai and JSC Turgai Petroleum. The production and reserves of Kazgermunai and JSC Turgai Petroleum that are attributable to PKI are consolidated in the production and reserves information for PKI presented in this Base Prospectus.</li> <li>• <u>CITIC Canada Energy Limited (CCEL) – 50.00% (as at 31 December 2017):</u> CCEL is a joint venture between KMG EP and CITIC, each with a 50% interest, which operates the Karazhanbas Field in western Kazakhstan. In the year ended 31 December 2017, CCEL produced 1.1 million tonnes of crude oil and 18.0 mcm of gas. As at 31 December 2017, CCEL had A+B+C1 reserves of crude oil of 20.4 million tonnes and A+B+C1 reserves of gas of 128.1 mcm, in each case, which were attributable to KMG EP based on KMG EP's ownership percentage in CCEL.</li> </ul>
Tengizchevroil LLP (TCO)	20.00	<p>TCO is a joint venture among the Company (20%), Chevron Overseas (50%), ExxonMobil Kazakhstan Ventures Inc. (25%) and LukArco B.V. (5%). TCO operates primarily the Tengiz Field in western Kazakhstan, which is among the largest fields in development in the world based on A+B+C1 reserves and which, as at 31 December 2017, accounted for 33.4% of the Company's A+B+C1 reserves of crude oil. In the year ended 31 December 2017, TCO produced 5.7 million tonnes of crude oil and 3,172.0 mcm of gas attributable to the Company. As at 31 December 2017, TCO had A+B+C1 reserves of crude oil of 213.5 million tonnes and A+B+C1 reserves of gas of 108,311.1 mcm attributable to the Company.</p>

Name and Line of Operation	% interest as at 31 December 2017	Summary Description of Operations
North Caspian Project Consortium (NCPC)	8.44	NCPC is a consortium among KMG Kashagan B.V. (in which the Company holds 8.44% for its own account and 8.44% on trust for Samruk-Kazyna) (16.9%), ENI S.p.A. (Agip Caspian Sea B.V.), Exxon Mobil Kazakhstan Inc. and Shell Kazakhstan Development B.V. (each holds 16.8%), Total E&P Kazakhstan (16.81%), CNPC Kazakhstan B.V. (8.33%) and Inpex North Caspian Sea, Ltd (7.56%). Participants in NCPC hold subsoil use rights in respect of the Kashagan Field in the Caspian Sea under a PSA. NCPC is operated by North Caspian Oil Company (“ <b>NCOC</b> ”), a joint venture owned by the consortium participants in the same proportions as their respective interests in NCPC. Commercial production began in September 2013 before being halted in 2014 and re-started in November 2016. As at 31 December 2017, NCPC had A+B+C1 reserves of crude oil of 71.8 million tonnes, A+B+C1 reserves of gas condensate of 1.2 million tonnes and A+B+C1 reserves of gas of 49,056.3 mcm attributable to the Company, which accounted for 11.2%, 2.8% and 11.7% of the Company’s A+B+C1 reserves of crude oil and gas, respectively, based on the Company’s 8.44% interest in NCPC. In the year ended 31 December 2017, NCPC produced 686.0 million tonnes of crude oil and 404.0 mcm of gas attributable to the Company. In October 2015, Coöperatieve KazMunaiGaz U.A. sold 50% of its shares in KMG Kashagan B.V. to Samruk-Kazyna for an amount of U.S.\$4.7 billion, with a call option to buy back all or part of the shares at any time between 1 January 2018 and 31 December 2020. In January 2018, the exercise period for the call option was extended to between 1 January 2020 and 31 December 2022. Samruk-Kazyna’s interest in KMG Kashagan B.V. is held in trust management by Coöperatieve KazMunaiGaz U.A., a subsidiary of the Company.
JSC Mangistaumunaigas (MMG)	50.00	MMG is an upstream oil and gas company owned by MIBV, a joint venture between KMG and CNPC E&D, with each partner having a 50% interest. KMG acquired its interest in MMG on 25 November 2009. MMG is one of Kazakhstan’s largest oil producers and operates the Kalamkas Field, one of the largest fields in Kazakhstan, pursuant to a Subsoil Use Agreement that expires in 2027. In the year ended 31 December 2017, MMG produced 3.2 million tonnes of crude oil and 377.6 mcm of gas attributable to the Company. As at 31 December 2017, the Kalamkas Field had estimated A+B+C1 reserves of crude oil of 27.5 million tonnes and A+B+C1 reserves of gas of 12,545.8 mcm attributable to the Company, representing 3.9% and 2.7% of the Company’s A+B+C1 reserves of crude oil and gas, respectively. MMG also operates the Zhetybai Field, which, as at 31 December 2017, had estimated A+B+C1 reserves of crude oil of 25.5 million tonnes and A+B+C1 reserves of gas of 12,632.1 mcm attributable to the Company, representing 3.6% and 2.7% of the Company’s A+B+C1 reserves of crude oil and gas, respectively.
Karachaganak Petroleum Operating B.V. (KPO)	10.00	KPO is a consortium operating under a joint operating agreement among the Company (through its wholly-owned subsidiary, KMG Karachaganak LLP) (10%), Shell (29.25%), Agip (29.25%), Chevron (18.0%) and Lukoil (13.5%). KPO operates the Karachaganak Field, which is one of the world’s largest gas and condensate fields and the largest gas producing field in Kazakhstan. As at 31 December 2017, KPO had A+B+C1 reserves of crude oil of 8.4 million tonnes, A+B+C1 reserves of gas condensate of 26.1 million tonnes and reserves of gas of 83,338.7 mcm attributable to the Company, representing 1.3%, 58.7% and 17.8% of the Company’s A+B+C1 reserves of crude oil and gas, respectively. In the year ended 31 December 2017, KPO produced 1.1 million tonnes of crude oil and 1,892.4 mcm of gas attributable to the Company.
<i>Midstream Assets</i>		
JSC KazTransOil (KTO)	90.00 (plus one share)	KTO is a transportation company, which owns and operates the largest crude oil pipeline network in Kazakhstan. The KTO pipeline network principally includes the Uzen-Atyrau-Samara pipeline (the “ <b>UAS pipeline</b> ”) in western Kazakhstan, which delivers crude oil to Russia’s Transneft pipeline network for delivery to ports on the Black Sea or to Europe directly. As at 31 December 2017, the KTO pipeline network consisted of 5,377 km of pipe with diameters between 0.5 m and 1.8 m. In the year ended 31 December 2017, the KTO pipeline network transported 24.6 million tonnes of crude oil.

Name and Line of Operation	% interest as at 31 December 2017	Summary Description of Operations
JSC KazTransGas (KTG)	100.00	<ul style="list-style-type: none"> <li> <p data-bbox="735 282 1453 331"><u>Limited Liability Partnership Kazakhstan-China Pipeline (KCP) - 50.00% (as at 31 December 2017):</u></p> <p data-bbox="735 347 1453 712">KCP is a joint venture between KTO and CNODC, each with a 50% interest. KCP constructed the Atasu-Alashankou pipeline and the Kenkiyak-Kumkol pipeline, comprising two of three pipeline systems forming the KC Pipeline network built to create a transport corridor for the export of Kazakhstan oil to China. As at 31 December 2017, the Atasu-Alashankou pipeline had a total length of 962 km of pipe with diameters between 0.5 m and 1.8 m. In the year ended 31 December 2017, the Atasu-Alashankou pipeline transported 12.3 million tonnes of crude oil, which amounts are not included in the KTO pipeline network volume reported above. The Kenkiyak-Kumkol pipeline was completed in October 2009 with a total of 794 km of pipe with diameters between 0.5 m and 1.8 m. In the year ended 31 December 2017, the Kenkiyak-Kumkol pipeline transported 5.2 million tonnes of crude oil, which amounts are not included in the KTO pipeline network volume reported above. Pursuant to an agreement between the Company and CNODC, the capacity of the Kenkiyak-Kumkol pipeline increased to 20 million tonnes of crude oil in 2015.</p> </li> </ul>
		<ul style="list-style-type: none"> <li> <p data-bbox="735 741 1453 790"><u>JSC MunayTas North West Pipeline Company JV (MunayTas) - 51.00% (as at 31 December 2017):</u></p> <p data-bbox="735 806 1453 1144">MunayTas is a joint venture between KTO, with a 51% interest, and CNPC E&amp;D, with a 49% interest. MunayTas constructed the Kenkiyak-Atyrau pipeline running from the city of Kenkiyak located in the Aktobe oblast region of western Kazakhstan to the city of Atyrau and comprising one of three pipeline systems forming the KC Pipeline (together with the Atasu-Alashankou pipeline and the Kenkiyak-Kumkol pipeline). The Kenkiyak-Atyrau pipeline connects to the UAS Pipeline and the pipeline extending from the oil fields in western Kazakhstan through Russia to CPC's export marine terminal on the Black Sea near the Russian part of Novorossiysk (the "<b>CPC Pipeline</b>"). The Kenkiyak-Atyrau pipeline is operated by KTO. As at 31 December 2017, the Kenkiyak-Atyrau pipeline network had a total of 448.9 km of pipe with diameters between 0.5 m and 1.8 m. In the year ended 31 December 2017, the Kenkiyak-Atyrau pipeline transported 3.7 million tonnes of crude oil, which amounts are not included in the KTO pipeline network volume reported above.</p> </li> </ul>
		<p data-bbox="639 1171 1453 1391">KTG is a transportation company, which owns a 100% interest in several domestic regional gas distribution companies and a 100% interest in ICA, which in turn operates the largest natural gas pipeline network in Kazakhstan. The ICA pipeline network includes the Central Asia Centre pipeline, the shortest pipeline route from the gas producing regions of Central Asia (principally Turkmenistan and Uzbekistan) through Russia to Europe. As at 31 December 2017, the ICA pipeline network had a total of 14,031.0 km of pipe comprised of 131 km of pipe with diameters less than 0.5 m and 13,900.0 km of pipe with diameters between 0.5 m and 1.4 m. In the year ended 31 December 2017, the ICA pipeline network transported 46.9 bcm of gas. Under the Gas Law, KTG has been appointed as the "national operator" for the transportation of gas.</p>
		<ul style="list-style-type: none"> <li> <p data-bbox="735 1420 1453 1447"><u>Asia Gas Pipeline LLP (AGP) - 50.00% (as at 31 December 2017):</u></p> <p data-bbox="735 1462 1453 1704">AGP is a joint venture between KTG and CNPC (acting through Trans-Asia Gas Pipeline Company Limited), each with a 50% interest, formed to construct and operate the Turkmenistan-China gas pipeline across Kazakhstan, which transmits gas from other Central Asian Republics to major population centres in southern Kazakhstan to China (the "<b>Asia Gas Pipeline</b>"). On 12 December 2009, the first phase of this project, comprising a pipeline with a throughput capacity of 10 bcm per year, was completed. The second phase of the project was completed in December 2012 and the third phase is expected to be completed in and is expected to be completed in March 2019. In the year ended 31 December 2017, the Asia Gas Pipeline transported 37.7 bcm of gas.</p> </li> </ul>
		<ul style="list-style-type: none"> <li> <p data-bbox="735 1733 1453 1760"><u>Beineu-Shymkent Gas Pipeline LLP (BSGP) – 50.00% (as at 31 December 2017):</u></p> <p data-bbox="735 1776 1453 2009">BSGP is a joint venture between KTG and CNPC (acting through Trans-Asia Gas Pipeline Company Limited), each with a 50% interest, formed to construct and operate the Beineu-Bozoi-Shymkent Gas Pipeline. The first phase of the project, comprising the Bozoi-Shymkent pipeline with a throughput capacity of 6 bcm per year, was completed in 2015. In December 2016, the second phase of the Beineu-Bozoi-Shymkent Gas Pipeline project was completed. In November 2017, a head compressor station at Bozoi and a line compressor station at Karaozek were put into operation, which increased the capacity of the Beineu-Bozoi-Shymkent Gas Pipeline to 10 bcm per year. In the year ended 31 December 2017, the Beineu-Bozoi-Shymkent Gas Pipeline transported 3.4 bcm of gas.</p> </li> </ul>

Name and Line of Operation	% interest as at 31 December 2017	Summary Description of Operations
<i>Downstream Assets</i>		
<p>Prior to December 2017, KMG RM was the Company's principal refining, marketing and trading company. On 30 November 2017, a joint decision of the shareholders of the Company and the shareholders of KMG RM approved the merger of KMG RM with the Company, with the aim of increasing efficiency and eliminating the duplication of activities and responsibilities. The merger was completed on 1 December 2017, in accordance with provisions of the Civil Code of the Republic of Kazakhstan. The joint decision of the shareholders provided for the expansion of the Company's principal operations listed in its charter to include, amongst others, refining crude oil, operating filling station networks and trading the Company's crude oil and oil products. As a result of the merger, the Company has a (held directly in respect of Atyrau Refinery and Pavlodar Refinery and indirectly through Valseira Holding B.V. in respect of the Shymkent Refinery) significant or controlling interest in all three of Kazakhstan's principal oil refineries: Atyrau Refinery, Pavlodar Refinery and (through Valseira Holdings B.V.) Shymkent Refinery. In the year ended 31 December 2017, the Atyrau Refinery, Pavlodar Refinery and Shymkent Refinery collectively produced 13.1 million tonnes of refined oil products.</p>		
<u>Pavlodar</u>	100.00	The Company holds a 100% interest in Pavlodar Oil Chemistry Refinery LLP. As at 31 December 2017, the Pavlodar Refinery had a design capacity of 20,548 tonnes of oil per day. In the year ended 31 December 2017, the Pavlodar Refinery refined 4.7 million tonnes of crude oil and produced 4.2 million tonnes of refined oil products.
<u>Atyrau</u>	99.53	As at 31 December 2017, the Atyrau Refinery had a design capacity of 13,900 tonnes of oil per day and its actual refining production was 13,275 tonnes of oil per day. In the year ended 31 December 2017, the Atyrau Refinery refined 4.7 million tonnes of crude oil and produced 4.5 million tonnes of refined oil products.
<u>Shymkent</u>	49.72	The Company, through Valseira Holdings B.V., indirectly owns a 49.72% interest in PetroKazakhstan Oil Products LLP, which, in turn, owns the Shymkent Refinery. The remaining interest in PetroKazakhstan Oil Products LLP is held by CNPC. As at 31 December 2017, the Shymkent Refinery had a design capacity of 16,438 tonnes of oil per day and its actual refining production was 12,493 tonnes of oil per day. In the year ended 31 December 2017, the Shymkent Refinery refined 4.7 million tonnes of crude oil and produced 4.4 million tonnes of refined oil products.
KMG International	100.00	In March 2014, the Board of Directors of The Rompetrol Group N.V. changed its corporate name to KazMunayGas International N.V., in accordance with the Company's strategy to promote a single brand across the Group. KMG International's retail network in Romania, France and Spain offers a number of vehicle fuels, which are primarily supplied by the Petromidia Refinery. It also sells other refined oil products through various KMG International-controlled entities. KMG International owns and operates the Petromidia Refinery and the Vega Refinery. The Petromidia Refinery has a designed refining capacity of 5.0 million tonnes of crude oil per year and an actual refining capacity of 5.4 million tonnes of crude oil per year. The Vega Refinery has a designed and actual refining capacity of 0.3 million tonnes of crude oil per year. In the year ended 31 December 2017, KMG International produced 5.9 million tonnes of refined oil products, 5.7 million tonnes of which was produced at the Petromidia Refinery. In December 2015, the Company announced its intention to sell 51% of its interest in KMG International. This disposal, which is in accordance with the Government's 2016 Complex Privatisation Plan, was approved by the Romanian authorities in July 2017; however, on 15 December 2017, after public statements were made by the Prime Minister and the Minister of Energy of Romania indicating their refusal to extend an existing agreement with KMG International regarding the settlement of historical debts, the Company and CEFC signed an agreement to postpone the closing date of the Proposed KMG International/CEFC Sale to 30 June 2018.

Notes:

- (1) As at 31 December 2017, as a percentage of ordinary voting shares of KMG EP. In December 2017, KMG EP launched a conditional tender offer to repurchase all of its outstanding GDRs and, in January 2018, KMG EP launched an unconditional offer to repurchase on KASE all of its outstanding common shares. As a result of these transactions, the percentage of ordinary voting shares of KMG EP owned by the Company will increase. On 20 February 2018, KMG EP announced that the Company and KMG EP together held approximately 99.2% of the common shares (including common shares represented by GDRs) of KMG EP. See "*—Strategy*" and "*—Exploration and Production—Significant Production Fields of KMG EP*".
- (2) For details of the throughput capacity of the Company's pipelines, see "*Business—Transportation*".

See "*Business—Corporate Structure*" for an organisational chart reflecting the principal subsidiaries.

### Shareholder and Relationship with the State

The State indirectly (through Samruk-Kazyna and NBK) wholly owns the Company. See "*Share Capital, Shareholders and Related Party Transactions—Samruk-Kazyna*". Accordingly, the Government has a strong influence over decisions at the Company and is able to determine the Company's strategy, make policy decisions in relation to the Company's business (including investments, borrowings, risk management and asset allocation) and supervise the implementation of such decisions. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government may cause the Company or member of the Group to engage in business practices that may not be in the interests of the Noteholders*".

As the national oil and gas company, the Company has been designated by the Government to represent interests of the State in new oil and gas projects, as well as to be the beneficiary of the State's pre-emptive right (the "**State's Pre-Emptive Right**") to acquire interests in various exploration and production licences and contracts (since 1999 subsoil operations have been based on contracts only) and PSAs related to deposits of strategic importance, as well as shares (participation interests) in subsoil users and their controlling entities, when such agreements are offered for sale (collectively, the "**Subsoil Use Agreements**") or when the shares in such entities are offered for sale. Pursuant to the Gas Law, KTG has been appointed as the national operator for the transportation of gas and, as the "national operator", KTG has been given a priority right to purchase all associated gas produced in Kazakhstan (on behalf of the State) at a regulated price. See "*Risk Factors—Risks Relating to the Company's Business—The Government has appointed KTG as the "national operator" for the transportation of gas.*" and "*Business—Transportation—Transportation and Storage of Gas—Overview*".

In 2002, the Government clarified the division of functions between the Company and petroleum-related state entities (Government Resolution № 707 dated 29 June 2002). In 2002, the Government also adopted rules for the Company to represent the State's interests in Subsoil Use Agreements by way of the Company's mandatory participation in petroleum projects (Government Resolution № 708 dated June 29, 2002, currently Joint Resolution № 397 of the Minister of Investments and Development and № 257 the Minister of Energy). The Company was empowered to act as the "authorised body" with regards to control, monitoring and regulation of petroleum operations under PSAs.

The Presidential Decree of 12 March 2010 restructured several Government ministries and, in particular, created the Ministry of Oil and Gas (the "**MOG**"). According to the 2010 Subsoil Law and the Regulations on the MOG (approved by Government Resolution № 454, dated 20 May 2010), certain non-commercial or regulatory functions of the Company as an "authorised body" of the Government, including, among other things, representing the State under the PSAs for the North Caspian Project and the Karachaganak Field, were transferred to the MOG, which has since been replaced by the Ministry of Energy. See "*The Oil and Gas Industry in Kazakhstan—Regulatory Body—Ministry of Energy*". In December 2017, the Parliament adopted the Subsoil Code, which will enter into force and replace the 2010 Subsoil Law on 29 June 2018. The Subsoil Code retains the Government's control over the natural resources industry, including oil and gas production.

In June 2010, the Company established LLP "PSA", a 100%-owned subsidiary (as at 31 December 2017) with charter capital of KZT 4,077.0 million. LLP "PSA" is responsible for the PSAs covering the North Caspian Project (Kashagan Field), Karachaganak Field and Dunga Field, respectively. See "*Share Capital, Shareholders and Related Party Transactions—LLP "PSA"*".

Neither the creation of the MOG in 2010, the subsequent establishment of LLP "PSA" and the delegation to it of the functions of the "authorised body" under the PSAs, nor re-organisations of the Government, including, in particular, the creation of the Ministry of Energy as the successor to the MOG, or the passing of the Subsoil Code have to date, or are expected to, adversely affect the Company's status as the designated beneficiary of the State's Pre-Emptive Right to acquire interests in Subsoil Use Agreements or the Company's reserves or other commercial interests.

### **Credit Ratings**

The Company has been assigned long-term foreign currency ratings of Baa3 by Moody's, BB- by S&P and BBB- by Fitch.

In June 2017, Fitch affirmed the Company's long-term foreign currency rating and outlook. On 1 August 2017, Moody's revised the Company's outlook from negative to stable while affirming its long-term foreign credit rating. On 23 November 2017, S&P downgraded the Company's long-term foreign currency rating from BB to BB- citing the reduced readiness of the Government to support the Company, as well as the complicated procedure for state support, via Samruk-Kazyna.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. The credit ratings included or referred to in this Base Prospectus will be treated for the purposes the CRA Regulation as having been issued by Moody's, S&P and Fitch, respectively. Each of Moody's, S&P and Fitch are established in the European Union and registered under the CRA Regulation.

See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—Most of the Company's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Company is largely dependent on the economic and political conditions prevailing in Kazakhstan*" and "*Risk Factors—Risk Factors Relating to the Notes—Credit ratings do not reflect all risks*".



## **Overview of KMG Finance**

KMG Finance was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid* or B.V.) under, and subject to, the laws of the Netherlands on 9 June 2006 for an unlimited duration. KMG Finance has its corporate seat in Amsterdam. KMG Finance is a direct, wholly-owned subsidiary of Coöperatieve KazMunaiGaz U.A., registered in the Netherlands. The Company is a member of Coöperatieve KazMunaiGaz U.A., together with LLP KMG KumKol, a wholly-owned subsidiary of the Company. As set out in Article 3 of its Articles of Association, KMG Finance was incorporated for the purpose of, among other things, borrowing and/or lending moneys, entering into industrial, financial and commercial activities (including but not limited to oil trading) and all such things as are incidental or conducive to the objects listed in Article 3 of its Articles of Association. KMG Finance has been established as a special purpose vehicle and has no employees or subsidiaries.

## Overview of the Programme

The following general description does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus. Words and expressions defined in “Overview of the Provisions Relating to the Notes in Global Form” or “Terms and Conditions of Notes” below shall have the same meanings in this general description.

<b>Issuer</b> .....	JSC NC “KazMunayGas” or KazMunaiGaz Finance Sub B.V., as specified in the relevant Final Terms.
<b>Guarantor (in respect of Notes issued by KMG Finance)</b> .....	JSC NC “KazMunayGas”.
<b>Arrangers</b> .....	Citigroup Global Markets Limited, JSC Halyk Finance, J.P. Morgan Securities plc, MUFG Securities EMEA plc and UBS AG, London Branch.
<b>Dealers</b> .....	Citigroup Global Markets Limited, JSC Halyk Finance, J.P. Morgan Securities plc, MUFG Securities EMEA plc and UBS AG, London Branch appointed in accordance with the Dealer Agreement.
<b>Trustee</b> .....	Citicorp Trustee Company Limited.
<b>Principal Paying Agent, Transfer Agent and Calculation Agent</b> .....	Citibank, N.A., London Branch.
<b>Registrar, Paying Agent and Transfer Agent</b> .....	Citigroup Global Markets Deutschland AG.
<b>Programme Size</b> .....	U.S.\$10,500,000,000 (or its equivalent in other currencies calculated in accordance with the provisions of the Dealer Agreement) outstanding at any time. The Issuer may increase the amount of the Programme at any time in accordance with the Dealer Agreement.
<b>Issuance</b> .....	<p>Notes will be issued on a syndicated or non-syndicated basis. Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.</p> <p>Each Tranche will be the subject of Final Terms which, for the purposes of that Tranche only, completes the Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes are the Conditions of the Notes as completed by the relevant Final Terms.</p> <p>See “Terms and Conditions of the Notes—Condition 1. Form, Denomination and Title” and “Form of Final Terms”.</p>
<b>NBK Permissions</b> .....	No Notes may be issued, placed or listed outside Kazakhstan without the prior permissions of the NBK for issuance and placement of the Notes outside of Kazakhstan.

<b>Forms of Notes</b> .....	<p>Each Series of Notes will be issued in registered form only. The Regulation S Notes and the Rule 144A Notes will initially be represented by the Regulation S Global Note and the Rule 144A Global Note, respectively. The Global Notes will be exchangeable for Definitive Notes (as defined herein) in the limited circumstances specified in the Global Notes.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 1. Form, Denomination and Title</i>”.</p>
<b>Clearing Systems</b> .....	<p>Unless otherwise agreed, DTC (in relation to any Rule 144A Notes) and Clearstream, Luxembourg and Euroclear (in relation to any Regulation S Notes) and such other clearing system as may be agreed between the relevant Issuer, and, if the relevant Issuer is KMG Finance, the Company, the Principal Paying Agent, the Trustee and the relevant Dealer(s).</p> <p>See “<i>Overview of the Provisions Relating to the Notes in Global Form</i>”.</p>
<b>Currencies</b> .....	<p>Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements, as specified in the relevant Final Terms. Payments in respect of Notes may, subject to such compliance, be made in, and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.</p> <p>See “<i>Form of Final Terms</i>”.</p>
<b>Status of the Notes</b> .....	<p>The Notes will constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Issuer which rank and will rank <i>pari passu</i> amongst themselves and <i>pari passu</i> in right of payment with all other present and future unsubordinated obligations of the relevant Issuer together, if applicable, with the Company, save only for such obligations as may be preferred by mandatory provisions of applicable law.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 3(a). Status of the Notes</i>”.</p>
<b>Status of the Guarantee</b> .....	<p>Where KMG Finance is the Issuer of the Notes, the Notes will be unconditionally and irrevocably guaranteed by the Company as Guarantor. The obligations of the Company under the Guarantee in respect of the relevant Notes will constitute direct, general, unconditional and (subject to Condition 4(a)) unsecured and will rank <i>pari passu</i> amongst themselves and <i>pari passu</i> in right of payment with all other present and future unsubordinated obligations of the Company save only for such obligations as may be preferred by mandatory provisions of applicable law.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 3(b). Status of the Guarantee</i>”.</p>
<b>Issue Price</b> .....	<p>Notes may be issued at any price, as specified in the relevant Final Terms.</p> <p>See “<i>Form of Final Terms</i>”.</p>
<b>Maturities</b> .....	<p>Any maturity, as specified in the relevant Final Terms, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 12. Redemption, Purchase and Options</i>” and “<i>Form of Final Terms</i>”.</p>

<b>Redemption</b> .....	<p>Notes may be redeemable at par or at such other Redemption Amount as may be specified in the relevant Final Terms. Notes may also be redeemable on such dates as may be specified in the relevant Final Terms.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 12. Redemption, Purchase and Options</i>” and “<i>Form of Final Terms</i>”.</p>
<b>Optional Redemption</b> .....	<p>Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) or the Noteholders to the extent (if at all) specified in the relevant Final Terms.</p> <p>Notes may also be redeemed at the option of the Noteholder upon the occurrence of a Change of Status (as defined in Condition 12(d)).</p> <p>The Issuer may at its option redeem Notes in any Series in whole but not in part in accordance with Condition 12(f) (<i>Make-Whole Redemption at the Option of the Issuer</i>) and in whole or in part in accordance with Condition 12(g) (<i>Optional Redemption at Par</i>).</p> <p>See “<i>Terms and Conditions of the Notes—Condition 12. Redemption, Purchase and Options</i>” and “<i>Form of Final Terms</i>”.</p>
<b>Tax Redemption</b> .....	<p>Except as described in “<i>Optional Redemption</i>” above or following an Event of Default, early redemption will only be permitted for taxation reasons as described in Condition 12(c).</p> <p>See “<i>Terms and Conditions of the Notes—Condition 12(c). Redemption for Taxation Reasons</i>”.</p>
<b>Denominations</b> .....	<p>The Notes will be issued in such denominations as may be agreed between the relevant Issuer together, if applicable, with the Company and the relevant Dealer(s) save that the minimum denomination of each Note will be such amount as may be allowed or required from time-to-time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant specified currency and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than Euros, the equivalent amount in such currency).</p> <p>However, for so long as the Notes are represented by a Global Note, and the relevant clearing system(s) so permit, the Notes shall be tradeable only in the minimum authorised denomination of €100,000 and higher integral multiples of any smaller amount specified in the relevant Final Terms.</p> <p>In addition, interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$200,000 or its equivalent in another currency.</p> <p>Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 or its equivalent in another currency.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 1. Form, Denomination and Title</i>”.</p>
<b>Interest</b> .....	<p>Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 11. Interest and other Calculations</i>” and “<i>Form of Final Terms</i>”.</p>

<b>Ratings</b> .....	<p>Tranches of Notes may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>
<b>Fixed Rate Notes</b> .....	<p>Fixed interest will be payable in arrear on such date or dates as may be agreed between the relevant Issuer together, if applicable, with the Company and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s).</p> <p>See “<i>Terms and Conditions of the Notes—Condition 11(a). Interest on Fixed Rate Notes</i>” and “<i>Form of Final Terms</i>”.</p>
<b>Floating Rate Notes</b> .....	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</li> <li>(b) on the basis of a reference rate (LIBOR or EURIBOR) appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the relevant Issuer together, if applicable, with the Company and the relevant Dealer(s).</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the relevant Issuer together, if applicable, with the Company and the relevant Dealer(s) for each Series of Floating Rate Notes.</p> <p>Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer, together, if applicable, with the Company and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).</p> <p>See “<i>Terms and Conditions of the Notes—Condition 11(b). Interest on Floating Rate Notes</i>” and “<i>Form of Final Terms</i>”.</p>
<b>Negative Pledge</b> .....	<p>The Notes will have the benefit of a negative pledge.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 4. Negative Pledge</i>”.</p>
<b>Covenants</b> .....	<p>The Notes will have the benefit of the following covenants: (i) limitation on payment of dividends; (ii) limitation on sales of assets; (iii) financial information; (iv) limitations on dividends from material subsidiaries; (v) mergers and consolidations; and (vi) change of business.</p> <p>See “<i>Terms and Conditions of the Notes</i>”.</p>

<b>Cross Default</b> .....	<p>The Notes will have the benefit of a cross default clause.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 16(c). Cross-Default</i>”.</p>
<b>Taxation</b> .....	<p>All payments in respect of Notes will be made free and clear of withholding taxes of the Netherlands and Kazakhstan unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 14) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.</p> <p>Where KMG Finance acts as the Issuer of Notes under the Programme, all payments by the Issuer under the Notes will be made without the imposition of any Dutch withholding taxes. Where the Company acts as the Guarantor of Notes issued by KMG Finance under the Programme, payments of interest from the Guarantor to the Issuer to fund the Issuer’s obligations to make payments under the Notes will be subject to Kazakhstan withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Payments under the Guarantee in relation to the Notes will be subject to Kazakhstan withholding tax at a rate of 20% unless reduced by an applicable double taxation treaty.</p> <p>Where the Company acts as the Issuer of Notes under the Programme, payments of interest from the Company to Non-Kazakhstan Holders (as defined in “<i>Taxation—Kazakhstan Taxation</i>”) will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. The withholding tax on interest would not apply if the Notes are, as at the date of accrual of such interest, admitted on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE).</p> <p>See “<i>Taxation</i>”.</p> <p>In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by The Netherlands or Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax on payments of principal and interest in respect of the Notes (including, if applicable, payments by the Guarantor under the Guarantee), the relevant Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as will result in receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction on account of any such taxes had been required.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 14. Taxation</i>”.</p>
<b>ERISA</b> .....	<p>Generally, Notes may be acquired held by employee benefit plans and other plans that are subject to ERISA (as defined below) or Section 4975 of the Code (as defined below) and by other employee benefit plans, subject to certain restrictions. Purchaser, transferees and holders of Notes will be deemed to have given certain assurances regarding ERISA and Section 4975 of the Code. See “<i>Certain ERISA and Other Considerations</i>”.</p>
<b>Governing Law</b> .....	<p>English law.</p> <p>See “<i>Terms and Conditions of the Notes—Condition 24(a). Governing Law</i>”.</p>

**Listing**..... Application has been made for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the Regulated Market. This Base Prospectus and any supplement will only be valid for listing Notes on the Official List and admitting Notes to trading on the Regulated Market in respect of Notes having a denomination of at least €100,000 (or its equivalent in any other currency as at the date of issue of the Notes) during a period of twelve months from the date of this Base Prospectus.

In addition, unless otherwise agreed with the relevant Dealer(s) and provided for in the Final Terms, the Company will use its reasonable endeavours to cause all Notes issued by the Company under the Programme to be admitted to the “bonds” category of the “debt securities” sector of the “main” platform of the official list of the KASE as from (and including) the Issue Date, and the Company will use its reasonable endeavours to cause the Notes issued by KMG Finance to be listed on the KASE.

**Selling Restrictions**..... The offering and sale of Notes is subject to applicable laws and regulation, including, without limitation, those of the European Economic Area, Kazakhstan, the Netherlands, the United Kingdom and the United States.

See “*Subscription and Sale*”.

**Risk Factors** ..... Investing in the Notes involves a high degree of risk.

See “*Risk Factors*”.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be used by the Company for its general corporate purposes, which may include refinancing, retiring or otherwise restructuring existing indebtedness.



# KMG FINANCE

## General

KMG Finance was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid* or B.V.) under and subject to the laws of the Netherlands on 9 June 2006 for an unlimited duration. KMG Finance has its corporate seat in Amsterdam. The business address of KMG Finance is Strawinskylaan 723 (WTC Tower A, 7th Floor), 1077 XX Amsterdam, the Netherlands and its telephone number is +31 (0)20 7470054. KMG Finance is registered with the Chamber of Commerce in the Netherlands under № 34249875. KMG Finance is a direct, wholly-owned subsidiary of Coöperatieve KazMunaiGaz U.A., registered in the Netherlands. The Company is a member of Coöperatieve KazMunaiGaz U.A., together with LLP KMG KumKol, a wholly-owned subsidiary of the Company.

As at 31 December 2017, the authorised share capital of KMG Finance was €90,000, divided into ordinary registered shares with a par value of €100 each. As at the date of KMG Finance's incorporation, KMG Finance's total paid-in capital was €18,000, consisting of 180 ordinary shares, which were issued and fully paid at par and are directly owned by Coöperatieve KazMunaiGaz U.A. Share premium contributions of U.S.\$7,800,000, U.S.\$120,500 and U.S.\$169,850 were made to KMG Finance's capital in 2008, 2016 and 2017, respectively, in each case, in the ordinary course and in compliance with applicable Netherlands laws and regulations.

## Business

As set out in Article 3 of its Articles of Association, KMG Finance was incorporated for the purpose of, among other things, borrowing and/or lending moneys, entering into industrial, financial and commercial activities (including but not limited to oil trading) and all such things as are incidental or conducive to the objects listed in Article 3 of its Articles of Association. KMG Finance has been established as a special purpose vehicle and has no employees or subsidiaries.

In October 2010, the Company was substituted as primary obligor in respect of the Series 1 Notes, the Series 2 Notes, the Series 3 Notes and the Series 4 Notes issued under the Programme, which represented all such Notes then issued by KMG Finance under the Programme, and KMG Finance has not issued any further Notes under the Programme. Upon such substitution, KMG Finance was released from its obligations in respect of such Notes and the Company's guarantee thereof was cancelled, although no other changes to the terms of such Notes were affected.

KMG Finance has no outstanding indebtedness in the nature of borrowings, guarantees or contingent liabilities as at the date of this Base Prospectus. In March 2016, KMG Finance, as seller, and KMG, as guarantor, entered into an advanced sale of oil which was extended in 2017. See "*Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—TCO—TCO Advanced Oil Sale Transaction*".

There are no governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which KMG Finance is aware, during the last 12 months preceding the date of this Base Prospectus, which may have, or have had in the recent past, significant effects on the financial position or profitability of KMG Finance.

## Management

KMG Finance has two managing directors, Mr. Aslan Aubekerov, who has his business address at the business address of KMG Finance set out below; and Mr. Otmar E. Carolus, who has his business address at the business address of KMG Finance; and one Supervisory Director: Mr. Dauren Karabayev, who is Executive Vice President and Chief Financial Officer of the Company and has his business address at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

There is no potential conflict of interest between any duties of the managing directors towards KMG Finance and their private interests and/or other duties.

## General Information

The business address of KMG Finance is Strawinskylaan 723 (WTC Tower A, 7<sup>th</sup> Floor), 1077 XX Amsterdam, the Netherlands and its telephone number is +31 (0)20 7470054.

KMG Finance has obtained all necessary consents, approvals and authorisations in the Netherlands in connection with the issuance of the Notes and the performance of its obligations in relation thereto.

KMG Finance is not required to obtain a licence from the Netherlands Central Bank (*De Nederlandsche Bank*) pursuant to Article 2:11 of the Dutch Act on financial supervision (*Wet op het financieel toezicht*) (“**FSA**”).

KMG Finance complies and will continue to comply with any applicable financial reporting obligations for issuers whose securities are admitted to trading on a regulated market (as defined in MiFID II) in accordance with the EU Transparency Directive (2004/109/EC, as amended) and the relevant sections of Chapter 5.1A of the FSA. So long as (i) the registered seat for KMG Finance is in the Netherlands, (ii) the Notes are listed on a regulated market in a Member State and (iii) Notes are merely offered to qualified investors (as defined in Section 1:1 FSA) in the Netherlands or such offer is otherwise made in circumstances in which Section 5:20(5) FSA is not applicable, KMG Finance may opt for disclosure to be made in either the Member State where KMG Finance is established (*i.e.*, the Netherlands) or the Member State where the Notes are admitted to trading on a regulated market.

The obligations under the Dutch law provisions implementing the EU Transparency Directive are qualified by the fact that certain provisions do not apply for issuers, such as KMG Finance, that exclusively issue bonds or other debt securities that are issued with a nominal value per unit of at least €100,000 (or the equivalent in any other currency).

KMG Finance will be subject to insider trading and market abuse rules in the Netherlands pursuant to the European Regulation on market abuse (EU) No 596/2014 in relation to any transactions conducted by it in any Notes that are listed on a regulated market.

## SELECTED FINANCIAL INFORMATION

The financial information of the Company set forth below as at and for the years ended 31 December 2017, 2016 and 2015 has (as the case may be) been extracted from, should be read in conjunction with, and is qualified in its entirety by, the 2017 Financial Statements and the 2016 Financial Statements, in each case, including the notes thereto, contained elsewhere in this Base Prospectus.

Prospective investors should read the selected financial information in conjunction with the information contained in the “Risk Factors,” “Management’s Discussion and Analysis of Results of Operations and Financial Performance,” “Business”, and the 2017 Financial Statements and the 2016 Financial Statements, in each case, including the notes thereto, and other financial data appearing elsewhere in this Base Prospectus.

### Consolidated Statement of Financial Position Data

	As at 31 December				% change between 31 December	
	2017 <sup>(1)</sup> (unaudited) (U.S.\$ millions)	2017	2016 <sup>(2)</sup>	2015 <sup>(3)</sup>	2017 and 2016	2016 and 2015
			(KZT billions)			(%)
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment .....	10,107.7	3,359.1	2,953.1	2,661.3	13.7	11.0
Exploration and evaluation assets .....	762.3	253.3	231.6	208.5	9.4	11.0
Investment property .....	82.5	27.4	29.5	29.3	(7.0)	0.7
Intangible assets .....	347.3	115.4	116.5	119.9	(0.9)	(2.9)
Long-term bank deposits .....	146.0	48.5	50.0	48.8	(3.0)	2.5
Investments in joint ventures and associates ....	11,465.6	3,810.4	3,706.3	3,422.9	2.8	8.3
Deferred income tax assets .....	196.0	65.1	71.9	107.5	(9.4)	(33.1)
VAT receivable .....	290.9	96.7	71.9	42.5	34.4	69.4
Advances for non-current assets .....	375.9	124.9	139.2	133.7	(10.3)	4.1
Bonds receivable from related party .....	42.0	14.0	37.7	37.4	(62.9)	0.8
Note receivable from a shareholder of a joint venture .....	34.7	11.5	16.7	21.6	(31.0)	(22.7)
Note receivable from associate .....	82.5	27.4	34.8	42.3	(21.3)	(17.7)
Loans due from related party .....	1,864.3	619.6	476.8	433.4	29.9	10.0
Other financial assets .....	12.5	4.2	—	—	—	—
Other non-current assets .....	42.2	14.0	20.7	26.3	(32.2)	(21.2)
	<b>25,852.3</b>	<b>8,591.5</b>	<b>7,956.7</b>	<b>7,335.5</b>	8.0	8.5
<b>Current assets</b>						
Inventories .....	327.7	108.9	98.8	125.7	10.2	(21.4)
VAT receivable .....	205.4	68.2	68.7	88.9	(0.7)	(22.7)
Income tax prepaid .....	107.1	35.6	74.5	60.5	(52.2)	23.1
Trade accounts receivable .....	921.7	306.3	279.8	95.5	9.5	193.0
Short-term bank deposits .....	4,931.7	1,638.9	1,182.7	947.9	38.6	24.8
Bonds receivable from related party .....	13.2	4.4	4.4	4.4	(1.5)	0.0
Loans and receivables due from related parties .....	417.1	138.6	113.6	113.0	22.0	0.5
Note receivable from a shareholder of a joint venture .....	79.7	26.5	17.6	8.8	50.4	99.7
Other current assets .....	505.3	167.9	149.1	93.1	12.6	60.1
Cash and cash equivalents .....	3,581.2	1,190.2	878.4	770.0	35.5	14.1
	11,090.1	3,685.6	2,867.6	2,308.0	28.5	24.2
Assets classified as held for sale .....	3,345.1	1,111.7	1,058.8	1,066.2	5.0	(0.7)
	14,435.2	4,797.3	3,926.4	3,374.2	22.2	16.4
<b>TOTAL ASSETS .....</b>	<b>40,287.5</b>	<b>13,388.8</b>	<b>11,883.1</b>	<b>10,709.7</b>	12.7	11.0

Notes:

- (1) For convenience, these figures have been translated into U.S. Dollars at the KZT/U.S.\$ exchange rate published by the KASE as at 31 December 2017, which was KZT 332.33 per U.S.\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.
- (2) Reclassified. See “Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications” and Note 2 to the 2017 Financial Statements.
- (3) Restated. See “Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications” and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

	As at 31 December				% change between 31 December	
	2017 <sup>(1)</sup>	2017	2016	2015 <sup>(2)</sup>	2017 and 2016	2016 and 2015
	(unaudited) (U.S.\$ millions)		(KZT billions)			(%)
<b>EQUITY AND LIABILITIES</b>						
<b>Equity</b>						
Share capital .....	2,134.5	709.3	696.4	696.4	1.9	0.0
Additional paid-in capital.....	733.8	243.9	243.7	243.7	0.1	0.0
Other equity .....	0.3	0.08	0.2	3.1	(62.5)	(92.8)
Currency translation reserve .....	3,907.1	1,298.4	1,372.8	1,405.3	(5.4)	(2.3)
Retained earnings.....	10,533.6	3,500.6	3,163.7	2,988.5	10.7	5.9
<b>Attributable to equity holders of the Parent Company .....</b>	<b>17,309.2</b>	<b>5,752.4</b>	<b>5,476.7</b>	<b>5,337.0</b>	5.0	2.6
Non-controlling interest.....	2,617.9	870.0	801.6	753.2	8.5	6.4
<b>TOTAL EQUITY.....</b>	<b>19,927.2</b>	<b>6,622.4</b>	<b>6,278.3</b>	<b>6,090.2</b>	5.5	3.1
<b>Non-current liabilities</b>						
Borrowings .....	10,229.3	3,399.5	2,706.1	2,932.3	25.6	(7.7)
Payable for the acquisition of additional interest in North Caspian Project .....	—	—	—	—	—	—
Provisions .....	453.3	150.6	139.4	150.4	8.1	(7.3)
Deferred income tax liabilities .....	938.9	312.0	264.6	218.9	17.9	20.9
Financial guarantee .....	32.4	10.8	12.3	8.0	(12.2)	53.2
Prepayment on oil supply agreements .....	1,750.0	581.6	738.6	—	(21.3)	100.0
Other non-current liabilities .....	139.2	46.3	52.5	23.2	(11.9)	126.3
	<b>13,543.0</b>	<b>4,500.8</b>	<b>3,913.4</b>	<b>3,332.9</b>	15	17.4
<b>Current liabilities</b>						
Borrowing.....	2,298.8	764.0	366.4	296.5	108.5	23.6
Provisions .....	237.2	78.8	94.4	116.5	(16.5)	(19.0)
Income tax payable .....	23.2	7.7	2.3	4.1	234.7	(43.9)
Trade accounts payable.....	978.3	325.1	260.1	174.2	25.0	49.3
Other taxes payable.....	238.2	79.2	34.0	40.0	132.7	(15.0)
Financial guarantee .....	3.5	1.2	1.2	1.1	(3.4)	10.1
Derivatives.....	—	—	—	—	—	—
Prepayment on oil supply agreements .....	1,000.0	332.3	250.0	—	32.9	100.0
Other current liabilities .....	434.5	144.4	119.0	145.2	21.3	(18.0)
	<b>5,213.7</b>	<b>1,732.7</b>	<b>1,127.5</b>	<b>777.7</b>	53.7	45.0
Liabilities directly associated with the assets classified as held for sale .....	<b>1,603.6</b>	<b>532.9</b>	<b>563.9</b>	<b>508.8</b>	(5.5)	10.8
<b>Total liabilities.....</b>	<b>20,360.3</b>	<b>6,766.4</b>	<b>5,604.8</b>	<b>4,619.4</b>	20.7	21.3
<b>TOTAL EQUITY AND LIABILITIES.....</b>	<b>40,287.5</b>	<b>13,388.8</b>	<b>11,883.1</b>	<b>10,709.7</b>	12.7	11.0

Notes:

- (1) For convenience, these figures have been translated into U.S. Dollars at the KZT/U.S.\$ exchange rate published by the KASE as at 31 December 2017, which was KZT 332.33 per U.S.\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.
- (2) Restated. See “Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications” and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

**Consolidated Statement of Comprehensive Income Data**

	For the year ended 31 December				% change between the years ended 31 December	
	2017 <sup>(1)</sup> (unaudited)	2017	2016	2015 <sup>2)</sup>	2016 and 2017	2015 and 2016
	(U.S. \$ millions)		(KZT billions)			(%)
Revenue .....	7,540.6	2,458.8	1,857.4	1,093.8	32.4	69.8
Cost of sales .....	(7,298.5)	(2,379.9)	(1,561.7)	(1,090.4)	52.4	43.2
<b>Gross profit</b> .....	<b>242.1</b>	<b>78.9</b>	<b>295.7</b>	<b>3.4</b>	<b>(73.3)</b>	<b>8,531.5</b>
General and administrative expenses .....	(466.2)	(152.0)	(117.7)	(211.2)	29.2	(44.3)
Transportation and selling expenses .....	(884.8)	(288.5)	(198.5)	(195.3)	45.4	1.6
Impairment of property, plant and equipment.....	(78.6)	(25.6)	(3.3)	(67.1)	681.1	(95.1)
Impairment of goodwill.....	—	—	—	(11.9)	—	(100.0)
(Loss)/gain on disposal of property, plant and equipment, intangible assets and investment property, net.....	(11.7)	(3.8)	(5.6)	(3.6)	(32.1)	57.0
Other operating income.....	61.8	20.2	19.4	21.7	3.8	(10.4)
Other operating expenses .....	(92.3)	(30.1)	(14.8)	(19.5)	103.0	(24.1)
<b>Operating loss</b> .....	<b>(1,229.7)</b>	<b>(401.0)</b>	<b>(24.8)</b>	<b>(483.6)</b>	<b>1,519.9</b>	<b>(94.9)</b>
Net foreign exchange (loss)/gain .....	206.0	67.2	(12.9)	469.5	(621.0)	(102.7)
Finance income .....	373.3	121.7	167.9	173.0	(27.5)	(2.9)
Finance cost .....	(904.4)	(294.9)	(230.4)	(198.3)	28.0	16.2
Reversal/Impairment of investments in joint ventures....	45.5	14.8	(5.5)	(9.3)	(369.7)	(41.1)
Impairment of assets classified as held for sale .....	(0.2)	(0.1)	(0.1)	(0.1)	(27.0)	8.0
Impairment of loan given .....	—	—	(1.3)	(11.0)	-(100.0)	(87.7)
Share of income in joint ventures and associates, net.....	1,271.4	414.6	270.2	112.8	53.4	139.5
<b>Profit/(loss) before income tax</b> .....	<b>(238.1)</b>	<b>(77.6)</b>	<b>163.1</b>	<b>53.0</b>	<b>(147.6)</b>	<b>207.9</b>
Income tax expenses .....	(588.9)	(192.0)	(163.8)	(231.5)	17.2	(29.3)
Loss for the period from continuing operations.....	<b>(827.0)</b>	<b>(269.7)</b>	<b>(0.7)</b>	<b>(178.6)</b>	<b>39,382.0</b>	<b>(99.6)</b>
Profit/(loss) after income tax for the year from discontinued operations.....	2,420.2	789.2	360.9	673.2	118.7	(46.4)
<b>Net profit for the year</b> .....	<b>1,593.2</b>	<b>519.5</b>	<b>360.2</b>	<b>494.7</b>	<b>44.2</b>	<b>(27.2)</b>
Exchange differences on translation of foreign operations.....	(227.5)	(74.2)	(38.1)	1,180.9	94.8	(103.2)
Accumulated differences on translation of disposal group ....	(1.3)	(0.4)	—	(106.9)	—	(100.0)
<b>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</b> .....	<b>(228.8)</b>	<b>(74.6)</b>	<b>(38.1)</b>	<b>1,073.9</b>	<b>95.9</b>	<b>(103.5)</b>
Actuarial gain/(loss) on defined benefit plans of the Group .....	(3.5)	(1.1)	3.8	(1.8)	(130.4)	(314.5)
Actuarial gain/(loss) on defined benefit plans of joint ventures.....	(0.5)	(0.2)	(0.1)	—	36.3	—
Write –off of deferred tax assets.....	(0.5)	(0.2)	—	—	—	—
Tax effect.....	0.0	0.0	(0.8)	0.4	(101.1)	(320.9)
<b>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods</b> .....	<b>(4.5)</b>	<b>(1.5)</b>	<b>2.8</b>	<b>(1.4)</b>	<b>(151.5)</b>	<b>(305.2)</b>

<b>Other comprehensive (loss)/income for the year.....</b>	<b>(233.2)</b>	<b>(76.1)</b>	<b>(35.2)</b>	<b>1,072.6</b>	<b>115.8</b>	<b>(103.3)</b>
<b>Total comprehensive income for the year, net of tax.....</b>	<b>1,360.0</b>	<b>443.5</b>	<b>324.9</b>	<b>1,567.2</b>	<b>36.5</b>	<b>(79.3)</b>
<b>Net profit for the year attributable to:</b>						
Equity holder of the Parent Company.....	1,341.7	437.5	305.8	398.3	43.0	(23.2)
Non-controlling interest .....	251.6	82.0	54.3	96.4	51.0	(43.6)
	<u>1593.2</u>	<u>519.5</u>	<u>360.2</u>	<u>494.7</u>	<u>44.2</u>	<u>(27.2)</u>
<b>Total comprehensive income for the year attributable to:</b>						
Equity holders of the Parent Company.....	1,109.8	361.9	275.6	1,353.7	31.3	(79.6)
Non-controlling interest .....	250.2	81.6	49.3	213.5	65.5	(76.9)
	<u>1,360.0</u>	<u>443.5</u>	<u>324.9</u>	<u>1,567.2</u>	<u>36.5</u>	<u>(79.3)</u>

Notes:

- (1) For convenience, these figures have been translated into U.S. Dollars at the average KZT/U.S.\$ exchange rate published by the KASE for the year ended 31 December 2017 of KZT 326.08 per U.S.\$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.
- (2) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications*" and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements

## ALTERNATIVE PERFORMANCE MEASURES

Prospective investors should read the below information in conjunction with the information contained in the “Risk Factors,” “Management’s Discussion and Analysis of Results of Operations and Financial Performance,” “Business”, and the 2017 Financial Statements and the 2016 Financial Statements, in each case, including the notes thereto, and other financial data appearing elsewhere in this Base Prospectus.

### Alternative Performance Measures

The following table sets forth key alternative performance measures used by the Company’s management in assessing the Company’s performance, which reflect the Company’s operations:

	As at and for the year ended 31 December			
	2017 <sup>(1)(2)</sup>	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>
	<i>(U.S.\$ millions, except ratios)</i>	<i>(KZT billions, except ratios)</i>		
EBIT <sup>(3)</sup> .....	3,117.5	1,016.6	761.8	498.2
EBITDA <sup>(4)</sup> .....	3,892.7	1,269.3	999.9	768.3
Debt (including current portion) <sup>(1)(5)</sup> .....	12,944.3	4,301.8	3,279.4	3,467.1
Total equity <sup>(6)</sup> .....	19,927.2	6,622.4	6,278.3	6,090.2
Capitalisation <sup>(7)</sup> .....	32,871.5	10,924.2	9,557.7	9,557.3
Net capitalisation <sup>(8)</sup> .....	23,963.5	7,963.8	7,413.8	7,752.2
Net debt <sup>(3)(9)</sup> .....	4,036.3	1,341.4	1,135.5	1,662.0
Debt (including current portion)/EBITDA .....	3.3	3.4	3.3	4.5
Net debt/Net capitalisation .....	0.2	0.2	0.2	0.2
Debt (including current portion)/Total equity .....	0.6	0.6	0.5	0.6
Current liquidity <sup>(10)</sup> .....	2.1	2.1	2.3	2.6
EBIT/Finance cost .....	3.3	3.3	3.2	2.3

#### Notes:

- (1) The financial figures and ratios as at and for the years ended 31 December 2017, 2016 and 2015 are calculated with relevant adjustments made for assets classified as held for sale. See Note 5 to the 2017 Financial Statements and Note 5 to the 2016 Financial Statements.
- (2) For convenience, balance sheet figures in the above have been translated into U.S. Dollars at the KZT/U.S.\$ exchange rate published by the KASE as at 31 December 2017, which was KZT 332.33 per U.S.\$1.00, whereas income statement figures have been translated into U.S. Dollars at the average KZT/U.S.\$ exchange rate published by the KASE for the year ended 31 December 2017 of KZT 326.08 per U.S.\$1.00. Such translations are not reflective of a translation in accordance with IFRS and should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.
- (3) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost for such period.
- (4) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion, amortisation and impairment of long-lived assets for such period.
- (5) Debt is the current portion of the borrowings plus the non-current portion of the borrowings as at 31 December of the relevant period.
- (6) Equity is total equity as at 31 December of the relevant period, as applicable.
- (7) Capitalisation is debt plus equity as at 31 December of the relevant period, as applicable.
- (8) Net capitalisation is net debt plus equity as at 31 December of the relevant period, as applicable.
- (9) Net debt is debt minus cash and cash equivalents as at 31 December of the relevant period, as applicable.
- (10) Current liquidity is current assets as at 31 December of the relevant year divided by current liabilities as at 31 December of the relevant year.

The following table sets forth a reconciliation of EBIT, EBITDA and EBIT/Finance Cost to profit before corporate income tax for the years indicated:

	<b>2017<sup>(1)</sup></b>	<b>For the year ended 31 December</b>		
	<i>(U.S.\$ millions, except ratios)</i>	<b>2017<sup>(2)</sup></b>	<b>2016<sup>(2)</sup></b>	<b>2015<sup>(2)</sup></b>
		<i>(KZT billions, except ratios)</i>		
Profit/(loss) before income tax from continued operations.....	(238.1)	(77.6)	163.1	53.0
Profit after income tax from discontinued operations.....	2,420.2	789.2	360.9	673.2
Income tax related to discontinued operations.....	(4.6)	(1.5)	(3.1)	(447.8)
Profit before income tax.....	2,177.6	710.1	520.8	278.4
Finance cost.....	(939.9)	(306.5)	(241.0)	(219.7)
EBIT <sup>(3)</sup> .....	3,117.5	1,016.6	761.8	498.2
Depreciation, depletion and amortisation.....	724.5	236.2	217.8	164.2
Impairment of long-lived assets.....	50.6	16.5	20.2	105.9
EBITDA <sup>(4)</sup> .....	3,892.7	1,269.3	999.9	768.3
EBIT/Finance Cost.....	(3.3)	(3.3)	(3.2)	(2.3)

Notes:

- (1) For convenience, these figures have been translated into U.S. Dollars at the average KZT/U.S.\$ exchange rate published by the KASE for the year ended 31 December 2017 of KZT 326.08 per U.S.\$1.00, respectively. Such translations are not reflective of a translation in accordance with IFRS and should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.
- (2) The financial figures and ratios as at and for the years ended 31 December 2017, 2016 and 2015 are calculated with relevant adjustments made for assets classified as held for sale. See Note 5 to the 2017 Financial Statements and Note 5 to the 2016 Financial Statements.
- (3) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost for such period.
- (4) EBITDA for any relevant period is EBIT for such period plus depreciation, depletion, amortisation and impairment of long-lived assets for such period.

The following table sets forth a reconciliation of EBIT, EBITDA and EBIT/Finance Cost to profit before corporate income tax from continuing operations for the years indicated:

	<b>2017<sup>(1)</sup></b>	<b>For the year ended 31 December</b>		
	<i>(U.S.\$ millions, except ratios)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
		<i>(KZT billions, except ratios)</i>		
Profit before income tax.....	(238.1)	(77.6)	163.1	53.0
Finance cost.....	(904.4)	(294.9)	(230.4)	(198.3)
EBIT <sup>(2)</sup> .....	666.3	217.3	393.5	251.3
Depreciation, depletion and amortisation.....	549.5	179.2	180.3	141.2
Impairment of long-lived assets.....	33.3	10.9	10.2	99.4
EBITDA <sup>(3)</sup> .....	1,249.1	407.3	584.0	491.9
EBIT/Finance Cost.....	(0.74)	(0.74)	(1.71)	(1.27)

Notes:

- (1) For convenience, these figures have been translated into U.S. Dollars at the average KZT/U.S.\$ exchange rate published by the KASE for the year ended 31 December 2017 of KZT 326.08 per U.S.\$1.00, respectively. Such translations are not reflective of a translation in accordance with IFRS and should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.
- (2) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost for such period.
- (3) EBITDA for any relevant period is EBIT for such period plus depreciation, depletion, amortisation and impairment of long-lived assets for such period.



The following table sets forth a reconciliation of (i) debt (including current portion) to borrowings (current) and borrowings (non-current); (ii) capitalisation to borrowings (current) and borrowings (non-current); (iii) cash and deposits (including long-term) to cash in bank, deposits (less than 12 months) and deposits (over 12 months); (iv) net capitalisation to borrowings (current) and borrowings (non-current) and cash and cash equivalents; (v) net debt to borrowings and cash and cash equivalents; (vi) net debt/net capitalisation to borrowings and cash and cash equivalents; and (vii) debt/equity to borrowings and total equity, as at the dates indicated:

	2017 <sup>(1) (2)</sup>	As at 31 December		2015 <sup>(2) (3)</sup>
	(U.S.\$ millions, except ratios)	2017 <sup>(2)</sup>	2016 <sup>(2) (3)</sup>	(KZT billions, except ratios)
Borrowings (non-current) <sup>(4)</sup> .....	10,282.5	3,417.2	2,706.1	2,932.3
Borrowings (current) <sup>(4)</sup> .....	2,661.8	884.6	573.3	534.8
<b>Debt (including current portion)<sup>(5)</sup>.....</b>	<b>12,944.3</b>	<b>4,301.8</b>	<b>3,279.4</b>	<b>3,467.1</b>
<b>Total equity</b> .....	<b>19,927.2</b>	<b>6,622.4</b>	<b>6,278.3</b>	<b>6,090.2</b>
<b>Capitalisation<sup>(6)</sup>.....</b>	<b>32,871.5</b>	<b>10,924.2</b>	<b>9,557.7</b>	<b>9,557.3</b>
Cash in bank.....	3,821.5	1,270.0	905.5	808.4
Deposits (less than 12 months).....	4,940.5	1,641.9	1,188.4	947.9
Deposits (over 12 months).....	146.0	48.5	50.0	48.8
<b>Cash and deposits (including long-term)<sup>(7)</sup>.....</b>	<b>8,908.0</b>	<b>2,960.4</b>	<b>2,143.9</b>	<b>1,805.2</b>
<b>Net Debt<sup>(8)</sup>.....</b>	<b>4,036.3</b>	<b>1,341.4</b>	<b>1,135.5</b>	<b>1,662.0</b>
<b>Net Capitalisation<sup>(9)</sup>.....</b>	<b>23,963.5</b>	<b>7,963.8</b>	<b>7,413.8</b>	<b>7,752.2</b>
<b>Net Debt/Net Capitalisation (%).....</b>	<b>0.17</b>	<b>0.17</b>	<b>0.15</b>	<b>0.21</b>
<b>Debt (including current portion)/Total equity....</b>	<b>0.65</b>	<b>0.65</b>	<b>0.52</b>	<b>0.57</b>
<b>Debt (including current portion)/EBITDA<sup>(10)</sup>.....</b>	<b>3.33</b>	<b>3.39</b>	<b>3.28</b>	<b>4.51</b>

Notes:

- (1) For convenience, these figures have been translated into U.S. Dollars at the KZT/U.S.\$ exchange rate published by the KASE as at 31 December 2017, which was KZT 332.33 per U.S.\$1.00. Such translations are not reflective of a translation in accordance with IFRS and should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.
- (2) The financial figures and ratios as at and for the years ended 31 December 2017, 2016 and 2015 are calculated with relevant adjustments made for the assets classified as held for sale. See Note 5 to the 2017 Financial Statements and Note 5 to the 2016 Financial Statements.
- (3) Restated. See "Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications" and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.
- (4) Non-current borrowings for assets classified as held for sale are included in adjusted current borrowings in accordance with Note 3 to the 2017 Financial Statements and Note 2 to the 2016 Financial Statements.
- (5) Debt is the current portion of the borrowings plus the non-current portion of the borrowings as at 31 December of the relevant period.
- (6) Capitalisation is debt plus equity as at 31 December of the relevant period, as applicable.
- (7) Cash and deposits (including long-term) is the sum of cash in bank, deposits with maturities of less than 12 months and deposits with maturities over 12 months.
- (8) Net debt is debt minus cash and cash equivalents as at 31 December of the relevant period, as applicable.
- (9) Net capitalisation is net debt plus total equity as at 31 December of the relevant period, as applicable.
- (10) See above for reconciliation of EBITDA to profit before income tax.

The following table sets forth a reconciliation of current liquidity to current assets and current liabilities as at the dates indicated:

	2017 <sup>(1) (2)</sup>	As at 31 December		2015 <sup>(2) (3)</sup>
	(U.S.\$ millions, except ratios)	2017 <sup>(2)</sup>	2016 <sup>(2) (3)</sup>	(KZT billions, except ratios)
Current assets.....	14,435.2	4,797.3	3,926.4	3,374.2
Current liabilities.....	6,817.3	2,265.6	1,691.4	1,286.5
<b>Current liquidity<sup>(4)</sup>.....</b>	<b>2.1</b>	<b>2.1</b>	<b>2.3</b>	<b>2.6</b>

Notes:

- (1) For convenience, these figures have been translated into U.S. Dollars at the KZT/U.S.\$ exchange rate published by the KASE as at 31 December 2017, which was KZT 332.33 per U.S.\$1.00. Such translations are not reflective of a translation in accordance with IFRS and should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.
- (2) The financial figures and ratios as at and for the years ended 31 December 2017, 2016 and 2015 are calculated with relevant adjustments made for the assets classified as held for sale. See Note 5 to the 2017 Financial Statements and Note 5 to the 2016 Financial Statements.
- (3) Restated. See “*Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications*” and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.
- (4) Current liquidity is current assets as at 31 December of the relevant year divided by current liabilities as at 31 December of the relevant year.

### Leverage Structure

The following tables set forth assets, cash and deposits (including long-term), debt and EBITDA for the Company and certain of its subsidiaries as at and for the years indicated:

	<b>As at and for the year ended 31 December 2017</b>			
	<b>Assets</b>	<b>Cash and Deposits<sup>(1)</sup></b>	<b>Debt<sup>(2)</sup></b>	<b>EBITDA<sup>(3)</sup></b>
	<i>(KZT billions)</i>			
Company <sup>(4)</sup> .....	13,388.8	2,960.4	4,301.8	1,269.3
Company <sup>(5)</sup> .....	9,969.2	1,076.4	3,697.7	699.8
KTG <sup>(6)</sup> .....	1,397.3	24.1	449.9	167.2
KTO <sup>(6)</sup> .....	550.6	69.2	—	114.9
KMG EP <sup>(6)</sup> .....	2,333.8	421.6	7.5	280.9

Notes:

- (1) Includes cash and deposits (including long-term).
- (2) Debt is the current portion of borrowings plus non-current portion of borrowings as at 31 December 2017, 31 December 2016 or 31 December 2015 (as the case may be). The Financial figures as at and for the year ended 31 December 2017, 2016 and 2015 are calculated with the relevant adjustments made for the assets classified as held for sale.
- (3) EBITDA for any relevant period is EBIT for such period plus depreciation, depletion, amortisation and impairment of long-lived assets for such period.
- (4) On a consolidated basis.
- (5) Based on the accounting records of the Company before intra-group elimination and consolidated adjustments.
- (6) Based on the accounting records of the respective subsidiaries.

	<b>As at and for the year ended 31 December 2016</b>			
	<b>Assets</b>	<b>Cash and Deposits<sup>(1)</sup></b>	<b>Debt<sup>(2)</sup></b>	<b>EBITDA<sup>(3)</sup></b>
	<i>(KZT billions)</i>			
Company.....	11,883.1	2,143.9	3,279.4	999.9
Company <sup>(4)</sup> .....	8,806.2	506.5	2,877.6	649.4
KTG <sup>(5)</sup> .....	1,215.6	94.1	365.2	175.0
KTO <sup>(5)</sup> .....	539.6	89.2	—	112.7
KMG EP <sup>(5)</sup> .....	2,110.5	162.1	9.3	205.3
KMG RM.....	1,361.4	103.9	945.0	153.2

Notes:

- (1) Includes cash and deposits (including long-term).
- (2) Debt is the current portion of borrowings plus non-current portion of borrowings as at 31 December 2017, 31 December 2016 or 31 December 2015 (as the case may be). The Financial figures as at and for the year ended 31 December 2017, 2016 and 2015 are calculated with the relevant adjustments made for the assets classified as held for sale.
- (3) EBITDA for any relevant period is EBIT for such period plus depreciation, depletion, amortisation and impairment of long-lived assets for such period.
- (4) On a consolidated basis.
- (5) Based on the accounting records of the Company before intra-group elimination and consolidated adjustments.
- (6) Based on the accounting records of the respective subsidiaries.

As at and for the year ended 31 December 2015<sup>(1)</sup>

	Assets	Cash and Deposits <sup>(2)</sup>	Debt <sup>(3)</sup>	EBITDA <sup>(4)</sup>
	<i>(KZT billions)</i>			
Company <sup>(5)</sup> .....	10,709.7	1,805.2	3,467.1	768.3
Company <sup>(6)</sup> .....	2,792.0	173.2	2,246.4	(855.3)
KTG <sup>(7)</sup> .....	995.4	32.2	320.8	(54.8)
KTO <sup>(7)</sup> .....	533.8	67.4	—	121.4
KMG EP <sup>(7)</sup> .....	2,010.7	237.3	11.6	376.3
KMG RM <sup>(7)</sup> .....	1,141.8	87.3	785.1	(157.1)

Notes:

- (1) Restated. See “Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications” and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.
- (2) Includes cash equivalents and short term and long term deposits.
- (3) Debt is the current portion of borrowings plus non-current portion of borrowings as at 31 December 2017, 31 December 2016 or 31 December 2015 (as the case may be). The Financial figures as at and for the year ended 31 December 2017, 2016 and 2015 are calculated with the relevant adjustments made for the assets classified as held for sale.
- (4) EBITDA for any relevant period is EBIT for such period plus depreciation, depletion, amortisation and impairment of long-lived assets for such period.
- (5) On a consolidated basis.
- (6) Based on the accounting records of the Company before intra-group elimination and consolidated adjustments.
- (7) Based on the accounting records of the respective subsidiaries.

The following tables set forth a reconciliation of EBITDA to profit before income tax for the Company and certain of its subsidiaries for the periods indicated:

	For the year ended 31 December 2017				
Company	Company <sup>(1)</sup>	KTG <sup>(2)</sup>	KTO <sup>(2)</sup>	KMG EP <sup>(2)</sup>	KMG RM <sup>(2)</sup>
	<i>(KZT billions)</i>				
Profit before income tax .....	710.1	406.4	99.5	84.8	241.0
Finance cost.....	(306.5)	(210.4)	(36.9)	(2.5)	(4.3)
Depreciation, depletion and amortisation.....	236.2	1.3	30.5	27.7	35.6
Impairment of long-lived assets .....	16.5	81.6	0.3	—	—
EBITDA .....	1,269.3	699.8	167.2	114.9	280.9

Notes:

- (1) Based on the accounting records of the Company before intra-group elimination and consolidated adjustments.
- (2) Based on the accounting records of the respective subsidiaries

	For the year ended 31 December 2016					
Company	Company <sup>(1)</sup>	KTG <sup>(2)</sup>	KTO <sup>(2)</sup>	KMG EP <sup>(2)</sup>	KMG RM <sup>(2)</sup>	KMG RM <sup>(2)</sup>
	<i>(KZT billions)</i>					
Profit before income tax .....	520.8	423.9	107.9	82.6	168.7	94.2
Finance cost.....	(241.0)	(186.3)	(27.2)	(2.5)	(5.8)	(24.7)
Depreciation, depletion and amortisation.....	217.8	1.9	28.8	27.7	30.8	34.1
Impairment of long-lived assets .....	20.2	37.2	11.0	(0.2)	—	0.2
EBITDA .....	999.9	649.4	175.0	112.7	205.3	153.2

Notes:

- (1) Based on the accounting records of the Company before intra-group elimination and consolidated adjustments.
- (2) Based on the accounting records of the respective subsidiaries

**For the year ended 31 December 2015<sup>(1)</sup>**

	<u>Company<sup>(2)</sup></u>	<u>Company<sup>(3)</sup></u>	<u>KTG<sup>(4)</sup></u>	<u>KTO<sup>(4)</sup></u>	<u>KMG EP<sup>(4)</sup></u>	<u>KMG RM<sup>(4)</sup></u>
	<i>(KZT billions)</i>					
Profit before income tax .....	278.4	(1,095.8)	(107.9)	97.1	371.2	(199.6)
Finance cost.....	(219.7)	(169.0)	(26.1)	(2.2)	15.0	(10.3)
Depreciation, depletion and amortisation.....	164.2	2.7	25.7	23.2	20.1	27.9
Impairment of long-lived assets.....	105.9	68.8	1.4	(1.1)	—	4.3
EBITDA .....	768.3	(855.3)	(54.8)	121.4	376.3	(157.1)

Notes:

- (1) Restated. See “Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications” and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.
- (2) The Financial figures as at and for the year ended 31 December 2017, 2016 and 2015 are calculated with the relevant adjustments made for the assets classified as held for sale.
- (3) Based on the accounting records of the Company before intra-group elimination and consolidated adjustments.
- (4) Based on the accounting records of the respective subsidiaries

The following tables set forth a reconciliation of debt to borrowings (current) and borrowings (non-current) for the Company and certain of its subsidiaries as at the dates indicated:

**As at 31 December 2017**

	<u>Company<sup>(1)</sup></u>	<u>Company<sup>(2)</sup></u>	<u>KTG<sup>(3)</sup></u>	<u>KTO<sup>(3)</sup></u>	<u>KMG EP<sup>(3)</sup></u>
	<i>(KZT billions)</i>				
Borrowings (non-current) .....	3,417.2	2,754.2	375.3	—	1.8
Borrowings (current).....	884.6	943.5	74.6	—	5.7
<b>Debt (including current portion) .....</b>	<b>4,301.8</b>	<b>3,697.7</b>	<b>449.9</b>	<b>—</b>	<b>7.5</b>

Notes:

- (1) The Financial figures as at and for the year ended 31 December 2017, 2016 and 2015 are calculated with the relevant adjustments made for the assets classified as held for sale.
- (2) Based on the accounting records of the Company before intra-group elimination and consolidation adjustments.
- (3) Based on the accounting records of the respective subsidiaries.

**As at 31 December 2016**

	<u>Company<sup>(1)</sup></u>	<u>Company<sup>(2)</sup></u>	<u>KTG<sup>(3)</sup></u>	<u>KTO<sup>(3)</sup></u>	<u>KMG EP<sup>(3)</sup></u>	<u>KMG RM<sup>(3)</sup></u>
	<i>(KZT billions)</i>					
Borrowings (non-current).....	2,706.1	2,483.4	232.1	—	3.8	795.5
Borrowings (current).....	573.3	394.2	133.0	—	5.5	149.4
<b>Debt (including current portion).....</b>	<b>3,279.4</b>	<b>2,877.6</b>	<b>365.2</b>	<b>—</b>	<b>9.3</b>	<b>945.0</b>

Notes:

- (1) The Financial figures as at and for the year ended 31 December 2017, 2016 and 2015 are calculated with the relevant adjustments made for the assets classified as held for sale.
- (2) Based on the accounting records of the Company before intra-group elimination and consolidation adjustments.
- (3) Based on the accounting records of the respective subsidiaries.

**As at 31 December 2015<sup>(1)</sup>**

	<u>Company<sup>(2)</sup></u>	<u>Company<sup>(3)</sup></u>	<u>KTG<sup>(4)</sup></u>	<u>KTO<sup>(4)</sup></u>	<u>KMG EP<sup>(4)</sup></u>	<u>KMG RM<sup>(4)</sup></u>
	<i>(KZT billions)</i>					
Borrowings (non-current).....	2,932.3	2,055.5	277.1	—	6.0	703.6
Borrowings (current).....	534.8	190.9	43.7	—	5.6	81.5
<b>Debt (including current portion)...</b>	<b>3,467.1</b>	<b>2,246.4</b>	<b>320.8</b>	<b>—</b>	<b>11.6</b>	<b>785.1</b>

Notes:

- (1) Restated. See “Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications” and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.
- (2) The Financial figures as at and for the year ended 31 December 2017, 2016 and 2015 are calculated with the relevant adjustments made for the assets classified as held for sale.
- (3) Based on the accounting records of the Company before intra-group elimination and consolidation adjustments.
- (4) Based on the accounting records of the respective subsidiaries.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL PERFORMANCE

*The following management's discussion and analysis of the Company's results of operations and financial performance should be read in conjunction with the 2017 Financial Statements and the 2016 Financial Statements, together, in each case, with the related notes thereto, included elsewhere in this Base Prospectus. The 2017 Financial Statements and the 2016 Financial Statements have been prepared in accordance with IFRS. This management's discussion and analysis contains forward-looking statements, which involve risks and uncertainties. See "Forward-Looking Statements". The Company's future actual results could differ materially from those anticipated in the forward looking statements contained herein for several reasons, including those set forth under "Risk Factors" and elsewhere in this Base Prospectus.*

### Overview

The Company is the national oil and gas company of Kazakhstan with vertically-integrated upstream, midstream and downstream operations located principally in Kazakhstan. The Company's management believes, based on information obtained from the Statistics Committee, and the Company's internal information, that, as at 31 December 2017, on a consolidated basis (including the proportionate interest of joint ventures and associates), the Company was the largest crude oil producer in Kazakhstan in terms of production volume. According to information obtained from the Statistics Committee, and the Company's internal information, the Company also operates the largest crude oil and gas pipeline networks in Kazakhstan in terms of length and throughput capacity (primarily through KTO and KTG, respectively). In addition, the Company holds a significant or controlling interest in each of the three principal refineries in Kazakhstan, as well as a major refinery in Romania. See "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions, Discontinued Operations and Loss of Control—KMG International*".

The results of the Company's operations and their period-to-period comparability are affected by various external factors. Because the Company's principal business activities are located within Kazakhstan, such factors include the political climate and the economy in Kazakhstan, as well as global and regional economic conditions and political and military stability; the underdevelopment and evolution of the legislative, tax and regulatory frameworks, including the securities market in Kazakhstan, and the effectiveness of economic, financial and monetary measures undertaken by the Government; and financial risk factors, including interest rate risk, credit rate risk and liquidity risk deriving from (among other things) the continuing turmoil in the Kazakhstan banking sector. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan*".

The Company calculates its reserves using the Kazakhstan Methodology, which differs significantly from the internationally-accepted classifications and methodologies established by PRMS and SEC Standards, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. Unless otherwise indicated, information presented in this Base Prospectus with respect to production and reserves and other similar information of joint ventures of the Company or its subsidiaries reflects the Company's or the relevant subsidiaries' proportionate interests in the joint ventures. Similarly, information presented in this Base Prospectus relating to production and reserves and other similar information of associates reflects the Company's and its subsidiaries' proportional interest in such associates. In certain sections of this Base Prospectus, the Company has provided information on production and reserves and other similar information of the Company and its subsidiaries and joint operations separately from the production and reserves of joint ventures accounted for under the equity method in order to permit some correlation to the financial accounting for the respective entities. Reserves are measured only on an annual basis and, accordingly, as at the date of this Base Prospectus, no reserve information is available as at any date subsequent to 31 December 2017.

The Company generates revenue from: sales of crude oil; sales of refined oil products; fees it charges under contracts for the transportation of crude oil and natural gas; sales of gas products; and other revenue, principally comprised of heating and power sales, in-kind royalty sales, non-core asset sales and other operations. The Company's revenue is reported under the Company's five operating segments: exploration and production of oil and gas; oil transportation; gas transportation; refining and trading of crude oil and refined oil products; and other, which comprises the Company's remaining operations, including heating and power, air travel (prior to November 2017), security and other oil and gas related services (which are presented as "other" due to their relative insignificance). For each of 2017 and 2016, the Company's largest operating segment in terms of revenue was refining and trading of crude oil and refined oil products, while the largest operating segment in terms of net profit was exploration and production of oil and gas in 2017 and refining and trading of crude oil and refined oil in 2016. In 2015, the Company's largest operating segment in terms of revenue and net profit was exploration and production of oil and gas. See "*—Operating Segments*" below.

The Company's total revenue increased by 32.4% to KZT 2,458.8 billion for the year ended 31 December 2017 from KZT 1,857.4 billion for the year ended 31 December 2016, which itself represented an increase of 69.8% compared to KZT 1,093.8 billion for the year ended 31 December 2015. The Company's net profit increased by 44.2% to KZT 519.5 billion for the year ended 31 December 2017 from KZT 360.2 billion for the year ended 31 December 2016, which itself represented a decrease of 27.2% compared to KZT 494.7 billion for the year ended 31 December 2015.

As at 31 December 2017, the Company had total assets of KZT 13,388.8 billion, as compared to total assets of KZT 11,883.1 billion as at 31 December 2016 and total assets of KZT 10,709.7 billion as at 31 December 2015.

### **Main Factors Affecting Results of Operations and Liquidity**

The main factors that have affected the Company's results of operations during the years ended 31 December 2017, 2016 and 2015, and that can be expected to affect the Company's results of operations in the future, are (i) the economic environment in which the Company operates, including, historically, the global financial crisis and, more recently, the ongoing economic recovery; (ii) changes in crude oil and refined oil product prices and the Company's advanced sales of oil; (iii) the impact of changes in exchange rates, including, in particular, the devaluation of the Tenge in 2014 and further depreciation of the Tenge as a result of the adoption of a free-floating exchange rate and medium-term inflation targeting policy in August 2015; (iv) changes in the production of crude oil, gas and refined oil products; (v) acquisitions, dispositions, discontinued operations and loss of control of subsidiaries; (vi) changes in tariffs for oil and gas transportation services; (vii) the share of income of joint ventures and associates recognised by the Company and its subsidiaries; (viii) the Company's capital expenditure programme; (ix) taxation, including excess profit taxes and other duties; and (x) the adoption of new IFRS standards.

### ***The Current Economic Environment***

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The impact of the global economic crisis that began in 2008 resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and tighter credit conditions within Kazakhstan and generally for Kazakhstan companies, as well as weakened global demand for and a decline in prices of crude oil and other commodities. In the period 2014 to 2016, the Kazakhstan economy was impacted by continuing low crude oil prices, as well as devaluations and depreciations of the Tenge against the U.S. Dollar. According to Government statistics, real GDP growth was 1.2% in 2015, 1.0% in 2016 and 4.3% for the nine months ended 30 September 2017. In August 2015, the NBK announced the adoption of a free-floating exchange rate, which resulted in a 26.2% depreciation against the U.S. Dollar. As at 31 December 2017, the official KZT/U.S.\$ exchange rate reported by the KASE was KZT 332.33 per U.S.\$1.00, as compared to KZT 333.29 per U.S.\$1.00 as at 31 December 2016 and KZT 339.47 per U.S.\$1.00 as at 31 December 2015. See "*Impact of Changes in Exchange Rates*". The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which have had, and are expected to continue to have, a material effect on the Company's financial position and results of operations.

The future stability of the Kazakhstan economy is largely dependent upon the continued implementation of economic reform programmes and the effectiveness of economic, financial and monetary measures undertaken by the Government, as well as developments in other economies in the region, particularly the Russian economy and related effects on the value of the Russian Rouble.

While the Company is unable to estimate reliably the effects on its consolidated financial position and its results of operations of any deterioration in the financial markets or of any continuing or increased volatility in the currency, commodities and equity markets for any periods subsequent to 31 December 2017, the Company's business activities may again be negatively impacted by the economic conditions resulting from global financial conditions, regional instability and any renewed or further declines in prices of and demand for crude oil and other commodities. Such market conditions could have an impact on, among other things, the Company's production and volumes of crude oil, natural gas and refined oil products, the Company's cash balances at Kazakhstan banks, the cost of the Company's funding and the KZT/U.S.\$ exchange rate and, accordingly, may have a material adverse effect on the Company's business, prospects, financial condition, cash flows and results of operations.

In addition, through its ultimate control of the Company, the Government is in a position to influence the Company's activities, including the imposition of certain social and other obligations on the Company, which may have an adverse effect on the Company's financial position and results of operations. For example, following the devaluation of the Tenge against the U.S. Dollar in February 2014, the President of Kazakhstan ordered all state-owned companies, including the Company, to perform an indexation exercise in respect of employee salaries to avoid a negative effect on workers as a result of the devaluation. Government-mandated indexation exercises have also continued in subsequent years. Accordingly, the Company's payroll and other employee expenses in the year ended 31 December 2014 and subsequent

years have increased, and further increases to salaries based on Government-mandated indexation exercises have continued to increase payroll and other employee expenses in subsequent periods.

### ***Changes in Crude Oil and Refined Oil Product Prices and Advanced Sales of Oil***

The prices of crude oil and refined oil products internationally and in Kazakhstan have a significant impact on the Company's results of operations. World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand, which is entirely outside of the Company's control. Crude oil prices have been particularly volatile in recent years. According to statistics published by the EIA, the average monthly spot price of Brent crude oil was U.S.\$43.64 per barrel in 2016, as compared to an average monthly spot price of U.S.\$52.32 per barrel in 2015. Crude oil prices began to recover in 2017, with an average monthly spot price of Brent crude oil for December 2017 of U.S.\$64.37 per barrel, according to statistics published by EIA. According to the 9 January 2018 Short-Term Energy Outlook published by the EIA, Brent crude oil prices are forecast to average U.S.\$60 per barrel and U.S.\$61 per barrel in 2018 and 2019, respectively. The price of crude oil remains considerably below the record high average monthly price of U.S.\$132.72 per barrel recorded in July 2008, and, as at 26 March 2018, the spot price for Brent crude oil was U.S.\$68.81 per barrel.

Oil and gas commodity prices are one of the key factors affecting the Company's results of operations, and a decline in prices for crude oil and gas has, in the past, had, and may again, in the future, have, a negative effect on the Company's results of operations. Generally, commodities prices fluctuate based on a number of factors beyond the Company's control and the Company's management cannot predict if or when the recent significant volatility in oil prices will be repeated; accordingly, the actual prices the Company realises may vary substantially from its current estimates.

The dynamics of refined oil product prices in the international and Kazakhstan markets are determined by a number of factors, the most important being the price of crude oil internationally, supply and demand for refined oil products, competition, distances separating markets from the refineries where the crude oil is refined into useable end or intermediate products and seasonal deficits in the supply of refined oil products, particularly in urban areas, due to agricultural activities and the associated reallocation of refined oil products supplies from cities to agricultural areas. Additionally, a disparity between high crude oil costs and lower prices of refined oil products may have an adverse impact on the financial results of the Company's refining segment.

The mix of export and domestic sales of crude oil has also affected, and is expected to continue to affect, the Company's results of operations. Historically, sales prices for exported crude oil have been significantly higher than domestic sales prices, primarily as a result of recommendations and mandates of the Government, being the Company's sole, indirect shareholder, to sell domestic oil at below market rates. From time-to-time, the Government may issue such recommendations or mandates to prevent domestic price increases, particularly when there is not enough supply due to high demand, causing domestic prices to increase. The Company expects export sales prices to continue to remain at a higher level compared to domestic sales prices, and thus seeks to maximise the percentage of its total crude oil sales that are export sales, although it is not unilaterally able to do so. Should the percentage of export sales increase, this may have a positive effect on the results of operations of the Company, while, correspondingly, if the percentage of mandated domestic sales increases, the Company's results of operations could be adversely affected.

See "*—Results of Operations for the year ended 31 December 2017 compared to the year ended 31 December 2016—Revenue—Sales of Crude Oil*" and "*—Results of Operations for the year ended 31 December 2017 compared to the year ended 31 December 2016—Revenue—Sales of Refined Products*". See "*—Results of Operations for the year ended 31 December 2016 compared to the year ended 31 December 2015—Revenue—Sales of Crude Oil and Refined oil products*" and "*—Results of Operations for the year ended 31 December 2016 compared to the year ended 31 December 2015—Revenue—Sales of Refined Products*".

Notwithstanding the continued low global crude oil prices, as compared to pre-2015 levels, in the years ended 31 December 2017 and 2016, the Company increased its revenue from crude oil sales, primarily as a result of the positive impact of the entry into of the TCO Advanced Oil Sale Transaction (as defined below) in 2016 between KMG Finance, the Company and CA-VIT B.V., which originally provided for the advanced sale by the Company of up to U.S.\$3.0 billion of crude oil and LPG for a 48-month period from May 2016 and has since been amended to increase the contract value by a further U.S.\$1 billion and extended the obligation to deliver crude oil for one year from March 2020 to March 2021. Deliveries of oil pursuant to the Advanced Sale of Oil Transaction commenced with effect from April 2016 and, as a result, the Company recognised revenues in respect of crude oil sales of KZT 1,174.9 billion for the year ended 31 December 2017 and KZT 706.0 billion for the year ended 31 December 2016, as compared to KZT 121.7 billion for the year ended 31 December 2015 (reflecting an increase of 480.1% in 2016). The TCO Advanced Oil Sale Transaction is expected to continue to result in increased (compared to the year ended 31 December 2015 and prior periods) volumes of oil sold by the Company in 2018 and 2019, which, in turn, is expected to impact the Company's revenues and cost of

sales in these periods. See “*Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—TCO—TCO Advanced Oil Sale Transaction*” and Note 21 to the 2016 Financial Statements.

The Company’s income from refined oil products in Kazakhstan is affected by price regulation and the availability of domestic crude oil for refining. From time-to-time, the Government has imposed temporary bans on the export of light distillates and products, carbon oil, gas oils and other petroleum derivatives, including in July 2014 and June 2015, which have prevented the Company from taking advantage of higher prices for the exports of its refined products from Kazakhstan. Although no such ban is currently in force, there can be no assurance as to whether further bans will be introduced or other measures will be taken that could restrict the Company’s ability to take advantage of such transactions. The Company does, in any event, sell refined oil products in the European markets through KMG International, which owns the principal refining operations in Romania. The Company has announced its intention to sell all or a significant portion of its stake in KMG International in one or more transactions over the near- to medium-term, and, in December 2016, entered into a sale purchase agreement relating to the sale of a 51% interest in KMG International to CEFC. The Proposed KMG International/CEFC Sale is expected to be completed in June 2018. See “—*Acquisitions, Discontinued Operations and Loss of Control*”.

### ***Impact of Changes in Exchange Rates***

The KZT/U.S.\$ exchange rate and inflation trends in Kazakhstan affect the Company’s results of operations, principally because (i) a majority of the Company’s consolidated revenue from sales of crude oil and refined oil products are denominated in U.S. Dollars, while a substantial portion of the Company’s expenses are denominated in Tenge, and (ii) a significant majority of the Company’s borrowings and accounts payable are denominated in U.S. Dollars. Accordingly, fluctuations in the KZT/U.S.\$ exchange rate have significantly affected, and are likely to continue to affect, the Company’s consolidated results of operations. On 20 August 2015, the NBK adopted a free-floating exchange rate and medium-term inflation targeting policy, as a result of which the official exchange rate depreciated from KZT 188.38 per U.S.\$1.00 to KZT 339.47 per U.S.\$1.00.

The following table sets forth the period average and period end KZT/U.S.\$ exchange rates reported by the KASE (after rounding adjustment) for the periods indicated:

<b>Period ended</b>	<b>Period Average<sup>(1)</sup></b>	<b>Period-end</b>
	<i>(KZT per U.S.\$1.00)</i>	
Year ended 31 December 2015 .....	221.73	340.01
Year ended 31 December 2016 .....	343.99	333.29
Year ended 31 December 2017 .....	326.08	332.33

Note:

(1) The average of the rate reported by the KASE for each month during the relevant period.

Source: *Kazakhstan Stock Exchange JSC*

As at 31 December 2017, certain borrowings denominated in foreign currencies were designated as hedge instruments. Income of KZT 67.2 billion and KZT 38.0 billion on the translation of these borrowings was recognised in 2017 and 2016, respectively and was transferred to other comprehensive income, which partially offset the loss on translation of foreign operations.

Any further devaluation or depreciation of the Tenge would positively affect the Company’s consolidated sales revenue in light of the breakdown of its transactional currency exposures. For the year ended 31 December 2017, 64% of the Company’s revenue was denominated in U.S. Dollars, while 51% of its cost of sales was denominated in Tenge. On the other hand, the Company has significant U.S. Dollar-denominated liabilities, and, thus, a devaluation or depreciation of the Tenge relative to the U.S. Dollar results in foreign currency translation losses that are recognised in the Company’s consolidated statement of comprehensive income.

### ***Changes in Production of Crude Oil, Gas and Refined Oil Products***

The Company’s ability to generate revenue depends primarily on its production of crude oil, refined oil products and gas.

The Company produces crude oil, refined oil products and gas through its production subsidiaries, which it fully consolidates, as well as through its joint operations, joint ventures and associates. While the Company accounts for its interests in joint operations under the proportionate consolidation method, the Company accounts for its joint ventures



and associates under the equity method and does not directly derive revenue or incur costs of sales from the production of crude oil, refined oil products or gas by its joint ventures and associates. Recognising that KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method. Accordingly, in the context of the discussion of the Company's revenue and cost of sales, production data are provided only for the Company, its subsidiaries, its interests in joint operations and its interests in KPO, excluding the production of joint ventures and associates.

See “—Acquisitions, Discontinued Operations and Loss of Control—KMG EP Buyback”.

#### *Production of Crude Oil*

KMG EP (including KMG EP's proportionate interests in Kazgermunai, CCEL and PKI) accounted for 50.8%, 53.7% and 54.5% of the Company's consolidated production of crude oil for 2017, 2016 and 2015, respectively. In 2017, the Company's consolidated production of crude oil increased by 3.2% to 23.4 million tonnes from 22.6 million tonnes for the year ended 31 December 2016, primarily due to increases in production following the completion of certain maintenance and repair work to equipment at KMG EP, as well as an increase in the number of injection wells. For the year ended 31 December 2016, the Company's consolidated production of crude oil decreased by 1.3% to 22.6 million tonnes from 22.7 million tonnes for the year ended 31 December 2015. On 1 November 2016, commercial production recommenced at the Kashagan Field. The Kashagan Field produced 686.0 thousand tonnes of crude oil attributable to the Company in the year ended 31 December 2017, as compared to 80.8 thousand tonnes of crude oil attributable to the Company in the year ended 31 December 2016, representing 2.9% and 0.4%, respectively, of the Company's production of crude oil for those years. See “Business—Exploration Projects—Kashagan Field”.

#### *Production of Gas*

The Company's major gas producing subsidiaries and interests are KMG EP (including KMG EP's proportionate interests in Kazgermunai, CCEL and PKI), TCO and KPO. KMG EP produced 18.9% (or 1.5 bcm), 18.3% (or 1.3 bcm) and 18.1% (or 1.3 bcm) of the Company's production of gas in the years ended 31 December 2017, 2016 and 2015, respectively. TCO produced 38.6% (or 3.2 bcm), 40.9% (or 3.0 bcm) and 41.1% (or 3.0 bcm) of the Company's production of gas in the years ended 31 December 2017, 2016 and 2015. KPO, in which the Company holds a 10% interest (through its wholly-owned subsidiary, KMG Karachaganak LLP), produced 23.0% (or 1.9 bcm), 23.9% (or 1.7 bcm) and 25.1% (or 1.8 bcm) of the Company's production of gas in the years ended 31 December 2017, 2016 and 2015, respectively. For the year ended 31 December 2017, the Company's consolidated production of gas increased by 11.3% to 8.2 bcm from 7.4 bcm for the year ended 31 December 2016, primarily due to the increase in gas production at Kashagan (as a result of the resumption of commercial production in the Kashagan Field in November 2016) and TCO. The Kashagan Field produced 404.0 mcm of gas attributable to the Company in the year ended 31 December 2017 and 49.6 mcm of gas attributable to the Company in the year ended 31 December 2016, representing 4.9% and 0.7% respectively, of the Company's gas production for those years. For the year ended 31 December 2016, the Company's consolidated production of gas increased by 1.4% to 7.4 bcm from 7.3 bcm for the year ended 31 December 2015, primarily due to increased gas production by TCO.

#### *Production of Refined Oil Products*

The Company's consolidated production of refined oil products includes production at the Atyrau Refinery, the Pavlodar Refinery, the Petromidia Refinery and the Vega Refinery. See “Business—Refining, Marketing and Trading”. For the year ended 31 December 2017, the Company's consolidated production of refined oil products increased by 1.6% to 18.9 million tonnes from 18.4 million tonnes for the year ended 31 December 2015, primarily due to a 4.1% increase in production at the Shymkent Refinery and a 3.4% increase in production at the Pavlodar Refinery, which was, in turn, due to increased production of petroleum products in order to meet the demands of the market. For the year ended 31 December 2016, the Company's consolidated production of refined oil products increased by 0.7% to 18.4 million tonnes from 18.3 million tonnes for the year ended 31 December 2015, primarily due to an 8.6% increase in production at the Petromidia Refinery.

## ***Acquisitions, Discontinued Operations and Loss of Control***

The Company has made several acquisitions and disposals since 1 January 2015, which have had, and are expected to continue to have, an effect on the Company's results of operations, although no single acquisition accounted for more than 10% of the Company's assets or revenues.

### *Consolidated Subsidiaries and Joint Operations*

#### KMG RM Merger

Prior to December 2017, KMG RM was the Company's principal refining, marketing and trading company. On 30 November 2017, a joint decision of the shareholders of the Company and the shareholders of KMG RM approved the merger of KMG RM with the Company, with the aim of increasing efficiency and eliminating the duplication of activities and responsibilities. The merger became effective on 1 December 2017, in accordance with the provisions of the Civil Code of the Republic of Kazakhstan. The joint decision of the shareholders provided for the expansion of the Company's principal operations listed in its charter to include, among others, refining crude oil, operating filling station networks and trading the Company's crude oil and oil products. See *Business—Refining, Marketing and Trading—Refining—Shymkent Refinery*".

#### KMG EP Buyback

On 8 December 2017, KMG EP launched a conditional tender offer (subject to a sufficient level of acceptances) to holders of its outstanding GDRs to purchase GDRs at a price of U.S.\$14.0 per GDR (the "**KMG EP Tender Offer**"). On 23 January 2018, KMG EP announced that it had received valid acceptances in respect of approximately 87% of all outstanding GDRs (excluding GDRs held by KMG EP) and, accordingly, the KMG EP Tender Offer had become unconditional. On 23 January 2018, KMG EP launched an offer to repurchase on the KASE (at a price of U.S.\$84.0 per common share, payable in Tenge) all of its outstanding common shares (the "**KMG EP Share Offer**"). The first settlement date for the KMG EP Tender Offer and the KMG EP Share Offer was 19 February 2018. On 20 February 2018, KMG EP announced that the first settlement date had been effected and, as a result, KMG EP had repurchased a total of: (i) 134,070,054 GDRs, which, as at 31 January 2018, represented approximately 97.7% of the outstanding GDRs of KMG EP (excluding GDRs owned by the Company) and representing approximately 31.8% of the total outstanding common shares of KMG EP; and (ii) 320,688 common shares, which, as at 31 January 2018, represented approximately 0.5% of the total outstanding common shares of KMG EP. The repurchase was funded by KMG EP's own funds. The common shares repurchased by KMG EP will be held in treasury, and the GDRs will be held by KMG EP, subject to surrendering such GDRs for common shares in due course.

On 20 February 2018, KMG EP announced that, following the first settlement date of the KMG EP Tender Offer and the KMG EP Share Offer, the Company and KMG EP together held a total of 47,194,539 common shares and 134,781,116 GDRs of KMG EP, which represented approximately 99.2% of the total common shares of KMG EP. On 13 March 2018, KMG EP announced that, in accordance with their respective terms and conditions, the KMG EP Tender Offer closed on 8 March 2018 and the KMG EP Share Offer closed on 12 March 2018. As at 8 March 2018, KMG EP had acquired or received valid acceptances pursuant to the KMG EP Tender Offer in respect of a total of 135,328,231 GDRs, which, as at 18 February 2018, represented approximately 98.6% of the outstanding GDRs. As at 21 February 2018, 54 million GDRs had been converted into common shares. At the close of trade on the KASE on 12 March 2018, KMG EP had acquired or received bids for sale pursuant to the KMG EP Share Offer in respect of a total of 331,677 outstanding common shares, which, as at 18 March 2018, represented approximately 0.5% of the outstanding common shares (including common shares represented by GDRs). The final settlement date of the KMG EP Tender Offer and the KMG EP Share Offer is expected to be 5 April 2018.

As a result of KMG EP Tender Offer and the KMG EP Share Offer, the percentage of ordinary voting shares of KMG EP owned by the Company will increase. Accordingly, the completion of the KMG EP Tender Offer and the KMG EP Share Offer are expected to have an impact on the Company's financial condition and results of operations going forward. While the Company expects the KMG EP Tender Offer and the KMG EP Share Offer to lead to a cash outflow, it does not expect such cash outflow to have a material adverse impact on the Company's financial condition and results of operations. The Company is in the process of considering its options in respect of the re-integration of KMG EP into the Company in the context of its other transformation programmes.

See "*Business—Strategy*" and "*Business—Exploration and Production—Significant Production Fields of KMG EP*".

### KMG Kashagan B.V.

On 16 October 2015, Coöperatieve KazMunaiGaz U.A sold 50% of its shares in KMG Kashagan B.V. to Samruk-Kazyna for an amount of U.S.\$4.7 billion, with a call option to buy back all or part of the shares effective from 1 January 2018 to 31 December 2020 (subject to extension by mutual agreement). In January 2018, the exercise period for the call option was extended to between 1 January 2020 and 31 December 2022.

Following the sale, Samruk-Kazyna transferred the shares back to the Group (to Coöperatieve KazMunaiGaz U.A.) to be held in trust management for Samruk-Kazyna, and the Group continues to control the daily operations of KMG Kashagan B.V. In January 2018, the Amsterdam District Court issued a judgment in which it upheld an earlier *ex parte* attachment granted to the Stati Parties with respect to the Republic of Kazakhstan's 8.44% shareholding in KMG Kashagan B.V. held through Samruk-Kazyna. The attachment does not effect the day-to-day management of Samruk-Kazyna's stake in KMG Kashagan B.V., save for payment of dividends to Samruk-Kazyna. See "*Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—TCO*".

In the 2016 Financial Statements, the disposal of 50% of the shares in KMG Kashagan B.V. was classified as a loss of control of a subsidiary and, accordingly, the Company derecognised the assets and liabilities of KMG Kashagan B.V. from the Company's consolidated financial statements. See Note 7 to the 2016 Financial Statements.

### KMG International

In December 2016, the Company entered into a share sale and purchase agreement with CEFC China Energy Company Limited (the "**CEFC Agreement**") to sell 51% of the shares of capital stock it holds in KMG International to CEFC China Energy Company Limited or one or more of its affiliates ("**CEFC**") for a purchase price payable by CEFC to KMG of U.S.\$680 million (the "**Proposed KMG International/CEFC Sale**"). Accordingly, KMG International has been considered and recorded in the Company's consolidated Financial Statements as a "discontinued operation" and the assets and liabilities of KMG International have been considered and recorded as "assets classified as held for sale" since December 2015 (see Note 5 to the 2017 Financial Statements and Note 5 to the 2016 Financial Statements).

The Proposed KMG International/CEFC Sale is in line with the Group's overall strategy to focus on its operations in Kazakhstan, as well as the Government's 2014 Complex Privatisation Programme and 2016 Complex Privatisation Programme. The Company expects that the Proposed KMG International/CEFC Sale will reduce the level of KMG's consolidated debt and that, consequently, the Proposed KMG International/CEFC Sale will reduce the Group's debt service and thereby improve its overall liquidity position, while also providing funds to the Group.

Under the CEFC Agreement, the Proposed KMG International/CEFC Sale is subject to the satisfaction of a number of conditions precedent. To this end, in April 2017, the Company, in conjunction with KMG Finance, successfully completed a consent solicitation pursuant to which, *inter alia*, the consent of holders of the then-outstanding Notes under the Programme to the sale of the Company's interest in KMG International was obtained. Consents to the sale from lenders under the Company's debt facilities, as necessary, were also obtained.

In July 2017, the Company received the approval from Romania's Supreme Council of National Defence and the Romanian anti-trust regulator to proceed with the Proposed KMG International/CEFC Sale. In December 2017, following public statements by the Prime Minister and the Minister of Energy of Romania refusing to extend an existing agreement with KMG International regarding the settlement of historical debts (which has since been extended to April 2018, see "*Business—Refining, Marketing and Trading—KMG International—Rompertol Convertible Note*"), the Company and CEFC signed an agreement to postpone the closing date of the Proposed KMG International/CEFC Sale to 30 June 2018.

The principal conditions precedent for the completion of the Proposed KMG International/CEFC Sale are the redemption of a 26.7% stake in Rompetrol Rafinare from the Romanian State and the creation of a Kazakhstan-Romanian investment fund, through which KMG International is expected to make an equity contribution of U.S.\$150 million. See "*Business—Refining Marketing and Trading—KMG International—Rompertol Convertible Note*". The Proposed KMG International/CEFC Sale is expected to be completed by the end of June 2018.

Following the Proposed KMG International/CEFC Sale, the Company will continue to hold 49% of KMG International, and, although the Company may in the future pursue sales of a further stake in KMG International, in the short- to medium-term, the Company expects to continue to sell a significant portion of its retail products through KMG International, providing the Company with access to, and a presence in, the downstream oil and gas segment in Europe without being required to make additional investments.

Whether or not the Proposed KMG International/CEFC Sale is completed, the Company may pursue sales of additional stakes in KMG International, by way of merger, consolidation or similar transactions relating to shares of capital stock in KMG International or by way of sales or dispositions of assets. In all cases, however, the Company expects to effect any such sale only if the proposed terms comprise arm's length terms and that, in particular, the purchase price to be received by the Company is at least equal to the fair market value. The fair market value of the purchase price for any such sale will be determined by the Company's Board of Directors in good faith or, if required, by an independent appraiser, as was the case for the Proposed KMG International/CEFC Sale.

The following table sets forth the results of KMG International for the periods indicated (after elimination of intra-group transactions):

	For the year ended 31 December		
	2017	2016	2015
	<i>(KZT billions)</i>		
Revenue .....	2,334.9	1,695.7	1,579.3
Cost of sales .....	(1,416.2)	(1,194.0)	(1,056.6)
<b>Gross Profit</b> .....	<b>918.7</b>	<b>501.7</b>	<b>522.7</b>
<b>Operating Profit</b> .....	<b>801.5</b>	<b>375.7</b>	<b>248.7</b>
<b>Profit before income tax for the year from discontinued operation</b> .....	<b>791.1</b>	<b>364.6</b>	<b>240.6</b>
<b>Profit after income tax for the year from discontinued operation</b> .....	<b>792.8</b>	<b>368.2</b>	<b>261.6</b>

While, when examined in the context of the results of the Company's continuing operations for the years ended 31 December 2017, 2016 and 2015, as presented in the 2017 Financial Statements and 2016 Financial Statements, the effect of removing the discontinued operation appears to have a negative effect on the Company's results, as for such periods, intragroup transactions between the Group companies and KMG International have been eliminated. Following the sale of at least 51% of KMG International, as KMG International's results will no longer be consolidated as part of the Group, the Company will recognise revenues from such intragroup transactions.

See Note 5 to each of the 2017 Financial Statements and the 2016 Financial Statements and "*Business—Refining, Marketing and Trading—KMG International*".

#### Eurasia Air

On 8 November 2017, the Company completed the sale of 100% of the shares of Eurasia Air for KZT 11.9 billion. This disposal was in line with the 2016 Complex Privatisation Plan. See Note 6 to the 2017 Financial Statements.

#### Aysir

In 2016, the Group ceased to classify Aysir as a discontinued operation, as it did not meet the criteria of IFRS 5. Accordingly, the assets and liabilities of Aysir were transferred from discontinued operations to continuing operations. See Note 6 to the 2016 Financial Statements (*Significant Accounting Estimates And Judgements*) and "*Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications*".

#### KazakTurkMunay LLP

In June 2014, the Company entered into a sale and purchase agreement to acquire the remaining 49% of KazakTurkMunay LLP ("**KTM**") from Türkiye Petrolleri Anonim Ortaklığı for a total consideration of U.S.\$204.5 million. This acquisition was completed in October 2014. The purchase consideration was paid in two tranches on 25 September 2014 and 5 May 2015.

#### JSC Karpovskiy Severnyi

In December 2011, KMG EP acquired 100% of the shares of JSC Karpovskiy Severnyi (now KS EP Investments B.V. ("**KS EP**")) from GazMunaiOnim LLP for a total consideration of U.S.\$57.3 million. In July 2012, KMG EP entered into an agreement with MOL Hungarian Oil and Gas Plc to sell 49% of its shares in KS EP. This sale was completed in November 2012. In June 2017, KMG EP repurchased this 49% interest for U.S.\$1.00 and, accordingly, as at 31 December

2017, KMG EP owned 100% of KS EP. See “*Business—Exploration Projects—Other activities*” and Note 7 to the 2017 Financial Statements.

#### *Non-consolidated Joint Ventures and Associates*

Since 1 January 2015, the Company has acquired interests in several joint ventures and associates, which are accounted for under the equity method in the Company’s consolidated financial statements. Under the equity method, the Company recognises its share of the net profit or loss of these joint ventures and associates as a separate line item in the Company’s consolidated statement of comprehensive income. Accordingly, these acquisitions have had, and are expected to continue to have, a material effect only on the Company’s profits.

#### *Tariffs for Oil and Gas Transportation Services*

The Company’s oil and gas transportation revenue is generated from tariffs charged to its customers.

Oil transportation revenue is generated principally by KTO under long-term contracts for the transportation of crude oil to be exported through the pipeline systems it operates. The tariff generally covers the costs of financing, operating and maintaining the pipeline, increased by a separate profit element. As KTO is considered to be a natural monopoly, the export tariffs it charges were fixed by the Natural Monopolies Committee, subject to increase only on request by KTO. In May 2015, however, a number of amendments were made to the Law on Natural Monopolies (№ 272-I, dated 9 July 1998), which abolished State regulation of tariffs for export and transit of crude oil by trunk pipeline. Accordingly, on 26 June 2015, KTO implemented the following tariffs for exports of crude oil: (i) KZT 5,817.2 per tonne per 1,000 km (excluding VAT); and (ii) KZT 1,727.1 per tonne per 1,000 km, (excluding VAT) for crude oil exported by Tuimazy-Omak-Novosibirsk-2.

Domestic tariffs remain subject to approval by the Natural Monopolies Committee. On 21 August 2015, the Natural Monopolies Committee approved the following maximum tariffs for domestic transportation of crude oil by KTO: KZT 3,225.04 per tonne per 1,000 km (excluding VAT) from October 2015; KZT 3,547.46 per tonne per 1,000 km (excluding VAT) from January 2016; KZT 3,902.13 per tonne per 1,000 km (excluding VAT) from January 2017; KZT 4,292.40 per tonne per 1,000 km (excluding VAT) from January 2018; and KZT 4,721.72 per tonne per 1,000 km (excluding VAT) from January 2019.

Such increases in the tariffs charged by KTO have had, and any future increases are expected to continue to have, a positive increase on the oil transportation fees received by the Company, as well as on KTO’s profitability. Conversely, however, such tariff increases have in the past, and are expected in the future to continue to have, a weaker negative impact on the Company’s upstream businesses and associated entities, such as TCO, KPO, KazakhoilAktobe and MMG.

See “*Business—Transportation—Transportation of Crude Oil—Crude Oil Transportation Tariffs and Minimum Volumes*”.

Gas transportation revenue is generated principally through ICA under contracts for the transportation of natural gas through the pipeline system ICA operates. In December 2014, a trust management agreement was signed between the State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan, Samruk-Kazyna and ICA, pursuant to which ICA was appointed as trust manager of the pipeline system. The trust management agreement does not regulate the tariffs to be charged by ICA, which are to be imposed pursuant to Kazakhstan law requirements.

In May 2015, a number of amendments were made to the Law on Natural Monopolies, which abolished Government regulation of tariffs for export. Accordingly, only domestic gas transportation tariffs are subject to regulation by the Natural Monopolies Committee.

Once approved, domestic tariffs remain in effect for the duration of the approval granted, which is typically for one year. ICA then has the right to apply to the Natural Monopolies Committee with a request to review and modify such tariffs. ICA’s domestic transportation tariffs are significantly impacted by social and political considerations and have historically been kept at artificially low levels. The Natural Monopolies Committee routinely reviews domestic gas tariffs at the request of ICA, although, since 2014, the Natural Monopolies Committee has not modified domestic gas tariffs. In each of the years ended 31 December 2017, 2016 and 2015, ICA’s tariffs for domestic transportation of gas were KZT 1,380 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for utility companies engaged in the generation of thermal energy.

The following tariffs have been approved by the Natural Monopolies Committee and are in effect for the transportation of commercial gas: (i) KZT 2.2 million per 1,000 cubic metres (excluding VAT) in respect of ICA (with effect from 1

January 2017); (ii) KZT 3.5 million per 1,000 cubic metres (excluding VAT) in respect of the Asia Gas Pipeline (with effect from 1 March 2016); and (iii) KZT 18.1 million per 1,000 cubic metres (excluding VAT) in respect of the Beineu-Bozoi-Shymkent Gas Pipeline (with effect from 1 March 2016).

Since the abolition of Government regulation of export tariffs, ICA freely negotiates, determines and agrees on international transportation tariffs with its international transit contractor counterparties without regulation by the Natural Monopolies Committee. Most of the tariff rates for international gas transportation, accordingly, are determined by contract and, as such, may be renegotiated as provided in the applicable contract. The contract tariffs are generally a function of costs plus the average rate of return on fixed assets.

On 9 July 2014, pursuant to the contract between KTG and TCO, the international gas transportation tariff was increased from U.S.\$2.80 per 1,000 cubic metres of natural gas transported over 100 km of pipeline to U.S.\$3.00 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for the export of natural gas produced by TCO. On 20 April 2016, pursuant to the contract between KTG and TCO, the international gas transportation tariff was increased from U.S.\$3.00 per 1,000 cubic metres of natural gas transported over 100 km of pipeline to U.S.\$5.00 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for the export of natural gas produced by TCO. As at the date of this Base Prospectus, the tariff with TCO remains unchanged.

In October 2017, Kazakhstan began exporting gas deliveries to China pursuant to a contract concluded between KTG and PetroChina International Company Limited (“**PetroChina**”) for the supply of 5 bcm of natural gas during the period from 15 October 2017 until 14 October 2018. The total estimated consideration under this agreement is U.S.\$889.7 million. The price of gas exported to China pursuant to this agreement is linked to the price of Brent crude oil and determined quarterly.

Negotiations are ongoing with respect to a long-term gas supply agreement between KTG and PetroChina. BSGP and the Company expect the transportation of gas to China to increase in the coming years and, in order to facilitate such transportation, plans to construct three new compressor stations on the Beineu-Bozoi-Shymkent Gas Pipeline between 2018 and 2019 (at an estimated cost of KZT 109.2 billion).

See “*Business—Transportation—Transportation and Storage of Gas—Gas Transportation Tariffs*”.

### ***Changes in the Company’s Capital Expenditure Programme***

In 2017, the Company completed a number of capital expenditure-intensive programmes and transportation projects with joint ventures, including construction projects at the Beineu-Bozoi-Shymkent Gas Pipeline and a number of modernisation and upgrade projects at its three refineries in Kazakhstan. The total cost of the modernisation of the Atyrau Refinery, which was completed in December 2017, was U.S.\$2,050.1 million (KZT 589.9 billion) and the total cost of the modernisation and reconstruction of the Pavlodar Refinery, which was also completed in December 2017, was U.S.\$895.5 million (KZT 252.1 billion). In addition, the Company’s joint venture at the Shymkent Refinery has budgeted a total cost of U.S.\$2,094.3 million (KZT 657.9 billion) in capital expenditures in connection with improvement works at the Shymkent Refinery, which were partially completed in 2017 and are expected to be fully completed by the end of September 2018.

As a result of these and other capital expenditure intensive projects undertaken by the Company, in 2017, the Company’s total capital expenditures were KZT 637.2 billion, as compared to KZT 554.1 billion in 2016 and KZT 626.4 in 2015.

Following the completion of the recent and ongoing modernisation projects (including the planned construction of three new compressor stations on the Beineu-Bozoi-Shymkent Gas Pipeline in 2018 and 2019 to facilitate the transportation of gas to China), the Company currently expects capital expenditures to be lower than in recent years, with the majority of such capital expenditures relating to, among others, exploration projects and projects aimed at maintaining KMG EP’s current levels of production.

### ***Changes in the Share in Profit from Joint Ventures and Associates***

The Company holds significant interests, both directly and through its subsidiaries, in a number of joint ventures and associates, including principally TCO, KazRozGas (see “*Business—Refining, Marketing and Trading—Gas Sales and Distribution—KazRosGas*”), PKI, Kazgermunai and Valsera Holdings B.V., which indirectly owns the Shymkent Refinery through its 49.72% interest in PetroKazakhstan Oil Products LLP. The interests of the Company and its subsidiaries in joint ventures are accounted for using the equity method of accounting. Under the equity method, the Company’s consolidated statement of comprehensive income simply reflects the share of the Company and its subsidiaries of the net profit or loss of the joint ventures as a single line item.

Upon the acquisition of joint operations, the Company recognises in relation to its interest in such joint operations, including its share of any assets held jointly and assets and liabilities, its share of any liabilities incurred jointly. The Company also recognises its revenue from the sale of its share of the output arising from the joint operations; its share of the revenue from the sale of the output by the joint operations; and expenses arising from the joint operations, including its share of any expenses incurred jointly.

Associates are entities over which the Company directly or indirectly has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates, as is the case with investments in joint ventures, are accounted for using the equity method of accounting. The Company's and its subsidiaries' interests in associates are limited to their share of the net profit or loss of such associates and are reflected as a single line item in the Company's consolidated statement of comprehensive income in the 2017 Financial Statements and in the 2016 Financial Statements.

For the years ended 31 December 2017, 2016 and 2015, the Company derived a significant portion of its consolidated profits from TCO and its other joint ventures and associates, including income after tax attributable to the Company's 20% joint venture interest in TCO (as at 31 December 2017) of KZT 290.0 billion, KZT 147.9 billion, KZT 162.2 billion, respectively, and total income after tax attributable to all of the Company's joint venture interests and associates of KZT 414.6 billion, KZT 270.2 billion and KZT 112.8 billion, respectively. Accordingly, the Company's profitability has been, and is expected to continue to be, materially affected by the results of operations of such joint ventures over which it does not exercise full control.

### **Taxation**

In February 2016, the Minister of National Economy of Kazakhstan introduced a progressive scale of export customs duty rates on crude oil. Under the new regime, crude oil is subject to a floating export duty rate. Export duty rates are calculated on the mean market prices of Brent Crude and Urals oil trading classifications. In February 2018, the export duty rate was U.S.\$65.00 per tonne.

On 1 January 2018, the 2018 Tax Code came into effect, which replaced the 2009 tax code (the "**2009 Tax Code**"). The 2018 Tax Code introduced a number of new concepts that may impact the Company's tax burden in future periods. The key amendments introduced by the 2018 Tax Code, which may have an impact on the Company, include, *inter alia*:

- *Principle of good faith*: The 2018 Tax Code formulates the principle of taxpayer "good faith", which *inter alia* stipulates that ambiguities in tax rulings and laws shall be construed in taxpayer's favour when considering a taxpayer's appeal.
- *Controlled Foreign Companies*: The 2018 Tax Code provides for the inclusion of the total profit of controlled foreign companies and permanent establishments of controlled foreign companies ("**CFCs**") in the taxable base for corporate income tax. For such purposes, a CFC is defined as a non-resident legal entity or any other form of foreign business organization, where more than 25% of the shares or participatory interests are directly or indirectly or *de facto* held by a legal entity or an individual resident of the Republic of Kazakhstan or a legal entity or individual resident of the Republic of Kazakhstan has direct or indirect or *de facto* control over such entity or organisation provided that such entity or organization, or its permanent establishment ("**PE**"), is registered in a jurisdiction with a favourable tax regime or the effective tax rate of the CFC or its PE is less than 10%.
- *Alternative Tax on Subsoil Use*: The 2018 Tax Code establishes the "Alternative Tax on Subsoil Use", as an alternative to the previous subsoil users' taxes. Subsoil users that carry out exploration and/or combined exploration and production of hydrocarbons on Kazakhstan's continental shelf and certain deep deposit fields may opt to pay this alternative tax in lieu of payment of excess profits tax, minerals extraction tax on the extraction of hydrocarbons, payments reimbursing the State's historical costs and rent tax on exports of hydrocarbons. A qualifying subsoil user that entered into a Subsoil Use Agreement before 1 January 2018 must file a notification with the relevant authority if it wishes to elect to pay this alternative tax. Once it has elected to pay the alternative tax, it cannot then revert to paying subsoil users' taxes. The alternative tax cannot be deducted for corporate income tax purposes and tax rates vary between 0% and 30% depending on the market price of crude oil, increasing by 6% for each U.S.\$10 per barrel increase.
- *Commercial Discovery Bonus*: With effect from 1 January 2019, the commercial discovery bonus (tax benefit) shall be abolished for all subsoil users in Kazakhstan.

- *Signature Bonus:* The 2018 Tax Code has increased the minimum “signature bonus” for contracts for hydrocarbon exploration and production contracts in respect of approved levels of reserves to 10,000 monthly calculation indexes from 3,000 monthly calculation indexes, with such indexes to be reconsidered by the Government on an annual basis. The 2018 Tax Code provides that the signature bonus shall be paid in one instalment (under the 2009 Tax Code the bonus was paid in two equal instalments).
- *Excess Profits Tax:* With effect from 1 January 2018, excess profits tax shall no longer apply to persons who elect to pay the newly-introduced “Alternative Tax on Subsoil Use”.
- *Taxation of PSAs:* The 2018 Tax Code provides that taxation provisions applicable to PSAs entered into before 1 January 2009, which were subject to mandatory tax expert examination, remain in full force and effect and are not superseded by the 2018 Tax Code.

### ***New IFRS Standards***

The Company’s results of operations have in the past, and may continue in the future, to be affected by the adoption of new IFRS and other accounting standards.

#### ***IFRS 9***

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. The Company has adopted the new standard with effect from 1 January 2018 and does not intend to recalculate comparative information.

The Company has not completed a detailed impact assessment of all three aspects of IFRS 9, and, accordingly, the Company’s assessment of the impact of IFRS 9 may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018, following the Company’s adoption of IFRS 9.

In respect of impairment, IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Company is in the process of developing a unified approach for all entities within the Group with respect to the application of IFRS 9 and to assess the effect of IFRS 9 adoption.

#### ***IFRS 15***

IFRS 15 was issued in May 2014 and amended in April 2016, establishing a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. This new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. During 2017, the Company performed a detailed analysis of IFRS 15 and decided to apply a modified retrospective method application.

See Note 3 to the 2017 Financial Statements.

### **Critical Accounting Policies and Estimates**

The 2017 Financial Statements and the 2016 Financial Statements have been prepared in conformity with IFRS. The preparation of consolidated financial statements in conformity with IFRS requires the Company’s management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. For a full description of the Company’s significant accounting policies, see Note 3 of the 2017 and 2016 Financial Statements. Management’s selection of appropriate accounting policies and the making of such estimates and assumptions involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used, and actual amounts may differ from these estimates. Set forth below are summaries of the most critical accounting estimates and judgments required of the Company’s management.

See Note 4 of the 2017 and 2016 Financial Statements and “*Presentation of Financial, Reserves and Certain Other Information*”.



## ***Oil and Gas Reserves***

Oil and gas reserves are a material factor in the Company's computation of depreciation, depletion and amortisation. The Company estimates its reserves of oil and gas for this computation in accordance with the methodology of the Society of Petroleum Engineers ("SPE"). In estimating its reserves under SPE methodology, the Company uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. The Company's management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve a degree of uncertainty. The extent of such uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for depreciation, depletion and amortisation in relation to oil and gas production assets. The Company has included in proved reserves only those quantities that are expected to be produced during the initial Subsoil Use Agreement period. This is due to the uncertainties related to the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Company's Subsoil Use Agreement periods and a corresponding increase in reported reserves would generally lead to lower depreciation, depletion and amortisation expense and could materially affect earnings. A reduction in proved developed reserves will increase depreciation, depletion and amortisation expense (assuming constant production), reduce income and could also result in an immediate write down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for depreciation, depletion and amortisation.

## ***Recoverability of Oil and Gas Assets***

The Company assess assets or cash generating unit ("CGU") for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions, such as long-term oil prices, discount rates, future capital requirements and operating performance (including production and sales volumes), which are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered to be impaired and is written down to its recoverable amount. In assessing the recoverable amount, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

As at 31 December 2017, the Company did not carry out an assessment due to absence of impairment or impairment reversal indicators. As at 31 December 2017, further decreased levels of drilling services provided and increases in inflation rate and cost of capital indicated that the Company's CGUs may be impaired. Therefore, for the year ended 31 December 2017, management has carried out a formal assessment of the recoverable amount of its assets. An impairment loss of KZT 23.3 billion (see Note 7 to the 2017 Financial Statements), mainly related to property, plant and equipment of Oil Transport Corporation ("OTC") and Pavlodar Oil Chemical Plant JSC ("PNHZ") was recognised in the 2017 Financial Statements.

OTC calculates recoverable amount using a discounted cash flow model. The discount rate of 12.77% to 16.01% was derived from the CGU's post-tax weighted average cost of capital. The five-year business plans, which are approved on an annual basis, are the primary source of information. They contain forecasts of volume of services volumes, revenues, costs and capital expenditures. Various assumptions, such as tariffs for the service and cost inflation rates, take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and variability. Most of the projections beyond the five-year period were inflated using available inflation estimates.

Based on the results of this impairment test no impairment of PNHZ's goodwill was identified in 2017.

### ***Recoverability of Downstream, Refining and Other Assets***

The Company performed its annual impairment tests in December 2017 and 2016. The Company considers the forecast refinery margins and production volumes, among other factors, when reviewing for indicators of impairment. Decline in market forecasts indicates a potential impairment of goodwill and/or assets of refining, downstream and other segments. As at 31 December 2017, the Company had material goodwill related to past acquisitions of PNHZ.

#### ***PNHZ***

As at 31 December 2017, the recoverable amount of PNHZ's CGU amounted to KZT 432.6 billion (KZT 315.4 billion in 2016). It was calculated based on fair value less costs to sell. The fair value less costs to sell calculation is based on a discounted cash flow model. Cash flows assume the highest and best use of assets by independent market participants, *i.e.*, other companies of the same industry in the existing economic environment. The discount rate applied to the cash flow projections is 13.25% (11.58% in 2016), and cash flows beyond the five-year period are extrapolated using a 2.78% growth rate (4.99% in 2016).

Based on the results of impairment test, no impairment of PNHZ goodwill was identified in 2017.

See Note 4 of the 2017 Financial Statements and 2016 Financial Statements.

### ***Assets Retirement Obligations***

#### ***Oil and Gas Production Facilities***

Under the terms of certain Subsoil Use Agreements and applicable legislation and regulations, the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities, such as removal of pipes and buildings and the recultivation of the contract territories, and also obligations to dismantle and remove tangible assets and restore territory at each production site. Since the Subsoil Use Agreement terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each Subsoil Use Agreement period. If the asset retirement obligations were to be settled at the end of the economic life of the oil and gas field, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and final closure costs depends on the terms of the respective Subsoil Use Agreement and current legislation.

Where neither contracts, legislation nor regulation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the Subsoil Use Agreement term, no liability has been recognised. There is some uncertainty and significant judgment involved in making such a determination. The Company's management's assessment of the presence or absence of such obligations could change with shifts in the policies and practices of the Government or in the local industry practice.

The Company calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market.

At each reporting date, the Company reviews site restoration provisions, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities".

Estimating future closure costs involves significant estimates and judgments by the Company's management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Company estimates future well abandonment costs using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in the consolidated statement of financial position across the Group companies as at 31 December 2017 ranged from 2.01% to 5.57% and from 5.17% to 10.00%, respectively (as compared to ranges of 2.04% to 6.7% and 5.5% to 10.15% as at 31 December 2016). See Note 21 of the 2017 Financial Statements for details of the movements in the provision for asset retirement obligations.

### *Oil and Gas Major Pipelines*

According to the Law “On Major Pipelines”, which came into force on 4 July 2014, the Company’s two subsidiaries, KTO and ICA, have a legal obligation to decommission their oil pipelines at the end of their operating lives and to restore the land to its original condition.

Asset retirement obligations are estimated based on the value of the work to decommission and rehabilitate such pipelines. As at 31 December 2017, the carrying amounts of the Company’s asset retirement obligations relation to decommissioning of pipelines and land were KZT 65.1 billion (KZT 59.5 billion as at 31 December 2016).

### *Environmental Remediation*

The Company’s management also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalised or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Company’s environmental remediation provision represents management’s best estimate, based on an independent assessment, of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan and Europe. The Company has classified this obligation as non-current except for the portion of costs, included in the annual budget for 2017. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. See also Note 35 of the 2017 Financial Statements and Note 36 of the 2016 Financial Statements for details of further uncertainties related to environmental remediation obligations.

### *Employee Benefits*

The cost of defined long-term employee benefits before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumption are reviewed at each reporting date.

### *Taxation*

In assessing tax risks, the Company’s management considers to be probable obligations the known areas at tax positions that the Company would not appeal or does not believe it could successfully appeal if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Company’s Subsoil Use Agreements, the determination of expected outcomes from pending tax proceedings and the outcome of ongoing compliance audits by tax authorities. See Notes 21 and 35 of the 2017 Financial Statements and Notes 22 and 36 of the 2016 Financial Statements.

Taxable income is computed in accordance with the tax legislation enacted as at 1 January 2017. Deferred tax is calculated with respect to both corporate income tax and excess profit tax. Deferred corporate income tax and excess profit tax are calculated based on temporary differences for assets and liabilities allocated to the Subsoil Use Agreement at the expected rates that were enacted by the tax authorities as at 31 December 2017.

Deferred tax assets are recognised for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and the business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised deferred tax as at 31 December 2017 was KZT 65.1 billion (KZT 71.9 billion as at 31 December 2016).

### *Fair Values of Financial Instruments*

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using certain valuation techniques, including the discounted

cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 33 of the 2017 Financial Statements.

### ***Operating Lease Commitments***

The Company has entered into office space and car leases. The Company has determined that the lessor retains all the significant risks and rewards of ownership of office spaces and cars, and, accordingly, accounts for them as operating leases in the 2017 Financial Statements and in the 2016 Financial Statements.

### ***Useful Lives of Property, Plant and Equipment***

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year end and, if expectations differ from previous estimates, the changes are accounted for prospectively as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

### ***Fair Values of Assets and Liabilities Acquired in Business Combinations***

The Company is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

### ***Discontinued Operations***

In September 2015, the Company developed a new privatisation plan, which was subsequently approved by the Government in December 2015. The new privatisation plan envisages the sale of certain assets, including a 51% share in KMG International. On 15 December 2016, following this plan, the Company signed a share sale and purchase agreement to sell a 51% interest in KMG International. The Company estimated fair value of the 51% share in KMG International at U.S.\$680.0 million (equivalent to KZT 226.0 billion). The Company considered the subsidiary to meet the criteria to be classified as discontinued operations for the following reasons: (i) KMG International is available for immediate sale and can be sold in its current condition; and (ii) the actions to complete the sale were initiated and expected to be completed within one year. See “—*Main Factors Affecting Results of Operations and Liquidity—Acquisitions, Discontinued Operations and Loss of Control—KMG International*” and Note 5 of the 2017 Financial Statements.

## **Results of Operations for the Year Ended 31 December 2017 Compared to the Year Ended 31 December 2016**

### ***Revenue***

For the year ended 31 December 2017, total revenue was KZT 2,458.8 billion compared to KZT 1,857.4 billion for the year ended 31 December 2016, reflecting an increase of KZT 601.4 billion, or 32.4%. This increase was primarily due to a KZT 468.9 billion, or 66.4%, increase in sales of crude oil.

The following table sets forth certain information regarding the Company’s revenue for the periods indicated:

	<b>For the year ended 31 December</b>		<b>% change between the years ended 31 December 2016 and 2017</b>
	<b>2017</b>	<b>2016</b>	
	<i>(KZT billions)</i>		
Sales of crude oil.....	1,174.9	706.0	66.4
Sales of gas and gas products.....	393.2	334.5	17.5
Transportation fee .....	332.3	322.3	3.1
Sales of refined products.....	308.0	293.1	5.1
Refining of oil and oil products .....	129.1	99.1	30.3
Quality bank for crude oil .....	(21.5)	(19.9)	(8.0)
Other revenue.....	142.9	122.3	16.8
<b>Total .....</b>	<b>2,458.8</b>	<b>1,857.4</b>	<b>32.4</b>

### Sales of Crude Oil

The following table sets forth certain information regarding the Company's sales revenue and sales volumes of crude oil for the periods indicated:

	<b>For the year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
Crude oil sales revenue ( <i>KZT billions</i> ) <sup>(1)</sup> .....	1,174.9	706.0
Crude oil sales volumes ( <i>thousands of tonnes</i> ) <sup>(2)</sup> .....	8,970.2	9,009.5
Average price per tonne of crude oil ( <i>KZT</i> ) <sup>(3)</sup> .....	130,978	78,362

Notes:

- (1) After elimination of intragroup sales of crude oil to KMG RM.
- (2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intragroup sales volumes to KMG RM.
- (3) Average price per tonne of crude oil is calculated by dividing total crude oil sales revenue (after elimination of intragroup sales of crude oil) by total crude oil sales volumes (after elimination of intragroup sales volumes to KMG RM).

Total revenue from the Company's sales of crude oil increased by KZT468.9 billion, or 66.4%, to KZT 1,174.9 billion for the year ended 31 December 2017 compared to KZT 706.0 billion for the year ended 31 December 2016. This increase was primarily a result of increases in sales volumes of crude oil pursuant to the TCO Advanced Oil Sale Transaction, as well as higher global oil prices in 2017 compared to 2016.

Revenue from sales of crude oil is particularly impacted by sales by KMG EP. The following table sets forth certain information regarding export sales of KMG EP and, prior to 1 April 2016, domestic sales of KMG EP to the Company (and prior to December 2017, KMG RM) for further processing at the Atyrau Refinery for the periods indicated:

	<b>For the year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
Crude oil export sales ( <i>thousands of tonnes</i> ).....	5,700	4,946
Average price per tonne of crude oil export sales ( <i>KZT</i> ).....	128,881	103,659
Crude oil sales to the Company/KMG RM ( <i>thousands of tonnes</i> )..	—	830
Average price per tonne of crude oil sales to the Company/KMG RM ( <i>KZT</i> ) .....	—	18,625

Total volumes of KMG EP's crude oil export sales increased to 5,700 thousand tonnes for the year ended 31 December 2017 compared to 4,946 thousand tonnes for the year ended 31 December 2016, reflecting an increase of 15.2%, primarily as a result of a geographical redistribution of sales volumes, which resulted in a decrease in the supply of petroleum products to the domestic market and an increase in the volume of sales of crude oil for export.

Prior to April 2016, KMG EP sold a portion of the crude oil it produced to KMG RM in order to meet its domestic supply obligation. KMG RM further processed this crude oil and sold refined products. With effect from April 2016, KMG EP has instead provided volumes of crude oil for processing at the Atyrau Refinery and Pavlodar Refinery (and paid the corresponding processing fee) and then sold refined oil products for its own account, using KMG RM (and now the Company) as a sales agent. On 1 January 2017, KMG EP has started marketing refined products for its own account. In December 2017, KMG RM was merged with the Company.

Total volumes of KMG EP's domestic crude oil sales were 0.8 million tonnes for the year ended 31 December 2016.

The Company does not have access to full information in respect of crude oil export sales of its subsidiaries, joint ventures and associates of the Company other than KMG EP.

### Sales of Gas and Gas Products

The Company's gas products include natural gas, which is marketed by KTG, and liquefied natural gas, which is marketed by KMG EP. For the year ended 31 December 2017, sales of gas and gas products were KZT 393.2 billion compared to KZT 334.5 billion for the year ended 31 December 2016, reflecting an increase of KZT 58.7 billion, or 17.5%. This increase was primarily due to an increase in the sale of gas to Uzbekistan and an increase in domestic household and industrial enterprises demand.

### Sales of Refined Products

The following table sets forth certain information regarding the Company's refined oil products sales, where the Company is a principal, excluding tolling volumes and sales, for the periods indicated:

	<b>For the year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
Refined oil products sales ( <i>KZT billions</i> ).....	308.0	293.1
Refined oil products volumes sold ( <i>thousands of tonnes</i> ).....	2,308	2,026
Average price per tonne of refined oil products ( <i>KZT</i> ) .....	128,978	144,669

Total revenue from the Company's refined oil products sales for the year ended 31 December 2017 increased by KZT 14.9 billion, or 5.1%, to KZT 308.0 billion compared to KZT 293.1 billion for the year ended 31 December 2016. This increase was primarily a result of the increased volume of oil refining in 2017 compared to 2016, and accordingly, an increase in volumes of refined oil products sales. This increase was partially offset by a decrease in the average price per tonne of refined oil products in 2017, as compared to 2016.

### Transportation Fees

In the year ended 31 December 2017, transportation fees were KZT 332.3 billion, as compared to KZT 322.3 billion in the year ended 31 December 2016.

### Gas Transportation Revenue

The following table sets forth certain information regarding KTG's transportation revenue for the periods indicated:

	<b>For the year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<i>(KZT billions)</i>	
<b>Transportation services:</b>		
Central Asia Gas (transit).....	27.6	45.7
Russian gas (transit).....	25.8	28.1
Kazakhstan gas (to outside of the country) .....	55.9	47.6
Kazakhstan gas (within the country) .....	46.3	34.9
<b>Total gas transportation revenue<sup>(1)</sup></b> .....	<b>155.6</b>	<b>156.3</b>

Note:

(1) Does not include intragroup eliminations.

Gas transportation revenue decreased by 0.4% for the year ended 31 December 2017 compared to the year ended 31 December 2016. This decrease was primarily attributable to a reduction in tariffs payable by Gazprom in respect of the transit of gas through Kazakhstan (from U.S.\$2.40 per 1,000 cubic metres in 2016 to U.S.\$1.60 per 1,000 cubic metres in 2017). See "*Business—Transport—Transportation and Storage of Gas—Gas Transportation Volumes*".

## Oil Transportation Revenue

The following table sets forth certain information regarding KTO's crude oil transportation revenue for the periods indicated:

	<b>For the year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<i>(KZT billions)</i>	
<b>KTO Pipelines:</b>		
<b>Western Branch:</b>		
UAS pipeline.....	100.8	94.3
Other Western Branch pipelines transport to: .....		
Atyrau Refinery .....	12.8	11.0
Aktau seaport.....	1.9	3.5
CPC Pipeline .....	7.1	6.3
<b>Eastern Branch pipelines transport to:</b>		
Atasu-Alashankou pipeline.....	20.3	20.0
Shymkent Refinery .....	14.2	12.3
Pavlodar Refinery .....	22.0	20.2
Other fees <sup>(1)</sup> .....	5.7	4.1
<b>Total crude oil transportation revenue<sup>(2)</sup> .....</b>	<b>184.8</b>	<b>171.8</b>

### Notes:

- (1) Includes fees for providing loading and unloading services at railway stations and seaports.  
(2) Before elimination of intragroup fees.

Crude oil transportation revenue increased by 7.6% for the year ended 31 December 2017 compared to the year ended 31 December 2016. This increase was primarily attributable to an increase in revenue from the UAS pipeline, which was, in turn, due to an increase in volumes of crude oil transported through the UAS pipeline to 15.9 million tonnes of crude oil in 2017 compared to 15.0 million tonnes in 2016.

### Refining of Oil and Oil Products

For the year ended 31 December 2017, revenue from refining of oil and oil products was KZT 129.1 billion compared to KZT 99.1 billion for the year ended 31 December 2016, reflecting an increase of KZT 30.0 billion, or 30.3%. This increase was primarily attributable to an increase in the supply of crude oil to external customers and to KMG EP for further processing at the Atyrau Refinery, Pavlodar Refinery and Shymkent Refinery

### Quality Bank for Crude Oil

Amounts recognised by the Company as a quality bank for crude oil represent penalty and compensatory payments by or to crude oil producers depending on quality of the crude delivered to the oil pipeline system. For the year ended 31 December 2017, losses from the quality bank for crude oil were KZT 21.5 billion compared to KZT 19.9 billion for the year ended 31 December 2016, reflecting an increase of KZT 1.6 billion, or 8.0%. This increase was primarily attributable to the increase in volume of sales of crude oil by CPC, as well as an increase in the price of crude oil.

### Other Revenue

For the year ended 31 December 2017, other revenue was KZT 142.9 billion compared to KZT 122.3 billion for the year ended 31 December 2016, reflecting an increase of KZT 20.6 billion, or 16.8%. This increase was primarily due to an increase in revenue of KMG Drilling & Services LLP ("KMG D&S").

## Cost of Sales

The following table sets forth certain information regarding the Company's cost of sales for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2017
	2017	2016	
	(KZT billions)		
Crude oil .....	1,079.7	678.0	59.2
Materials and supplies.....	368.7	108.7	239.2
Payroll.....	293.3	281.7	4.1
Depreciation, depletion and amortisation	161.5	167.2	(3.4)
Transportation costs.....	107.1	47.7	124.5
Mineral extraction tax.....	93.6	40.7	130.0
Other taxes.....	58.9	53.6	9.9
Electricity.....	39.8	37.9	5.0
Repair and maintenance.....	38.3	32.5	17.8
Other.....	138.9	113.7	22.2
<b>Total.....</b>	<b>2,379.9</b>	<b>1,561.7</b>	52.4

For the year ended 31 December 2017, cost of sales was KZT 2,379.9 billion compared to KZT 1,561.7 billion for the year ended 31 December 2016, reflecting an increase of KZT 818.2 billion, or 52.4%. This increase was primarily attributable to increases in the cost of sales of crude oil, materials and supplies, transportation costs, mineral extraction tax and other cost of sales.

For the year ended 31 December 2017, costs of crude oil sales were KZT 1,079.7 billion compared to KZT 678.0 billion for the year ended 31 December 2016, reflecting an increase of 59.2%. This increase was primarily due to an increase in the sales volumes of crude oil pursuant to the TCO Advanced Oil Sale Transaction.

The increase in materials and supplies expense to KZT 368.7 billion for the year ended 31 December 2017 compared to KZT 108.7 billion for the year ended 31 December 2016 was primarily attributable to increased volumes of gas purchases for export to Uzbekistan, Kyrgyzstan, Russia and to the domestic market, as well as an increase in sales of petroleum products.

The increase in payroll to KZT 293.3 billion for the year ended 31 December 2017 compared to KZT 281.7 billion for the year ended 31 December 2016 was primarily attributable to an indexation-related increase in wages, as well as the payment of compensation to employees of certain oilfield service companies in connection with the termination of their labour contracts.

The increase in the Company's transportation costs to KZT 107.1 billion for the year ended 31 December 2017 compared to KZT 47.7 billion for the year ended 31 December 2016 was primarily due to an increase in gas transported through the Beineu-Bozoi-Shymkent Gas Pipeline to 3.4 bcm in 2017 compared to 2.1 bcm in 2016.

The cost to the Company of the mineral extraction tax was KZT 93.6 billion for the year ended 31 December 2017 compared to KZT 40.7 billion for the year ended 31 December 2016, reflecting an increase of KZT 52.9 billion, or 130.0%. The increase in the mineral extraction tax paid primarily reflected the increase in crude oil prices in 2017 compared to 2016.

Other cost of sales comprises penalties and emission fees, environmental expenses, social insurance payments, land rent and other compulsory budget payments. The increase in other costs of sales to KZT 138.9 billion for the year ended 31 December 2017 compared to KZT 113.7 billion for the year ended 31 December 2016 was primarily attributable to an increase in expenses in respect of the liquidation of certain wells and an increase in reserves for the land reclamation ecology fund, which was partially offset by a decrease in the revaluation reserves related to oil inventory.



## Gross Profit

As a result of the foregoing, the Company's gross profit decreased by KZT 216.8 billion to KZT 78.9 billion for the year ended 31 December 2017 from KZT 295.7 billion for the year ended 31 December 2016.

## General and Administrative Expenses

The following table sets forth certain information regarding the Company's general and administrative expenses for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2017
	2017	2016	
	(KZT billions)		
Payroll.....	60.5	55.1	9.8
Social payments, out of payroll.....	27.8	6.2	348.4
Consulting services.....	14.2	12.0	18.3
Depreciation and amortisation.....	13.2	6.7	97.0
Other taxes.....	12.7	8.2	54.9
VAT that cannot be offset.....	7.9	1.3	507.7
Charitable donations and sponsorship.....	1.1	1.5	(26.7)
Allowance for impairment of trade accounts receivable..	1.4	3.6	(61.1)
Allowance for impairment of long term advances.....	1.2	2.0	(40.0)
Allowance for impairment of other current assets.....	(0.1)	1.9	(105.3)
Allowance for obsolete inventories.....	1.5	1.1	36.4
Impairment of VAT receivable.....	(24.2)	(3.4)	(611.8)
Allowance for fines, penalties and tax provisions.....	(4.2)	(10.8)	61.1
Other <sup>(1)</sup> .....	39.0	32.4	20.4
<b>Total</b> .....	<b>152.0</b>	<b>117.7</b>	29.1

Note:

(1) The other general and administrative expenses are comprised of travel, communication, representative offices, rental, security, bank services expenses and fines.

For the year ended 31 December 2017, general and administrative expenses were KZT 152.0 billion compared to KZT 117.7 billion for the year ended 31 December 2016, reflecting an increase of KZT 34.3 billion, or 29.1%. This increase was primarily attributable to increases in payroll, social payments out of payroll, depreciation and amortisation and VAT that cannot be offset.

The increase in payroll expenses to KZT 60.5 billion for the year ended 31 December 2017 compared to KZT 55.1 billion for the year ended 31 December 2016 was primarily attributable to an indexation-related increase in wages, as well as increases in the number of employees at the Company's head office, which was partially offset by a decrease in the payroll of KTO, as well as certain of the Company's other subsidiaries.

The increase in social payments out of payroll to KZT 27.8 billion for the year ended 31 December 2017 compared to KZT 6.2 billion for the year ended 31 December 2016 was primarily attributable to an increase in social tax charged to oilfield services companies in connection with the termination of employment contracts with pre-retirement age employees under the Company's "5/50 programme", which offers voluntary termination to employees in exchange for the payment of 50% of salary for a period of five years, by agreement of the parties.

The increase in the cost of consulting services to KZT 14.2 billion for the year ended 31 December 2017 compared to KZT 12.0 billion for the year ended 31 December 2016 was primarily attributable to the increase in expenses relating to the development of management strategies and processes. See "Business—Strategy".

The increase in depreciation and amortisation expenses to KZT 13.2 billion for the year ended 31 December 2017 compared to KZT 6.7 billion for the year ended 31 December 2016 was primarily attributable to the accrual of depreciation expenses in respect of certain fixed assets put into operation in 2016 by KMG EP, KTG and KMG D&S, which was partially offset by a change in the calculation of depreciation in connection with the recalculation of oil reserves in 2017 for KMG Karachaganak.

The increase in other taxes to KZT 12.7 billion for the year ended 31 December 2017 compared to KZT 8.2 billion for the year ended 31 December 2016 was primarily attributable to an increase in social tax charged to oilfield services companies in connection with the termination of employment contracts with pre-retirement age employees under the Company's "5/50 programme", as well as the reclassification of certain tax expenses as general administrative expenses.

The increase in VAT that cannot be offset to KZT 7.9 billion for the year ended 31 December 2017 compared to KZT 1.3 billion for the year ended 31 December 2016 was primarily attributable to changes to applicable tax legislation with effect from 1 January 2017, which provide that VAT may only be offset in proportion to taxable turnover.

The decrease in allowance for impairment of trade accounts receivable to KZT 1.4 billion for the year ended 31 December 2017 compared to KZT 3.6 billion for the year ended 31 December 2016 was primarily attributable to the impairment of trade receivables relating to a disagreement relating to KZT 1.0 billion of tariffs in respect of a shipment of oil products by KTO.

The recognition of a KZT 1.2 billion allowance for impairment of long term advances for the year ended 31 December 2017 was primarily attributable to the uncertainty regarding the refund of advances paid by Urikhtau Operating LLP ("Urikhtau Operating") to a vendor for well drilling works following the termination of the vendor's contract and non-completion of related construction works. The recognition of a KZT 2.0 billion allowance for impairment of long term advances for the year ended 31 December 2016 was primarily due to the redemption by KMG EP of the exploration licence for the Temir Field in 2016.

The recognition of a KZT 24.2 billion expense in respect of impairment of VAT receivable compared to an expense in respect of impairment of VAT receivable of KZT 3.4 billion for the year ended 31 December 2016 was primarily attributable to the reversal of a VAT allowance previously accrued by KMG EP in an amount of KZT 24.5 billion, which, in turn, represented a partially satisfied VAT claim by the tax authorities.

The reversal in fines and penalties of KZT 4.2 billion for the year ended 31 December 2017 compared to KZT 10.8 billion for the year ended 31 December 2016 was primarily attributable to the reversal of the VAT allowance accrued by KTG in 2005 in the amount of KZT 3 billion, which was in turn due to such amount becoming recoverable following KTG's successful appeal of the tax authorities ruling.

The increase in other expenses to KZT 39.0 billion for the year ended 31 December 2017 compared to KZT 32.4 billion for the year ended 31 December 2016 was primarily attributable to the impairment of KMG EP's bank deposits in the amount of KZT 1.9 billion.

### ***Transportation and Selling Expenses***

The following table sets forth certain information regarding the Company's transportation and selling expenses during the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2017
	2017	2016	
	(KZT billions)		
Customs duty .....	105.3	84.1	25.2
Rent tax on crude oil export .....	83.2	20.0	316.0
Transportation .....	74.7	67.9	10.0
Payroll .....	6.4	6.8	(5.9)
Depreciation and amortisation .....	4.5	6.4	(29.7)
Other .....	14.5	13.2	9.8
<b>Total</b> .....	<b>288.5</b>	<b>198.5</b>	45.3

For the year ended 31 December 2017, transportation and selling expenses were KZT 288.5 billion compared to KZT 198.5 billion for the year ended 31 December 2016, reflecting an increase of KZT 90.0 billion, or 45.3%. This increase was primarily attributable to increases in expenses related to rent tax on crude oil export and customs duty.

The increase in expenses related to customs duty to KZT 105.3 billion for the year ended 31 December 2017 compared to KZT 84.1 billion for the year ended 31 December 2016 was primarily attributable to an increase in the volume of exports by KMG EP and an increase in the export duty rate, which was in turn due to increases in global oil prices.

The increase in rent tax on crude oil export to KZT 83.2 billion for the year ended 31 December 2017 compared to KZT 20.0 billion for the year ended 31 December 2016 was primarily attributable to the increased price of Brent crude oil in 2017 compared to 2016 and an increase in exports in 2017.

#### ***Impairment of Property, Plant and Equipment and Intangible Assets***

For the year ended 31 December 2017, the Company recorded KZT 23.3 billion in impairment of property, plant and equipment and intangible assets (other than goodwill) compared to KZT 3.3 billion for the year ended 31 December 2016, reflecting an increase of KZT 20.0 billion, or 606.1%. This increase was primarily attributable to the impairment of certain capital work in progress in respect of PNHZ in the amount of KZT 15.2 billion associated with changes to the configuration of the modernisation project at PNHZ, as well as an impairment of property, plant and equipment in respect of OTC in the amount of KZT 5.0 billion.

#### ***Net Loss on Disposal of Property, Plant and Equipment, Intangible Assets and Investment Property***

For the year ended 31 December 2017, the Company recorded a net loss on disposal of property, plant and equipment, intangible assets and investment property of KZT 3.8 billion compared to KZT 5.6 billion for the year ended 31 December 2016, reflecting a decrease of KZT 1.8 billion, or 32.1%.

#### ***Other Operating Income***

For the year ended 31 December 2017, the Company recorded KZT 20.2 billion of other operating income compared to KZT 19.4 billion for the year ended 31 December 2016, reflecting an increase of KZT 0.8 billion, or 4.1%.

#### ***Other Operating Expenses***

For the year ended 31 December 2017, the Company recorded KZT 30.1 billion of other operating expenses compared to KZT 14.8 billion for the year ended 31 December 2016, reflecting an increase of KZT 15.3 billion, or 103.4%. This increase was primarily attributable to an increase in expenses incurred in connection with the acquisition of KS EP by KMG EP and the sale of certain assets by KTO and KMG RM.

#### ***Operating Loss***

As a result of the foregoing, the Company recorded an operating loss of KZT 401.0 billion for the year ended 31 December 2017 compared to KZT 24.8 billion for the year ended 31 December 2016, reflecting an increase of KZT 376.2 billion, or 1,517.0%.

#### ***Net Foreign Exchange Loss***

For the year ended 31 December 2017, the Company recorded a net foreign exchange gain of KZT 67.2 billion compared to a net foreign exchange loss of KZT 12.9 billion for the year ended 31 December 2016. The net foreign exchange gain in 2017 was primarily attributable to the net improvement of the Tenge against the U.S. Dollar in 2017. The net foreign exchange loss in 2016 was primarily attributable to the net downward movement of the Tenge against the U.S. Dollar in 2016.

#### ***Finance Income***

For the year ended 31 December 2017, finance income was KZT 121.7 billion compared to KZT 167.9 billion for the year ended 31 December 2016, reflecting an increase of KZT 46.2 billion, or 27.5%. This increase was primarily attributable to an increase in amortisation of discount on loans due from related parties to KZT 39.2 billion for the year ended 31 December 2017 compared to KZT 21.4 billion for the year ended 31 December 2016. This increase was, in turn, due to a decrease in the rate of interest payable on the Samruk-Kazyna bonds held by the Company. This increase was partially offset as the Company did not record a derecognition of liabilities for the year ended 31 December 2017 compared to a derecognition of KZT 62.5 billion for the year ended 31 December 2016. The derecognition of liabilities for the year ended 31 December 2016 was due to the derecognition of the liabilities of KMG Kashagan B.V. following the disposal of 50% of the shares in KMG Kashagan B.V. to Samruk-Kazyna. See “—Main Factors Affecting Results of Operations and Liquidity—Acquisitions, Discontinued Operations and Loss of Control—KMG Kashagan B.V.”.

## Finance Cost

For the year ended 31 December 2017, the Company recorded finance costs of KZT 294.9 billion compared to KZT 230.4 billion for the year ended 31 December 2016, reflecting an increase of KZT 64.5 billion, or 30.0%. This increase was primarily attributable to a 16.5% increase in interest on loans and debt securities issued and the recognition of KZT 18.6 billion in impairment of bank deposits for the year ended 31 December 2017. See Note 29 to the 2017 Financial Statements. The Company had total borrowings of KZT 4,163.4 billion as at 31 December 2017 compared to KZT 3,072.5 billion as at 31 December 2016. See “—Debt Obligations”.

## Reversal/(Impairment) of Investments in Joint Ventures

The Company recorded a reversal of impairment of investments in joint ventures of KZT 14.8 billion for the year ended 31 December 2017, as a result of the recognition in 2017 of depreciation in respect of investments in BSGP. For the year ended 31 December 2016, the Company recorded impairment of investments in joint ventures of KZT 5.5 billion as a result of impairment recorded in respect of investments to BSGP.

## Impairment of Assets Classified as Held for Sale

The Company recorded impairment of investments assets classified as held for sale of KZT 67.6 million for the year ended 31 December 2017 as a result of as a result of the correction of the book value of assets for sale in line with their actual value. For the year ended 31 December 2016, Company recorded impairment of assets classified as held for sale of KZT 92.6 million for the same reason.

## Impairment of Loan Given

The Company recorded impairment of loan given of KZT 1.3 billion for the year ended 31 December 2016, primarily in respect of the impairment of a loan given to KS EP in connection with the extension of its operating licence.

The Company did not record an impairment of loan given for the year ended 31 December 2017.

## Share in Profit of Joint Ventures and Associates

See “Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates”, “—Main Factors Affecting Results of Operations and Liquidity—Changes in the Share in Profit of Ventures and Associates” and Note 30 to the 2017 Financial Statements and Note 31 to the 2016 Financial Statements.

The following table sets forth certain information regarding the income (loss) of the Company’s joint ventures and associates for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2017
	2017	2016	
	(KZT billions)		
<b>of the Company:</b>			
TCO .....	290.0	147.9	96.1
MIBV .....	49.6	29.8	66.4
KazRosGas .....	8.6	18.6	(53.8)
Kazakhoil Aktobe .....	(16.8)	(11.5)	(46.1)
<b>of KMG EP:</b>			
PKI .....	7.2	(15.8)	145.6
Kazgermunai .....	17.7	5.1	247.1
Other <sup>(1)</sup> .....	58.3	96.1	39.3
<b>Total .....</b>	<b>414.6</b>	<b>270.2</b>	53.4

Note:

(1) Includes (among others) Valseira Holdings B.V., which indirectly owns the Shymkent Refinery through its 99.43% interest in PetroKazakhstan Oil Products LLP, MunayTas, CPC and KazakTurkMunay LLP.

For the year ended 31 December 2017, the share in profit from joint ventures and associates increased by KZT 144.4 billion, or 53.4%, to KZT 414.6 billion from KZT 270.2 billion for the year ended 31 December 2016. This increase was primarily due to the recognition of income from TCO of KZT 290.0 billion in 2017, compared to KZT 147.9 billion in 2016 which, in turn, was primarily attributable to: (i) increased oil production; (ii) increased oil prices; (iii) increased funding revenues from the placement of cash on bank deposits; and (iv) decreased royalty charges, which was, in turn, primarily due to exceptional royalty charges in 2016 relating to the FGP and WPMP.

#### ***Profit/loss before Income Tax***

As a result of the foregoing, the Company's loss before income tax for the year ended 31 December 2017 was KZT 77.6 billion compared to profit of KZT 163.1 billion for the year ended 31 December 2016. The Company's loss before income tax for the year ended 31 December 2017 was due to the foregoing.

#### ***Income Tax Expenses***

The Company's effective tax rate decreased to 26.8% for the year ended 31 December 2017 compared to 30.8% for the year ended 31 December 2016, as a result of the recognition of tax losses carried forward, as well as increases in income subject to adjustment (dividends) and other non-taxable income and a reduction in non-deductible expenses and changes in unrecognised deferred tax assets

For the year ended 31 December 2017, the Company recorded income tax expenses of KZT 192.0 billion compared to KZT 163.8 billion for the year ended 31 December 2016, reflecting an increase of KZT 28.2 billion, or 17.2%. This increase was primarily due to a KZT 30.8 billion, or 38.5%, increase in current corporate income tax expenses for the year ended 31 December 2017 compared to the year ended 31 December 2016, which was partially offset by a KZT 20.3 billion, or 44.4%, decrease in deferred corporate income tax expenses. See Note 31 to the 2017 Financial Statements. The increase in current corporate income tax, despite the recognition of a loss before income tax from continuing operations in 2017, was due to current income tax payable in respect of profit before income tax from discontinued operations. See "*—Profit for the Year after Income Tax from Discontinued Operations*".

#### ***Loss for the Year from Continuing Operations***

As a result of the foregoing, the Company's loss for the year from continuing operations increased by KZT 269.0 billion, or 39,385.0%, to KZT 269.7 billion for the year ended 31 December 2017 from KZT 683.0 million for the year ended 31 December 2016.

#### ***Profit for the Year after Income Tax from Discontinued Operations***

The Company's profit after income tax for the year ended 31 December 2017 from discontinued operations was KZT 789.2 billion compared to KZT 360.9 billion for the year ended 31 December 2016, reflecting an increase of KZT 428.3 billion, or 118.7%. This increase was primarily due to an increase in profit from KMG International (after elimination) from KZT 368.2 billion for the year ended 31 December 2016 to KZT 792.8 billion for the year ended 31 December 2017, which was, in turn, primarily due to increases in sales volumes and sales prices. See "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions, Discontinued Operations and Loss of Control—KMG International*" and Note 5 to the 2017 Financial Statements.

#### ***Net Profit for the Year***

As a result of the foregoing, the Company's net profit for the year ended 31 December 2017 was KZT 519.5 billion compared to KZT 360.2 billion for the year ended 31 December 2016, reflecting an increase of KZT 159.3 billion, or 44.2%. The Company's net profit for 2017 and 2016 represented 21.1% and 19.4%, respectively, of the Company's revenue for such years.

## Results of Operations for the Year Ended 31 December 2016 Compared to the Year Ended 31 December 2015

### Revenue

For the year ended 31 December 2016, total revenue was KZT 1,857.4 billion compared to KZT 1,093.8 billion for the year ended 31 December 2015, reflecting an increase of KZT 763.6 billion, or 69.8%. This increase was primarily due to a KZT 584.3 billion, or 480.1%, increase in sales of crude oil and a KZT 84.4 billion, or 33.7%, increase in sales of gas and gas products.

The following table sets forth certain information regarding the Company's revenue for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December 2015 and 2016
	2016	2015 <sup>(1)</sup>	
	(KZT billions)		
Sales of crude oil.....	706.0	121.7	480.1
Sales of gas and gas products.....	334.5	250.1	33.7
Transportation fee .....	322.3	300.2	7.4
Sales of refined products.....	293.1	235.5	24.5
Refining of oil and oil products .....	99.1	78.2	26.7
Quality bank for crude oil.....	(19.9)	(12.7)	(56.7)
Other revenue.....	122.3	121.0	1.1
<b>Total .....</b>	<b>1,857.4</b>	<b>1,093.8</b>	69.8

Note:

(1) Restated. See "Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications" and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

### Sales of Crude Oil

The following table sets forth certain information regarding the Company's sales revenue and sales volumes of crude oil for the periods indicated:

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
Crude oil sales revenue ( <i>KZT billions</i> ) <sup>(1)</sup> .....	706.0	121.7
Crude oil sales volumes ( <i>thousands of tonnes</i> ) <sup>(2)</sup> .....	9,009.5	5,416.6
Average price per tonne of crude oil ( <i>KZT</i> ) <sup>(3)</sup> .....	78,362	22,468

Notes:

- (1) After elimination of intragroup sales of crude oil to KMG RM.
- (2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intragroup sales volumes to KMG RM.
- (3) Average price per tonne of crude oil is calculated by dividing total crude oil sales revenue (after elimination of intragroup sales of crude oil to KMG RM) by total crude oil sales volumes (after elimination of intragroup sales volumes to KMG RM).

Total revenue from the Company's sales volumes of crude oil increased by KZT 584.3 billion, or 480.1%, to KZT 706.0 billion for the year ended 31 December 2016 compared to KZT 121.7 billion for the year ended 31 December 2015. This increase was primarily a result of increases in sales of crude oil pursuant to the TCO Advanced Oil Sale Transaction, as well as higher global oil prices in 2016 compared to 2015 and the devaluation of the Tenge against the U.S. Dollar.

Revenue from sales of crude oil is particularly impacted by sales by KMG EP. The following table sets forth certain information regarding export sales of KMG EP and domestic sales of KMG EP to KMG RM for further processing at the Atyrau Refinery for the periods indicated:

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
Crude oil export sales ( <i>thousands of tonnes</i> ) .....	4,946	4,647
Average price per tonne of crude oil export sales ( <i>KZT</i> ) .....	103,659	78,434
Crude oil sales to KMG RM ( <i>thousands of tonnes</i> ) .....	830	2,680
Average price per tonne of crude oil sales to KMG RM ( <i>KZT</i> ) .....	18,625	37,009

Total volumes of KMG EP's crude oil export sales increased to 4,946 thousand tonnes for the year ended 31 December 2016 compared to 4,647 thousand tonnes for the year ended 31 December 2015, reflecting an increase of 6.4%, primarily as a result of the increase in sales volumes due to the fulfilment by KMG EP its obligations to supply oil pursuant to a counter-oil supply agreement between the Government of Kazakhstan and the Russian Government.

Prior to April 2016, KMG EP sold a portion of the crude oil it produced to KMG RM in order to meet its domestic supply obligation. KMG RM further processed this crude oil and sold refined products. With effect from April 2016, KMG EP has instead provided volumes of crude oil for processing at the Atyrau Refinery and Pavlodar Refinery (and paid the corresponding processing fee) and then sold refined oil products for its own account, using KMG RM as a sales agent. On 1 January 2017, KMG EP ceased using KMG RM as its sale agent and has started marketing refined products for its own account.

Total volumes of KMG EP's domestic crude oil sales were 0.8 million tonnes for the year ended 31 December 2016 and 2.7 million tonnes for the year ended 31 December 2015, reflecting a decrease of 69.0%. This decrease was due to the change in sales management described above, which came into effect in April 2016.

### Sales of Gas and Gas Products

The Company's gas products include natural gas, which is marketed by KTG, and liquefied natural gas, which is marketed by KMG EP. For the year ended 31 December 2016, sales of gas and gas products were KZT 334.5 billion compared to KZT 250.1 billion for the year ended 31 December 2015, reflecting an increase of KZT 84.4 billion, or 33.7%. This increase was primarily due to an increase in the volumes of gas sold to both the international and domestic markets in 2016 compared to 2015.

### Sales of Refined Products

The following table sets forth certain information regarding the Company's refined oil products sales, where the Company is a principal, excluding tolling volumes and sales, for the periods indicated:

	For the year ended 31 December	
	2016	2015
Refined oil products sales ( <i>KZT billions</i> ).....	293.1	235.5
Refined oil products volumes sold ( <i>thousands of tonnes</i> ).....	2,026	3,091
Average price per tonne of refined oil products ( <i>KZT</i> ) .....	144,669	76,189

Total revenue from the Company's refined oil products sales for the year ended 31 December 2016 increased by KZT 57.6 billion, or 24.5%, to KZT 293.1 billion compared to KZT 235.5 billion for the year ended 31 December 2015. This increase was primarily a result of an increase in the average price per tonne of refined oil products from KZT 76,189 for the year ended 31 December 2015 to KZT 144,669 for the year ended 31 December 2016.

### Transportation Fees

For the year ended 31 December 2016, transportation fees were KZT 322.3 billion compared to KZT 300.2 billion for the year ended 31 December 2015, reflecting an increase of KZT 22.1 billion, or 7.4%. This increase was primarily attributable to an increase in transportation tariffs. See "*—Main Factors Affecting Results of Operations and Liquidity—Tariffs for Oil and Gas Transportation Services*".

### Gas Transportation Revenue

The following table sets forth certain information regarding KTG's transportation revenue for the periods indicated:

	For the year ended 31 December	
	2016	2015
	<i>(KZT billions)</i>	
<b>Transportation services:</b>		
Central Asia Gas (transit).....	45.7	47.7
Russian gas (transit).....	28.1	26.3
Kazakhstan gas (to outside of the country) .....	47.6	29.9
Kazakhstan gas (within the country) .....	34.9	21.8
<b>Total gas transportation revenue<sup>(1)</sup></b> .....	<b>156.3</b>	<b>125.6</b>

Note:

(1) Does not include intragroup eliminations.

Gas transportation revenue increased by 24.4% for the year ended 31 December 2016 compared to the year ended 31 December 2015. This increase was primarily attributable to an increase in volumes of gas exported, as well as an increase in gas transportation tariffs. See "*Business—Transport—Transportation and Storage of Gas—Gas Transportation Volumes*".



## Oil Transportation Revenue

The following table sets forth certain information regarding KTO's crude oil transportation revenue for the periods indicated:

	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>(KZT billions)</i>	
<b>KTO Pipelines:</b>		
<b>Western Branch:</b>		
UAS pipeline.....	94.3	101.8
Other Western Branch pipelines transport to: .....		
Atyrau Refinery .....	11.0	9.7
Aktau seaport.....	3.5	2.9
CPC Pipeline .....	6.3	5.4
<b>Eastern Branch pipelines transport to:</b>		
Atasu-Alashankou pipeline.....	20.0	24.7
Shymkent Refinery .....	12.3	10.3
Pavlodar Refinery .....	20.2	18.5
Other fees <sup>(1)</sup> .....	4.1	2.7
<b>Total crude oil transportation revenue<sup>(2)</sup> .....</b>	<b>171.8</b>	<b>176.0</b>

### Notes:

- (1) Includes fees for providing loading and unloading services at railway stations and seaports.  
(2) Before elimination of intragroup fees.

Crude oil transportation revenue decreased by 2.4% for the year ended 31 December 2016 compared to the year ended 31 December 2015. This decrease was primarily attributable to a decrease in crude oil transportation revenues from the UAS pipeline, which was, in turn, due to a decrease in volumes of crude oil transported through the UAS pipeline.

### Refining of Oil and Oil Products

For the year ended 31 December 2016, revenue from refining of oil and oil products was KZT 99.1 billion compared to KZT 78.2 billion for the year ended 31 December 2015, reflecting an increase of KZT 20.9 billion, or 26.7%. This increase was primarily attributable to an increase in oil processing fees.

### Quality Bank for Crude Oil

Amounts recognised by the Company as a quality bank for crude oil represent penalty and compensatory payments by or to crude oil producers depending on quality of the crude delivered to the oil pipeline system. For the year ended 31 December 2016, losses from the quality bank for crude oil were KZT 19.9 billion compared to KZT 12.7 billion for the year ended 31 December 2015, reflecting an increase of KZT 7.2 billion, or 56.7%. This increase was primarily attributable to a 16% increase in crude oil export sales, by volume, through the CPC Pipeline by KMG EP.

### Other Revenue

For the year ended 31 December 2016, other revenue was KZT 122.3 billion compared to KZT 121.0 billion for the year ended 31 December 2015, reflecting an increase of KZT 1.3 billion, or 1.1%.

## Cost of Sales

The following table sets forth certain information regarding the Company's cost of sales for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December 2015 and 2016
	2016	2015 <sup>(1)</sup>	
	<i>(KZT billions)</i>		
Crude oil .....	678.0	—	—
Payroll.....	281.7	264.7	6.4
Depreciation, depletion and amortisation	167.2	125.6	33.1
Materials and supplies.....	108.7	376.4	(71.1)
Other taxes.....	53.6	45.4	18.1
Transportation costs.....	47.7	44.2	7.9
Mineral extraction tax.....	40.7	68.2	(40.3)
Electricity.....	37.9	34.2	10.8
Repair and maintenance.....	32.5	23.9	36.0
Other.....	113.7	107.8	5.5
<b>Total.....</b>	<b>1,561.7</b>	<b>1,090.4</b>	43.2

Note:

- (1) Restated. See "Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications" and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

For the year ended 31 December 2016, cost of sales was KZT 1,561.7 billion compared to KZT 1,090.4 billion for the year ended 31 December 2015, reflecting an increase of KZT 471.3 billion, or 43.2%. This increase was primarily attributable to the recognition in 2016 of costs of crude oil sales of KZT 678.0 billion, which related to sales of crude oil pursuant to the TCO Advanced Oil Sale Transaction. This increase was partially offset by the KZT 267.7 billion, or 71.1%, decrease in the cost of materials and supplies and the KZT 27.5 billion, or 40.3%, decrease in mineral extraction tax paid.

For the year ended 31 December 2016, costs of crude oil sales were KZT 678.0 billion as a result of costs relating to the TCO Advanced Oil Sale Transaction. There were no such costs for the year ended 31 December 2015.

The increase in payroll to KZT 281.7 billion for the year ended 31 December 2016 compared to KZT 264.7 billion for the year ended 31 December 2015 was primarily attributable to an indexation-related increase in the basic salaries of the Company's employees in 2016.

The increase in the Company's depreciation, depletion and amortisation expense to KZT 167.2 billion for the year ended 31 December 2016 compared to KZT 125.6 billion for the year ended 31 December 2015 was primarily due to depreciation charges recorded at KMG Karachaganak, which were, in turn, a result of the effect of the devaluation of the Tenge against the U.S. Dollar in 2015 (as U.S. Dollars is the functional currency of KMG Karachaganak and the impact of such devaluation was recognised upon consolidation as the Company's functional currency is the Tenge).

The decrease in materials and supplies expense to KZT 108.7 billion for the year ended 31 December 2016 compared to KZT 376.4 billion for the year ended 31 December 2015 was primarily attributable to decreases in 2016 in the volumes of third-party crude oil purchased by KMG RM to supply its refineries, a decrease in repair works conducted by a number of the Company's subsidiaries and in the cost of related required materials and supplies.

The increase in the Company's transportation costs to KZT 47.7 billion for the year ended 31 December 2016 compared to KZT 44.2 billion for the year ended 31 December 2015 were primarily due to higher transportation costs for transportation through the CPC Pipeline, which was, in turn, a result of the devaluation of the Tenge against the U.S. Dollar in 2015, as the tariff for the use of the CPC Pipeline is denominated in U.S. Dollars

The cost to the Company of the mineral extraction tax was KZT 40.7 billion for the year ended 31 December 2016 compared to KZT 68.2 billion for the year ended 31 December 2015, reflecting a decrease of KZT 27.5 billion, or 40.3%. The decrease in the mineral extraction tax paid primarily reflects the application of a reduced tax rate for JSC "Ozenmunaigas" for the Uzen and Karamandybas Fields in Mangystau oblast as the result of approval of a request for mineral extraction tax relief by the Government, as well as low average Brent oil prices. This reduced mineral extraction tax rate was set at 9.0% for 2016 (compared to 13.0% in 2015) on the basis that the Uzen and Karamandybas fields recorded tax accounting losses for 2016.

The increase of the electricity cost to KZT 37.9 billion for the year ended 31 December 2016 compared to KZT 34.2 billion for the year ended 31 December 2015, reflecting an increase of KZT 3.7 billion, or 10.8%, was primarily due to a 15% average increase in domestic prices for electricity compared to 2015.

The increase in the Company's repair and maintenance expense to KZT 32.5 billion for the year ended 31 December 2016 compared to KZT 23.9 billion for the year ended 31 December 2015 was primarily due to the increase of hydrofracturing expenses at KMG EP, which was, in turn, primarily due to an increase in the number of wells subject to hydrofracturing.

Other cost of sales comprises penalties and emission fees, environmental expenses, social insurance payments, land rent and other compulsory budget payments. The increase in other costs of sales to KZT 113.7 billion for the year ended 31 December 2016 compared to KZT 107.8 billion for the year ended 31 December 2015 was primarily attributable to certain maintenance works at KMG Karachaganak, as well as the negative impact of the devaluation of the Tenge against the U.S. Dollar in 2015.

### **Gross Profit**

As a result of the foregoing, the Company's gross profit increased by KZT 292.3 billion to KZT 295.7 billion for the year ended 31 December 2016 from KZT 3.4 billion for the year ended 31 December 2015.

### **General and Administrative Expenses**

The following table sets forth certain information regarding the Company's general and administrative expenses for the periods indicated:

	<b>For the year ended 31 December</b>		<b>% change between the years ended 31 December 2015 and 2016</b>
	<b>2016</b>	<b>2015<sup>(1)</sup></b>	
	<i>(KZT billions)</i>		
Payroll.....	55.1	56.0	(1.6)
Consulting services.....	12.0	10.1	18.8
Other taxes.....	8.2	5.9	39.0
Depreciation and amortisation.....	6.7	8.8	(23.9)
Social payments, out of payroll.....	6.2	9.0	(31.1)
Charitable donations and sponsorship.....	1.5	7.3	(79.5)
VAT that cannot be offset.....	1.3	2.3	(43.5)
Allowance for impairment of trade accounts receivable..	3.6	0.4	800.0
Allowance for impairment of long term advances.....	2.0	—	—
Allowance for impairment of other current assets.....	1.9	2.8	(32.1)
Allowance for obsolete inventories.....	1.1	1.4	(21.4)
Impairment of VAT receivable.....	(3.4)	51.5	(106.6)
Allowance for fines, penalties and tax provisions.....	(10.8)	28.0	(138.6)
Other <sup>(2)</sup> .....	32.4	27.7	17.0
<b>Total</b> .....	<b>117.7</b>	<b>211.2</b>	<b>(44.3)</b>

#### Notes:

- (1) Restated. See "Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications" and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.
- (2) The other general and administrative expenses are comprised of travel, communication, representative offices, rental, security, bank services expenses and fines.

For the year ended 31 December 2016, general and administrative expenses were KZT 117.7 billion compared to KZT 211.2 billion for the year ended 31 December 2015, reflecting a decrease of KZT 93.5 billion, or 44.3%. This decrease was primarily attributable to the reversal of a KZT 3.4 billion of impairment of VAT receivable in 2016 compared to an impairment of KZT 51.5 billion payment in 2015, as well as the reversal of KZT 10.8 billion of fines and penalties in 2016 compared to the payment of KZT 28.0 billion of fines and penalties in 2015.

The decrease in payroll expenses to KZT 55.1 billion for the year ended 31 December 2016 compared to KZT 56.0 billion for the year ended 31 December 2015 was primarily attributable to a decrease in certain actuary obligations of the Company, which was partially offset by an indexation-related increase in basic salaries for production personnel.

The increase in the cost of consulting services to KZT 12.0 billion for the year ended 31 December 2016 compared to KZT 10.1 billion for the year ended 31 December 2015 was primarily attributable to the devaluation of the Tenge against the U.S. Dollar in 2015, as consulting services are primarily denominated in U.S. Dollars.

The increase in other taxes to KZT 8.2 billion for the year ended 31 December 2016 compared to KZT 5.9 billion for the year ended 31 December 2015 was primarily attributable to an increase in property tax paid in 2016 compared to 2015.

The decrease in social payments out of payroll to KZT 6.2 billion for the year ended 31 December 2016 compared to KZT 9.0 billion for the year ended 31 December 2015 was primarily attributable to lower reserves accrued in 2016 in relation to management compensation for performance results.

The decrease in charitable donations and sponsorship to KZT 1.5 billion for the year ended 31 December 2016 compared to KZT 7.3 billion for the year ended 31 December 2015 was primarily attributable to lower levels of financing provided by the Company in respect of its charitable activities and sponsorship in 2016 compared to 2015.

The increase in allowance for impairment of trade accounts receivable to KZT 3.6 billion for the year ended 31 December 2016 compared to KZT 0.4 billion for the year ended 31 December 2015 was primarily attributable to the recognition of increased allowances for impairment following the implementation of due diligence by the Company on certain of its counterparties in the year ended 31 December 2016.

The recognition of a KZT 2.0 billion allowance for impairment of long term advances for the year ended 31 December 2016 was primarily due to the redemption by KMG EP of the exploration licence for the Temir Field in 2016. No such impairment was recognised for the year ended 31 December 2015.

The recognition of a KZT 3.4 billion gain in respect of impairment of VAT receivable compared to an impairment expense of KZT 51.5 billion for the year ended 31 December 2015 was primarily attributable to KMG EP, which filed an application to recover VAT in respect of the sale of certain assets to JSC “Ozenmunaigas” and JSC “Embamunaigas” in 2012. In October 2016, the tax authorities partially satisfied the VAT claim in an amount of KZT 24.5 billion, which was received by KMG EP in 2016.

The reversal in fines and penalties of KZT 10.8 billion for the year ended 31 December 2016 compared to KZT 28.0 billion for the year ended 31 December 2015 was primarily attributable to KMG EP, which reversed an administrative fine of KZT 3.6 billion and a penalty in the amount of KZT 1.7 billion related to corporate income tax and excess profit tax following the successful conclusion of a legal case relating to the 2006 to 2008 tax period. In addition, KMG EP reversed a KZT 9.6 billion penalty relating to corporate income tax, excess profit tax and mineral extraction tax provisions based on the decision of the Committee of State Revenue and the results of the completion of the tax audit for 2009 to 2012.

The increase in other expenses to KZT 32.4 billion for the year ended 31 December 2016 compared to KZT 27.7 billion for the year ended 31 December 2015 was primarily attributable to increases in the cost of services and materials in 2016 compared to 2015.

### ***Transportation and Selling Expenses***

The following table sets forth certain information regarding the Company’s transportation and selling expenses during the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December 2015 and 2016
	2016	2015 <sup>(1)</sup>	
	(KZT billions)		
Customs duty .....	84.1	84.6	(0.6)
Transportation.....	67.9	44.5	52.6
Rent tax on crude oil export.....	20.0	41.6	(51.9)
Payroll .....	6.8	7.7	(11.7)
Depreciation and amortisation .....	6.4	6.8	(5.9)
Other.....	13.2	10.2	29.4
<b>Total.....</b>	<b>198.5</b>	<b>195.3</b>	1.6

Note:

(1) Restated. See “Presentation of Financial, Reserves and Certain Other Information—Restatements and Reclassifications” and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

For the year ended 31 December 2016, transportation and selling expenses were KZT 198.5 billion compared to KZT 195.3 billion for the year ended 31 December 2015, reflecting an increase of KZT 3.2 billion, or 1.6%. This increase was primarily attributable to an increase in transportation expenses, which was partially offset by a decrease in rent tax on crude oil export.

The increase in transportation expenses to KZT 67.9 billion for the year ended 31 December 2016 compared to KZT 44.5 billion for the year ended 31 December 2015 was primarily attributable to higher transportation costs for transportation through the CPC Pipeline, which was, in turn, as a result of the impact of the devaluation of the Tenge against the U.S. Dollar in 2015 as the tariff for use of the CPC Pipeline is denominated in U.S. Dollars.

The Company accrued rent tax of KZT 20.0 billion and customs duty of KZT 84.1 billion for the year ended 31 December 2016 compared to rent tax of KZT 41.6 billion and customs duty of KZT 84.6 billion for the year ended 31 December 2015. The primary reason for the decrease in rent tax expense in 2016 compared to 2015 was the reduction in the Company's tax payable by KZT 11.7 billion, as a result of the application of revised rates for the period 2012 to 2015. In 2016, changes to the tax legislation were introduced in relation to the methodology of rent tax calculation. On the basis of such changes, the Company has refiled its rent tax declarations for 2012 to 2015. The low average Brent price of crude oil in the first quarter of 2016 also contributed to the decrease in rent tax payable in 2016, although this decrease was partially offset by a depreciation of the Tenge and an increase in export volumes.

#### ***Impairment of Property, Plant and Equipment and Intangible Assets***

For the year ended 31 December 2016, the Company recorded KZT 3.3 billion in impairment of property, plant and equipment and intangible assets (other than goodwill) compared to KZT 67.1 billion for the year ended 31 December 2015, reflecting a decrease of KZT 63.8 billion, or 95.1%. This decrease was primarily attributable to higher levels impairment of property, plant and equipment in 2015 related to ANS and KTM. The impairment amounts were KZT 31.4 billion and KZT 19.9 billion, respectively.

#### ***Impairment of Goodwill***

The Company did not record any impairment of goodwill for the year ended 31 December 2016. For the year ended 31 December 2015, the Company recorded impairment of goodwill of KZT 11.9 billion, which was primarily due to the acquisition of ANS.

#### ***Net Loss on Disposal of Property, Plant and Equipment, Intangible Assets and Investment Property***

For the year ended 31 December 2016, the Company recorded a net loss on disposal of property, plant and equipment, intangible assets and investment property of KZT 5.6 billion compared to KZT 3.6 billion for the year ended 31 December 2015, reflecting an increase of KZT 2.0 billion, or 55.6%.

#### ***Other Operating Income***

For the year ended 31 December 2016, the Company recorded KZT 19.4 billion of other operating income compared to KZT 21.7 billion for the year ended 31 December 2015, reflecting a decrease of KZT 2.3 billion, or 10.6%. This decrease was primarily attributable to the one-off receipt of income from the disposal of certain non-core assets in 2015.

#### ***Other Operating Expenses***

For the year ended 31 December 2016, the Company recorded KZT 14.8 billion of other operating expenses compared to KZT 19.5 billion for the year ended 31 December 2015, reflecting a decrease of KZT 4.7 billion, or 24.1%. This decrease was primarily attributable to a decrease in expenses incurred in connection with the disposal of non-core assets in 2016 compared to 2015.

#### ***Operating Loss***

As a result of the foregoing, the Company recorded an operating loss of KZT 24.8 billion for the year ended 31 December 2016 compared to KZT 483.6 billion for the year ended 31 December 2015, reflecting a decrease of KZT 458.8 billion, or 94.9%.

### ***Net Foreign Exchange Loss***

For the year ended 31 December 2016, the Company recorded a net foreign exchange loss of KZT 12.9 billion compared to a net foreign exchange gain of KZT 469.5 billion for the year ended 31 December 2015, reflecting a decrease of KZT 482.4 billion, or 102.7%. The net foreign exchange gain in 2015 was primarily attributable to the devaluation of the Tenge against the U.S. Dollar in 2015 as a result of the increase in cash held as U.S. Dollar-denominated deposits. The net foreign exchange loss in 2016 was primarily attributable to the net downward movement of the Tenge against the U.S. Dollar in 2016.

### ***Finance Income***

For the year ended 31 December 2016, finance income was KZT 167.9 billion compared to KZT 173.0 billion for the year ended 31 December 2015, reflecting a decrease of KZT 5.1 billion, or 2.9%. This decrease was primarily attributable to income recognised by the Company in respect of the early repayment of debt securities issued in 2015, which was not repeated in 2016. This decrease was partially offset by a KZT 28.1 billion, or 59.2%, increase in interest income on bank deposits, loans and bonds in 2016.

### ***Finance Cost***

For the year ended 31 December 2016, the Company recorded finance costs of KZT 230.4 billion compared to KZT 198.3 billion for the year ended 31 December 2015, reflecting an increase of KZT 32.1 billion, or 16.2%. This increase was primarily attributable to accrued commercial charges payable in connection with the TCO Advanced Oil Sale Transaction. The Company had total borrowings of KZT 3,072.5 billion as at 31 December 2016 compared to KZT 3,228.9 billion as at 31 December 2015. See “—*Debt Obligations*”.

### ***Impairment of Investments in Joint Ventures***

The Company recorded impairment of investments in joint ventures of KZT 5.5 billion for the year ended 31 December 2016 as a result of impairment of investments to BSGP. For the year ended 31 December 2015, the Company recorded impairment of investments in joint ventures of KZT 9.3 billion as a result of impairment recorded in respect of investments to BSGP.

### ***Impairment of Assets Classified as Held for Sale***

The Company recorded impairment of investments assets classified as held for sale of KZT 92.6 million for the year ended 31 December 2016 as a result of as a result of the correction of the book value of assets for sale in line with their actual value. For the year ended 31 December 2015, Company recorded impairment of assets classified as held for sale of KZT 85.7 million for the same reason.

### ***Impairment of Loan Given***

The Company recorded impairment of loan given of KZT 1.3 billion for the year ended 31 December 2016 compared to KZT 11.0 billion for the year ended 31 December 2015, reflecting a decrease of KZT 9.7 billion, or 88.2%. This decrease was primarily due to to the impairment of a loan given to the KS EP joint venture in connection with the extension of its operating licence.

## Share in Profit of Joint Ventures and Associates

See “Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates”, “—Main Factors Affecting Results of Operations and Liquidity—Changes in the Share in Profit of Ventures and Associates” and Note 31 to the 2016 Financial Statements.

The following table sets forth certain information regarding the income (loss) of the Company’s joint ventures and associates for the periods indicated:

	For the year ended 31 December		% change between the years ended 31 December 2015 and 2016
	2016	2015 <sup>(1)</sup>	
	(KZT billions)		
<b>of the Company:</b>			
TCO .....	147.9	162.2	(8.8)
MIBV .....	29.8	19.7	51.3
KazRosGas .....	18.6	36.3	(48.8)
Kazakhoil Aktobe .....	(11.5)	(0.4)	2,775.0
<b>of KMG EP:</b>			
PKI .....	(15.8)	(16.5)	4.2
Kazgermunai .....	5.1	2.7	88.9
Other <sup>(2)</sup> .....	96.1	(91.1)	(205.5)
<b>Total .....</b>	<b>270.2</b>	<b>112.8</b>	<b>139.5</b>

### Notes:

- (1) Restated. See “Presentation of Financial, Reserves and Certain Other Information—Restatements” and Note 6 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.
- (2) Includes (among others) Valsera Holdings B.V., which indirectly owns the Shymkent Refinery through its 99.43% interest in PetroKazakhstan Oil Products LLP, MunayTas, CPC and KazakTurkMunay LLP.

For the year ended 31 December 2016, the share in profit from joint ventures and associates increased by KZT 157.4 billion, or 139.5%, to KZT 270.2 billion from KZT 112.8 billion for the year ended 31 December 2015. This increase was primarily due to the recognition of income from other joint ventures and associates of KZT 96.1 billion in 2016, compared to a net loss of KZT 91.1 billion in 2015 which, in turn, was primarily attributable to an increase in income from CPC from KZT 0.4 billion in 2015 to KZT 74.9 billion in 2016.

## Profit before Income Tax

As a result of the foregoing, the Company’s profit before income tax for the year ended 31 December 2016 was KZT 163.1 billion compared to KZT 53.0 billion for the year ended 31 December 2015, reflecting an increase of KZT 110.1 billion, or 207.7%. This increase was primarily due to better operating results in 2016 compared to 2015.

## Income Tax Expenses

The Company’s effective tax rate decreased to 100.4% for the year ended 31 December 2016 compared to 437.0% for the year ended 31 December 2015, as a result of the recognition of the foreign exchange loss in 2016 compared to the foreign exchange gain (which was taxable) in 2015.

For the year ended 31 December 2016, the Company recorded income tax expenses of KZT 163.8 billion compared to KZT 231.5 billion for the year ended 31 December 2015, reflecting a decrease of KZT 67.7 billion, or 29.2%. This decrease was primarily due to exceptional foreign exchange gains in 2015 as a result of the devaluation of the Tenge (which were not repeated in 2015) and a decrease in the amount of withholding tax on dividends and interest income from KZT 15.6 billion in 2015 to KZT 4.6 billion in 2016, which was, in turn, a result of no dividends received by the Company from TCO in 2016.

## Loss for the Year from Continuing Operations

As a result of the foregoing, the Company’s loss for the year from continuing operations decreased by KZT 177.9 billion, or 99.6%, to KZT 683.0 million for the year ended 31 December 2016 from KZT 178.6 billion for the year ended 31 December 2015.

### ***Profit for the Year after Income Tax from Discontinued Operations***

The Company's profit after income tax for the year ended 31 December 2016 from discontinued operations was KZT 360.9 billion compared to KZT 673.2 billion for the year ended 31 December 2015, reflecting a decrease of KZT 312.3 billion, or 46.4%. This decrease was primarily due to the recognition of profits from KMG Kashagan B.V. as a discontinued operation in 2015, which was not repeated in 2016. This decrease was primarily offset by an increase in profit from KMG International from KZT 261.6 billion in 2015 to KZT 368.2 billion in 2016, reflecting an increase of KZT 106.6 billion, or 40.7%. This increase was primarily due to the Petromidia and the Vega Refinery modernisation projects, as well as measures to optimise industrial processes and operational costs reductions. See Note 7 to the 2016 Financial Statements.

### ***Net Profit for the Year***

As a result of the foregoing, the Company's net profit for the year ended 31 December 2016 was KZT 360.2 billion compared to KZT 494.7 billion for the year ended 31 December 2015, reflecting a decrease of KZT 134.5 billion, or 27.2%. The Company's net profit for 2016 and 2015 represented 19.4% and 45.2%, respectively, of the Company's revenue for such years.

## **Operating Segments**

### ***Overview***

For financial reporting purposes, the activities of the Company are divided into five operating segments. The Company's principal operating segments are: exploration and production of oil and gas and trading of own refined products; transportation of oil; transportation and trading of gas; and refining and trading of crude oil and refined products. The remaining activities of the Company are aggregated and presented as the "other" operating segment, due to their relative insignificance. The operating segments of the Company comprise the following activities:

- ***Exploration and Production of Oil and Gas and Trading of Own Refined Products.*** The Company is engaged in oil and gas exploration and production activities at locations in Kazakhstan. The results of operations of these activities are recorded as part of the exploration and production of oil and gas operating segment.
- ***Oil Transportation.*** The Company partially owns and solely operates the largest crude oil pipeline network in Kazakhstan in terms of length and throughput capacity. The results of operations of these activities are recorded as part of the oil transportation segment.
- ***Gas Trading and Transportation.*** The Company owns and operates Kazakhstan's principal gas pipeline systems, including its two principal networks. The results of operations of these activities are recorded as part of the gas trading and transportation segment.
- ***Refining and Trading of Crude Oil and Refined Products.*** The Company is active in the trading of both the crude oil it produces, as well as refined products, including gasoline, jet fuel, diesel and fuel oil. The Company also owns and operates an expanding network of gasoline stations in Kazakhstan and Romania. See "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions, Discontinued Operations and Loss of Control—KMG International*". The results of operations of these activities are recorded as part of the refining and trading of crude oil and refined products operating segment.
- ***Other.*** The "other" segment is comprised of service subsidiaries of the Company, which provide heating and power, air travel, security and other oil and gas-related services.



The following tables set forth certain information regarding the revenue, gross profit and net profit of the operating segments of the Company for the periods indicated:

Segment	For the year ended 31 December								
	2017	2016	2015	2017	2016	2015	2017	2016	2015
	Total revenue			Gross profit for the year			Net profit for the year		
	<i>(in KZT billions)</i>								
Exploration and production of oil and gas and trading of own refined products.....	1,095.6	851.9	619.6	581.4	419.6	254.2	295.0	285.2	561.4
Transportation of oil.....	249.2	234.0	237.5	102.3	97.5	106.5	124.3	149.3	79.7
Gas Trading and Transportation.....	552.6	502.0	374.3	126.2	153.7	97.2	46.8	95.7	(121.5)
Refining and trading of crude oil and refined oil products.....	1,903.7	1,051.6	423.6	126.8	132.8	71.0	125.7	564.8	(360.4)
Other .....	142.4	123.0	101.7	(2.6)	(10.0)	(11.1)	(77.1)	(697.2)	370.9
Elimination <sup>(1)</sup> .....	(1,484.7)	(905.1)	(662.9)	(855.2)	(497.9)	(514.3)	4.9	(37.7)	(35.4)
<b>Total .....</b>	<b>2,458.8</b>	<b>1,857.4</b>	<b>1,093.8</b>	<b>78.9</b>	<b>295.7</b>	<b>3.4</b>	<b>519.5</b>	<b>360.2</b>	<b>494.7</b>

Note:

(1) Elimination represents the exclusion of intra-group transactions.

### ***Exploration and Production of Oil and Gas and Trading of Own Refined Products***

The Company's exploration and production of oil and gas segment is the second largest of the Company's segments in terms of revenue before elimination, the Company's most profitable segment in terms of profit on a gross basis and the second largest of the Company's segments in terms of profit on a net basis. All of the segment's revenue was derived from external customers (*i.e.*, non-affiliates and joint ventures) for the years ended 31 December 2017, 2016 and 2015, respectively.

KMG EP, which represented 50.8%, 53.7% and 54.4% of the Company's total oil production volumes for the years ended 31 December 2017, 2016 and 2015, respectively, sells a portion of its oil production to external customers.

Revenue before elimination attributable to this segment increased by 28.6% to KZT 1,095.6 billion for the year ended 31 December 2017 compared to KZT 851.9 billion for the year ended 31 December 2016, while gross profit attributable to this segment increased by 38.6% to KZT 581.4 billion for the year ended 31 December 2017 compared to KZT 419.6 billion for the year ended 31 December 2016. These increases in revenue before elimination and in gross profit for the year ended 31 December 2017 compared to the year ended 31 December 2016 were primarily attributable to the processing and subsequent sale of petroleum products by KMG EP.

Revenue before elimination attributable to this segment increased by 37.5% to KZT 851.9 billion for the year ended 31 December 2016 compared to KZT 619.6 billion for the year ended 31 December 2015, while gross profit attributable to this segment increased by 65.1% to KZT 419.6 billion for the year ended 31 December 2016 compared to KZT 254.2 billion for the year ended 31 December 2015. These increases in revenue before elimination and in gross profit for the year ended 31 December 2016 compared to the year ended 31 December 2015 were primarily attributable to the devaluation of the Tenge against the U.S. Dollar in the second half of 2015.

Net profit attributable to the exploration and production of oil and gas segment increased by 3.4% to KZT 295.0 billion for the year ended 31 December 2017 compared to KZT 285.2 billion for the year ended 31 December 2016, primarily as a result of the increase in the gross profit generated by KMG EP and TCO, which was, in turn, due to increases in exports and an increase in global oil prices, which was partially offset by the appreciation of the Tenge against the U.S. Dollar in 2017.

Net profit attributable to the exploration and production of oil and gas segment decreased by 49.2% to KZT 285.2 billion for the year ended 31 December 2016 compared to KZT 561.4 billion for the year ended 31 December 2015, primarily as a result of the decrease in the average crude oil price in 2016 compared to 2015.

## ***Oil Transportation***

The oil transportation segment is the fourth largest of the Company's segments in terms of revenue, the fourth largest of the Company's segments in terms of profit on a gross basis and the third largest of the Company's segments in terms of profit on a net basis. The Company, through KTO, generates oil transportation revenue from tariffs it charges to its customers under long-term contracts for the transportation of crude oil through the pipeline systems KTO operates. Of the segment's total revenue, 79.9%, 80.4% and 81.6% of the segment's total revenue were derived from external customers and 20.1%, 19.6% and 18.4% from internal customers (*i.e.*, the Company and its subsidiaries) for the years ended 31 December 2017, 2016 and 2015, respectively.

Revenue before elimination attributable to this segment increased by 6.5% to KZT 249.2 billion for the year ended 31 December 2017 compared to KZT 234.0 billion for the year ended 31 December 2016, while gross profit attributable to this segment increased by 4.9% to KZT 102.3 billion for the year ended 31 December 2017 compared to KZT 97.5 billion for the year ended 31 December 2016. These increases were primarily attributable to the opening of an additional route for the transportation of oil from the Kashagan Field through the Atyrau-Samara pipeline in February 2017, for its further transportation via the Transneft PJSC system in Russia to the port of Novorossiysk for subsequent export, as well as the continued delivery of oil from the Kashagan field (following resumption of commercial production in the Kashagan Field in November 2016).

Revenue before elimination attributable to this segment decreased by 1.5% to KZT 234.0 billion for the year ended 31 December 2016 compared to KZT 237.5 billion for the year ended 31 December 2015, while gross profit attributable to this segment decreased by 8.5% to KZT 97.5 billion for the year ended 31 December 2016 compared to KZT 106.5 billion for the year ended 31 December 2015. These decreases were primarily attributable to the decrease in export transportation of crude oil by 10% in 2016 compared to 2015, which was partially offset by increases in the tariffs for crude oil transportation.

Net profit attributable to the oil transportation segment decreased by 16.7% to KZT 124.3 billion for the year ended 31 December 2017 compared to KZT 149.3 billion for the year ended 31 December 2016, primarily as a result of a decrease in the share in profits of joint ventures and associates, which was, in turn, primarily due to the recognition of income relating to CPC in the Company's financial statements in 2016, which was in turn due to the recalculation of the book value of the Company's investments in 2016.

Net profit attributable to the oil transportation segment increased by 87.3% to KZT 149.3 billion for the year ended 31 December 2016 compared to KZT 79.7 billion for the year ended 31 December 2015, primarily as a result of the devaluation of the Tenge against the U.S. Dollar in the second half of 2015.

## ***Gas Trading and Transportation***

The gas sales and transportation segment is the third largest of the Company's segments in terms of revenue, the third largest of the Company's segments in terms of profit on a gross basis and the Company's fourth largest segment in terms of profit on a net basis. The Company's gas sales and transportation revenue is generated from tariffs KTG charges to its customers under long-term contracts for the sales and transportation of natural gas through the pipeline system it operates. The Company's transportation revenue also includes payments made in lieu of shipments under ship-or-pay contracts between the Company and certain of its customers, which did not transport all of their agreed volumes. Such payments generate revenue for KTG without offsetting operating costs to the extent of the volumes paid for, but not transported. Of the total revenue of the segment, nearly 100% is derived from external customers.

Revenue before elimination attributable to this segment increased by 10.1% to KZT 552.6 billion for the year ended 31 December 2017 compared to KZT 502.0 billion for the year ended 31 December 2016, while gross profit attributable to this segment decreased by 17.9% to KZT 126.2 billion for the year ended 31 December 2017 compared to KZT 153.7 billion for the year ended 31 December 2016. These changes were primarily attributable to the costs associated with ICA's trust management of property, as well as increases in interest payments and in gas costs.

Revenue before elimination attributable to this segment increased by 34.1% to KZT 502.0 billion for the year ended 31 December 2016 compared to KZT 374.3 billion for the year ended 31 December 2015, while gross profit attributable to this segment increased by 58.1% to KZT 153.7 billion for the year ended 31 December 2016 compared to KZT 97.2 billion for the year ended 31 December 2015. These increases were primarily attributable to an increase in export volumes of gas sales by 1.7 bcm in 2016, as compared to 2015, as well as an increase in gas sales to the domestic market by 0.4 bcm, which was supported by the devaluation of the Tenge against the U.S. Dollar in the second half of 2015.

Net profit attributable to the gas sales and transportation segment was KZT 46.8 billion for the year ended 31 December 2017, primarily as a result of an increase in finance costs. The decrease was also partially due to a decrease in the share in profits of joint ventures and associates, which was, in turn, primarily due to the recognition of income relating to CPC in the Company's financial statements in 2016, which was in turn due to the recalculation of the book value of the Company's investments in 2016. Net profit attributable to the gas sales and transportation segment was KZT 95.7 billion for the year ended 31 December 2016, primarily as a result of an increase in export volumes of gas sales by 1.7 bcm in 2016 and an increase in gas sales to the domestic market by 0.4 bcm. The increase was also partially due to the devaluation of the Tenge against the U.S. Dollar in the second half of 2015.

### ***Refining and Trading of Crude Oil and Refined Oil Products***

The refining and trading of crude oil and refined oil products segment is the largest of the Company's segments in terms of revenue before elimination. This segment had not been profitable in recent years prior to 2016. Of this segment's total revenue, 80.1%, 94.4% and 98.9% of the segment's total revenue were derived from external customers and 19.9%, 5.6% and 1.1% from internal customers for the periods ended 31 December 2017, 31 December 2016 and 31 December 2015, respectively. This segment is also the third largest of the Company's segments in terms of profit on a gross basis and the second largest of the Company's segments in terms of profit on a net basis.

KMG RM purchased a significant portion of the oil that was refined for domestic sales in 2015 and 2014 from KMG EP at below market prices.

The gross profit margin of the refining and trading of crude oil and refined oil products segment was 6.7% for the year ended 31 December 2017 compared to 12.6% for the year ended 31 December 2016 and 16.8% for the year ended 31 December 2015.

Revenue before elimination attributable to this segment increased by 81.0% to KZT 1,903.7 billion for the year ended 31 December 2017 compared to KZT 1,051.6 billion for the year ended 31 December 2016. This increase was primarily attributable to increases in sales volumes of crude oil associated with the TCO Advanced Oil Sale Transaction.

Revenue before elimination attributable to this segment increased by 148.3% to KZT 1,051.6 billion for the year ended 31 December 2016 compared to KZT 423.6 billion for the year ended 31 December 2015. This increase was primarily attributable to the TCO Advanced Oil Sale Transaction. Gross profit attributable to this segment increased by 87.0% to KZT 132.8 billion for the year ended 31 December 2016 compared to KZT 71.0 billion for the year ended 31 December 2015. This increase was primarily attributable to an increase in volume of crude oil refined at Atyrau Refinery, as well as the increase in tariffs for refining at the Atyrau Refinery to KZT 20,501.0 from KZT 11,807.6 and at the Pavlodar Refinery to KZT 14,895.2 from KZT 8,641.6.

Net profit attributable to the refining and trading of crude oil and refined oil products before elimination decreased by 77.8% to KZT 125.7 billion for the year ended 31 December 2017 compared to a net profit of KZT 564.8 billion for the year ended 31 December 2016. This decrease was primarily due to an increase in finance costs.

Net profit attributable to the refining and trading of crude oil and refined oil products before elimination increased by KZT 925.2 billion to KZT 564.8 billion for the year ended 31 December 2016 compared to a net loss of KZT 360.4 billion for the year ended 31 December 2015. This increase was primarily due to the TCO Advanced Oil Sale Transaction, as well as an increase in the volume of crude oil refined at the Atyrau Refinery, and the increase in tariffs for refining at the Atyrau Refinery to KZT 20,501.0 from KZT 11,807.6 and at the Pavlodar Refinery to KZT 14,895.2 from KZT 8,641.6. See "*— Results of Operations for the Year Ended 31 December 2016 Compared to the Year Ended 31 December 2015*".

### ***Other***

The "other" segment is comprised of service subsidiaries of the Company, which provide heating and power, air travel, security and other oil and gas related services. This segment is the smallest of the Company's segments in terms of revenue before elimination, profit on a gross basis and profit on a net basis. Of the segment's total revenue, 68.7%, 65.3% and 78.8% were derived from external customers and 31.3%, 34.7% and 21.2% from internal customers for the years ended 31 December 2017, 31 December 2016 and 31 December 2015, respectively.

Revenue before elimination attributable to this segment increased by 15.8% to KZT 142.4 billion for the year ended 31 December 2017 compared to KZT 123.0 billion for the year ended 31 December 2016 due to an increase in sales to external customers, which was, in turn, primarily attributable to an increase in revenue of KMG D&S and Oil Construction Company LLP. Gross loss decreased by 74% to KZT 2.6 billion for the year ended 31 December 2017 compared to gross

loss of KZT 10.0 billion for the year ended 31 December 2016 primarily due to an increase in finance income, which was, in turn, primarily attributable to an increase in revenue of KMG D&S.

Revenue before elimination attributable to this segment increased by 20.9% to KZT 123.0 billion for the year ended 31 December 2016 compared to KZT 101.7 billion for the year ended 31 December 2015 due to the provision of new intra-group services from KMG Global Solutions to the Company. Gross loss decreased by 9.9% to KZT 10.0 billion for the year ended 31 December 2016 compared to gross loss of KZT 11.1 billion for the year ended 31 December 2015 primarily due to increased tariffs paid for certain services.

Net loss attributable to the “other” segment decreased by 88.9% to KZT 77.1 billion for the year ended 31 December 2017 compared to net loss of KZT 697.2 billion for the year ended 31 December 2016, primarily as a result of the accrual of a loss related to the transfer of investments from KTG Cooperative to KMG RM and the accrual of the impairment of fixed assets.

Net loss attributable to the “other” segment increased by KZT 1,068.1 billion to KZT 697.2 billion for the year ended 31 December 2016 compared to net profit of KZT 370.9 billion for the year ended 31 December 2015, primarily as a result of the TCO Advanced Oil Sale Transaction. See “—Results of Operations for the Year Ended 31 December 2016 Compared to the Year Ended 31 December 2015”.

## Liquidity and Capital Resources

### Cash Flows

The following tables set forth certain information regarding the principal items of the statement of cash flows for the periods indicated:

	For the year ended 31 December			% change between the years ended 31 December	
	2017	2016 (KZT billions)	2015	2016 and 2017	2015 and 2016
Net cash flows from operating activities.....	399.9	1,276.2	146.4	(68.7)	771.7
Net cash flows (used in)/from investing activities.....	(822.0)	(863.6)	1,222.9	(4.8)	(170.6)
Net cash flows (used in)/from financing activities.....	760.8	(312.0)	1,630.5	343.8	(119.1)

#### Net Cash Flows from Operating Activities

For the year ended 31 December 2017, net cash flows from operating activities were KZT 399.9 billion compared to KZT 1,276.2 billion for the year ended 31 December 2016, reflecting a decrease of KZT 876.3 billion, or 68.7%. This decrease was primarily attributable to an increase in the amounts paid to suppliers, which was, in turn, as a result of the receipt of an advance payment for oil received in 2016.

For the year ended 31 December 2016, net cash flows from operating activities were KZT 1,276.2 billion compared to KZT 146.4 billion for the year ended 31 December 2015, reflecting an increase of KZT 1,129.8 billion, or 771.7%. This increase was primarily attributable to the recognition of a KZT 1,012.0 billion cash flow in respect of change in prepayment on oil supply agreements, which was, in turn, as a result of receipt of cash proceeds from the TCO Advanced Oil Sale Transaction. See “Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—TCO—TCO Advanced Oil Sale Transaction.”

#### Net Cash Flows From / (Used in) Investing Activities

Net cash flows from/(used in) investing activities principally reflect acquisitions and dispositions of subsidiaries, joint ventures and associates, purchases and sales of property, plant and equipment and intangible property, distributions received from joint ventures and associates and placements of time deposits.

For the year ended 31 December 2017, net cash flows used in investing activities were KZT (822.0) billion compared to net cash flows used in investing activities of KZT (863.6) billion for the year ended 31 December 2016, reflecting a decrease of KZT 41.6 billion or 4.8%. Net cash flows used in investing activities for the year ended 31 December 2017

were primarily related to the placement of KZT 457.3 billion in bank deposits, the purchase of KZT 464.4 billion of property, plant and equipment and intangible property and KZT 184.7 billion of loans given to related parties, which was partially offset by KZT 271.8 billion in dividends received from joint ventures and associates.

For the year ended 31 December 2016, net cash flows used in investing activities were KZT (863.6) billion compared to net cash flows from investing activities of KZT 1,222.9 billion for the year ended 31 December 2015. Net cash flows used in investing activities for the year ended 31 December 2016 were primarily related to cash used in the placement of bank deposits, as well as purchases of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets, acquisition of and contribution to joint ventures and loans given to related parties.

#### *Net Cash Flows (Used in) / From Financing Activities*

For the year ended 31 December 2017, net cash flows from financing activities were KZT 760.8 billion compared to net cash flows used in financing activities of KZT (312.0) billion for the year ended 31 December 2016. The net cash flows from financing activities in 2017 primarily reflected KZT 1,508.2 billion in proceeds from borrowings, which was partially offset by KZT 689.1 billion used for the repayment of borrowings.

For the year ended 31 December 2016, net cash flows used in financing activities were KZT 312.0 billion compared to net cash flows used in financing activities of KZT 1,630.5 billion for the year ended 31 December 2015. The net cash flows used in financing activities in 2016 primarily reflected KZT 530.5 billion in cash used for the repayment of borrowings, which was partially offset by KZT 316.8 billion of proceeds from borrowings.

#### *Deposits with Kazakhstan Banks*

As at 31 December 2017, the Company's levels of current cash accounts and deposits held with Kazakhstan banks were U.S.\$2.3 billion (compared to U.S.\$3.2 billion as at 31 December 2016 and U.S.\$2.5 billion as at 31 December 2015), of which U.S.\$2.2 billion was held by the five largest Kazakhstan banks (compared to U.S.\$2.9 billion as at 31 December 2016 and U.S.\$2.2 billion as at 31 December 2015).

In October 2017, the Company recognised impairments with respect to deposits and cash on current accounts held in Bank RBK JSC, in an amount equal to KZT 27.9 billion as a result of the declining financial condition of Bank RBK JSC. In accordance with its asset coverage ratio, the Company determined the revolving amount of deposits and recognised a loss on impairment on financial assets in the amount of KZT 7.0 billion. As a result, the carrying amount of deposits and cash on current accounts comprised KZT 20.9 billion following the impairment. In November 2017, the NBK, the Government and KCC entered into a framework agreement to improve the financial condition of Bank RBK JSC. Pursuant to a resolution of the Government dated 7 November 2017, on 29 December 2017, the Company's deposits and cash on current accounts held in Bank RBK JSC with a carrying amount of KZT 27.9 billion were converted into 15-year bonds, with a par value of KZT 1 per bond and which bear interest at a rate of 0.01% *per annum*. Pursuant to the terms of these bonds, KCC has guaranteed to repay KZT 7.7 billion to the Company at the end of five years. See Note 16 to the 2017 Financial Statements and "*Risk Factors—Risk Factors Relating to the Company's Business—The Company is exposed to the Kazakhstan banking sector*".

In 2017, the Specialised Interdistrict Economic Court of Astana approved settlement agreements related to civil cases among the Company, KMG RM and Delta Bank in respect of the recovery of the Company's and KMG RM's bank deposits, as well as penalty interest, according to which Delta Bank is required to make payments within six months. There can be no assurance, however, that Delta Bank will make such payments and, accordingly, the Company has fully provisioned an impairment charge of U.S.\$36.2 million in respect of these deposits in the 2017 Financial Statements. See "*Risk Factors—Risks Related to the Company's Business—The Company is exposed to the Kazakhstan banking sector*."

#### *Significant Non-Cash Transactions*

In the years ended 31 December 2016 and 2015, the Company entered into a number of significant non-cash transactions and other transactions, which were excluded from the Company's consolidated statement of cash flows.

The Company changed the method of presentation of its consolidated cash flow statement included in the 2017 Financial Statements from the method of presentation of the consolidated cash flow statement included in the 2016 Financial Statements, from the indirect method to the direct method for the period of 1 January 2017 to 31 December 2017, since the Company believes that the direct method is more relevant to users of consolidated financial statements. As a result of such changes to the method of presentation of the Company's consolidated cash flow statement, in the year ended 31 December 2017, the Company did not record any non-cash transactions.

In the year ended 31 December 2016, the Company recorded: (i) capitalisation of borrowing costs of KZT 28.5 billion; (ii) accounts payable for non-current assets of KZT 14.9 billion; (iii) advances paid for non-current assets of KZT 14.5 billion; (iv) purchases of non-current assets of KZT 131.7 billion; and (v) hedge of income (loss) on translation of borrowings denominated in the U.S. Dollars of KZT 37.9 billion.

In the year ended 31 December 2015, the Company recorded: (i) accounts payable for purchases of property, plant and equipment of KZT 30.5 billion; (ii) additional paid in capital of KZT 13.4 billion, which represents the fair value of Samruk-Kazyna's indirect interest in NCPC, which the Company (through Coöperatieve KazMunaiGaz U.A, its subsidiary) holds for Samruk-Kazyna on trust management; and (iii) advances paid for non-current assets of KZT 33.9 billion.

## Total Capital Expenditures

The following table sets forth certain information regarding the Company's total capital expenditures, by segment, including acquisitions through business combinations, for the periods indicated.

	For the year ended 31 December			% change between the years ended 31 December	
	2017	2016	2015	2016 and 2017	2015 and 2016
	(KZT billions)				
Exploration and production of oil and gas .....	135.2	147.3	251.8	(8.2)	(41.5)
Transportation of oil .....	74.9	42.6	80.1	75.8	(46.8)
Gas trading and transportation .....	140.5	88.9	96.7	58.0	(8.1)
Refining and trading of crude oil and refined oil products..	260.0	233.3	167.3	11.4	39.5
Other elimination .....	26.6	42.1	30.6	(36.8)	37.6
<b>Total capital expenditures .....</b>	<b>637.2</b>	<b>554.1</b>	<b>626.4</b>	15.0	(11.5)

For the year ended 31 December 2017, the Company's most significant capital expenditures included: modernisation of the refineries owned by the Company, including the construction of a deeper oil refining complex at the Atyrau Refinery (KZT 260 billion); upgrade works to the KTG pipeline systems (KZT 140.5 billion); and production support and volume increases of KMG EP (KZT 135.2 billion).

For the year ended 31 December 2016, the Company's most significant capital expenditures included: the modernisation programme, production support and volume increases of KMG EP (KZT 95.1 billion); modernisation of the refineries owned by the Company, including the construction of an aromatic hydrocarbons production complex and a deeper oil refining complex at the Atyrau Refinery (KZT 431.7 billion); upgrades to the KTG pipeline systems (KZT 104.9 billion); and upgrades to the KTO pipeline systems (KZT 38.2 billion).

For the year ended 31 December 2015, the Company's most significant capital expenditures included: exploration and development within the North Caspian Sea Project (KZT 159.4 billion); production support and volume increases at KMG EP capital expenditures (KZT 101.2 billion); modernisation of the refineries owned by the Company, including the construction of an aromatic hydrocarbons production complex and a deeper oil refining complex at the Atyrau Refinery (KZT 135.4 billion); upgrades to the KTG pipeline systems (KZT 83.5 billion); and upgrades to the KTO pipeline systems (KZT 78.3 billion).

The exploration and production of oil and gas segment represented 21.2%, 26.6% and 40.2% of the capital expenditures of the Company for the years ended 31 December 2017, 2016 and 2015, respectively. Capital expenditures for exploration and production in the years ended 31 December 2017, 2016 and 2015, related mainly to offshore exploration projects and exploration and development within the North Caspian Project. In the years ended 31 December 2017, 2016 and 2015, the largest project of the exploration and production of oil and gas segment in terms of capital expenditures (excluding acquisitions) was the exploration and development of prospective fields within the North Caspian Project area. See "Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—NCPC".

The transportation of oil segment represented 11.8%, 7.7% and 12.8% of the capital expenditures of the Company for the years ended 31 December 2017, 2016 and 2015, respectively. In the years ended 31 December 2017, 2016 and 2015, the largest projects of the transportation and gas segment in terms of capital expenditures (excluding acquisitions) related to upgrades to the KTO pipeline systems.

The gas trading and transportation segment represented 22.0%, 16.0% and 15.4% of the capital expenditures of the Company for the years ended 31 December 2017, 2016 and 2015, respectively. In the years ended 31 December 2017, 2016 and 2015, the largest projects of the gas trading and transportation segment in terms of capital expenditures (excluding acquisitions) related to upgrades of the KTG pipeline system.

The refining and trading of crude oil and refined oil products segment represented 40.8%, 42.1% and 26.7% of the capital expenditures of the Company for the years ended 31 December 2017, 2016 and 2015, respectively. In the years ended 31 December 2017, 2016 and 2015, the largest project of the refining and trading of crude oil and refined oil products segment was the modernisation of the refineries owned by the Company, including the construction of an aromatic hydrocarbons production complex and a deeper oil refining complex at the Atyrau Refinery.

The other segment represented 4.2%, 7.6% and 4.9% of the capital expenditures of the Company for the years ended 31 December 2017, 2016 and 2015, respectively. In the years ended 31 December 2017, 2016 and 2015, the largest projects of the refining and trading of crude oil and refined oil products segment were modernisation of the refineries owned by the Company.

In 2017, the most significant capital expenditures of the Company's joint ventures included TCO (KZT 358.6 billion), AGP (KZT 51.5 billion), and BSGP (KZT 18.4 billion). In 2016, the most significant capital expenditures of the Company's joint ventures included TCO (KZT 612.0 billion), AGP (KZT 74.9 billion), BSGP (KZT 93.6 billion) and Shymkent Refinery (KZT 57.7 billion). In 2015, the most significant capital expenditures of the Company's joint ventures included TCO (KZT 399.6 billion), AGP (KZT 131.9 billion) BSGP (KZT 36.8 billion) and Shymkent Refinery (KZT 18.4 billion).

The following table sets forth the Company's budgeted expenditures for the years indicated:

	<b>For the year ended 31 December</b>				
	<b>2018(E)</b>	<b>2019(E)</b>	<b>2020(E)</b>	<b>2021(E)</b>	<b>2022(E)</b>
	<i>(KZT billions)</i>				
Exploration and production of oil and gas .....	239.1	221.6	266.8	269.9	269.9
Transportation of oil .....	47.6	28.5	33.3	33.3	33.3
Gas trading and transportation .....	51.4	130.6	39.6	25.6	25.6
Refining and trading of crude oil and refined oil products .....	19.0	13.2	9.1	25.8	25.8
Other .....	15.6	8.9	6.0	5.2	5.2
<b>Total capital expenditures .....</b>	<b>372.7</b>	<b>402.8</b>	<b>354.8</b>	<b>359.8</b>	<b>359.8</b>

Following the completion of a number of capital intensive projects in 2016 and 2017, the Company expects its levels of capital spending in 2018 and 2019 to decline. Aside from the planned construction of three new compressor stations on the Beineu-Bozoi-Shymkent Gas Pipeline in 2018 and 2019 to facilitate the transportation of gas to China, the capital expenditure commitments in 2018 and 2019 are expected to predominantly relate to exploration projects and capital expenditures at KMG EP to maintain current levels of production and other projects.

For the year ending 31 December 2018, budgeted capital expenditures are KZT 372.7 billion of which KZT 43.3 billion had been expended as at 28 February 2018. The Company's most significant capital expenditures budgeted for in 2019 include: expenditures by KMG EP aimed at maintaining production levels (KZT 142.1 billion); upgrades to the KTO pipeline systems (KZT 47.6 billion); upgrades to the KTG pipeline systems (KZT 51.4 billion); and exploration projects (KZT 37.6 billion).

The Company currently plans to spend a total of KZT 1,849.9 billion over the next five years on the following projects:

- construction of three compressor stations on the Beineu-Bozoi-Shymkent Gas Pipeline between 2018 and 2019 (KZT 109.2 billion, including VAT);
- production support and volume increases at KMG EP (KZT 528.4 billion); and
- various exploration projects of the Company (KZT 284.6 billion).

Capital expenditures for the projects of the Company's joint ventures are financed at the level of the relevant joint venture. Capital expenditures for these projects are expected to be funded without recourse to the Company.

See “Risk Factors—Risk Factors Relating to the Company’s Business—The Company’s business requires significant capital expenditures and the Company may be unable to finance its planned capital expenditures” and “Forward Looking Statements”.

## Commitments

See Note 35 to the 2017 Financial Statements and Note 36 to the 2016 Financial Statements.

### Commitments in Joint Ventures

Certain joint ventures of the Company (TCO, KPO, NCPC, Kazakhoil Aktobe) and KMG EP (Kazgermunai) have commitments under their licence agreements with Kazakhstan. Under these agreements, the foreign partners are obligated to make certain investments as dictated by agreed time schedules.

As a participant in TCO and as an indirect participant in each of KPO, Zhambai LLP, Caspian Meruerty Operating Company B.V. and Kurmangazy Petroleum LLP through LLP “Offshore oil company “KazMunayTeniz” (“**KazMunayTeniz**”), respectively, the Company is called upon from time-to-time to make cash contributions. The Company is also obligated to make capital contributions when and to the extent required by NCPC, which is a joint operation of the Company, in order to fund its operations.

### Commitments under Subsoil Use Agreements

As at 31 December 2017, the Company had the following liabilities related to minimum work programmes in accordance with terms of licences, PSAs and Subsoil Use Agreements, signed with the Government:

Year	Capital Expenditures	Operational Expenditures
	<i>(KZT billions)</i>	
2018.....	153.0	11.0
2019.....	17.6	5.5
2020.....	7.4	5.8
2021.....	3.0	4.1
2022-2048 .....	9.8	15.4
<b>Total</b> .....	<b>190.7</b>	<b>41.8</b>

See Note 35 of the 2017 Financial Statements and Note 36 of the 2016 Financial Statements for additional obligations to which the Company is committed.

### Oil Supply Commitments

As at 31 December 2017, the Company had commitments under oil supply agreements in the total amount of 28.7 million tonnes (28.1 million tonnes as at 31 December 2016), including joint ventures.

### Other Contractual Commitments

As at 31 December 2017, the Company (including joint ventures) had other capital commitments of approximately KZT 684.9 billion (KZT 1,100.4 billion as at 31 December 2016), related to acquisition and construction of property, plant and equipment.

As at 31 December 2017, the Company had commitments in the total amount of KZT 125.3 billion (KZT 151.1 billion as at 31 December 2016) under investment programmes approved by the joint order of Ministry of Energy and the Natural Monopolies Committee and aimed at capital construction/reconstruction/overhaul/diagnostic of production facilities.

### Commitments Under Hydrocarbonfield Licences and Contracts

#### Commitments of KTG under the Hydrocarbon Agreement

In December 2000, KTG signed an agreement (the “**Hydrocarbon Agreement**”) with the Investment Agency of Kazakhstan on exploration and production of hydrocarbons in North-Ucharal and UcharalKempirtobe territories and blocks including Amangeldy, Anabai, Airakty and Kumyrly gas fields, Zhambyl oblast, south Kazakhstan. The term of



the Hydrocarbon Agreement is 31 years. In November 2003, KTG started production and sale of gas from Amangeldy gas field.

Under the Hydrocarbon Agreement, KTG is committed to making certain payments, either annually or based on reaching certain milestones in the exploration, development and production periods.

These payments include a commercial discovery bonus, royalty and certain taxes. The commercial discovery bonus is defined as 0.05% of commercial amounts of discovered hydrocarbons.

Under the Hydrocarbon Agreement, from 2000 to 2005, KTG was required to invest U.S.\$94.3 million for the exploration of hydrocarbons. In accordance with the letter from the Ministry of Energy and Mineral Resources, a predecessor of the Ministry of Energy (the “MEMR”) dated 13 December 2006, the exploration period was extended to December 2018 and the minimum work programme was increased by U.S.\$44.3 million through the same date. As at 31 December 2016, the Company did not have any commitments under the minimum work programmes.

According to the minimal working programme under the subsoil use contract during the period of 2014-2015, it was required for Amangeldy Gas to invest an amount of KZT 8.4 billion for additional exploration of hydrocarbons. In accordance with the letter from the Ministry of Oil and Gas № 08-03/26289 dated 12 November 2015, the period of exploration was extended to 12 December 2018.

The 2014-2017 working programme to develop the Zharkum field in the amount of KZT 2.8 billion was approved in accordance with Addendum № 8 dated 22 October 2014 to the subsoil use contract. Addendum № 13 is in the process of being developed and will be sent to the Ministry of Energy for consideration and approval.

In accordance with the terms of subsoil use contract, the long-term commitment to the Government is established for Amangeldy Gas in the amount of U.S.\$22.0 million directly related to the cost of acquisition of geological and geophysical data and drilling costs incurred by the state.

With respect to Amangeldy Gas Field, where production was commenced in 2003, payment of U.S.\$11.4 million should be made on a quarterly basis over 10 years after the date of commencement of production. The Company recognised Amangeldy Gas Field liabilities with respect to the payment of historical costs until 2018. The carrying amount of liabilities is determined by the discounting of expected future cash flows at the nominal rate before taxation in the amount of 7.0%. With respect to the Zharkum field where production was commenced at the end of 2014, the liability to reimburse historical costs in the amount of U.S.\$83,740 was recognised in full at 31 December 2015 and was paid in one tranche in January 2016.

The repayment schedule of the rest of the historical costs in the amount of U.S.\$10.5 million will be further discussed with the Government after confirmation of the commercial discovery of gas at the North Ucharal, Ucharal-Kempirtobe, Anabai, Airakty and Kumyrly Fields and blocks XXXIV-49, 50, 51 and XXXV-50.

On 30 May 2016, according to Addendum № 2 signed by the Company and the Ministry of Energy, KTG received a right for the use of subsoil resources of Karsu site located in Mangystau region under the contract on exploration of hydrocarbon deposits № 39949-YBC dated 1 October 2013. Before 30 May 2016, the right for the use of subsoil resources belonged to the Company. Under the contract terms, the duration of exploration works is six years between 1 October 2013 and 1 October 2019.

As at 31 December 2017, KTG failed to comply with the work programme under the contract in full. Management believes that the outstanding amounts can be transferred to subsequent years and that such transfer will not result in the termination of the Subsoil Use Agreement.

#### *Contractual Commitments of KTO for Acquisition of Property, Plant and Equipment, Inventory and Services*

As at 31 December 2017, KTO had contractual commitments to acquire property, plant and equipment and construction services for the amount of KZT 26.5 billion.

As at 31 December 2017, KTO had contractual commitments of its joint ventures to acquire property, plant and equipment and construction services for the amount of KZT 0.1 billion.

### *Contractual Commitments of KMG Kashagan B.V.*

As at 31 December 2017, KMG Kashagan B.V. had capital expenditure commitments to purchase, construct or develop its undivided interest in exploration and appraisal assets and to develop oil and gas assets of U.S.\$1,184.6 million.

### *Contractual Commitments of MMG*

MMG's oil and gas fields are located on land belonging to the Mangistau district administration. In accordance with the Subsoil Use Agreement, MMG has to perform annual minimum work programmes under certain projects. These minimum work programmes are subject to the consent of the governmental agency ZapKazNedra. In accordance with these minimum work programmes, for the year ended 31 December 2017, MMG's commitments in respect of capital and operational expenditures amounted to KZT 371.6 billion, including obligations to drill 87 wells. As at 31 December 2017, MMG had incurred KZT 587.7 billion in respect of capital and operational expenditures, drilled 197 wells. Management believes that, as at 31 December 2017, MMG had substantially fulfilled the requirements of the minimum work programme.

As at 31 December 2017, MMG had capital commitments under the work programme of KZT 56.3 billion for 2018 to 2028.

### **Debt Obligations**

The following table sets forth certain information regarding the total borrowings of the Company and its subsidiaries (excluding obligations of non-consolidated joint ventures and associates except to the extent guaranteed by the Company or its subsidiaries) and certain rate and currency denomination information related thereto as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(KZT billions, except for percentages)</i>		
Total borrowings.....	4,163.4	3,072.5	3,228.9
Fixed interest rate borrowings.....	3,137.2	2,099.7	2,185.7
Weighted average of fixed interest rates .....	6.30%	7.93%	7.82%
Floating interest rate borrowings.....	1,026.3	972.9	1,043.2
Weighted average of floating interest rates .....	5.21%	4.57%	4.40%
U.S. Dollar-denominated borrowings .....	3,942.7	2,846.1	3,007.5
Tenge-denominated borrowings.....	220.7	226.4	221.3
Current portion.....	764.0	366.4	296.5
Non-current portion.....	3,399.5	2,706.1	2,932.3

The Company's total borrowings increased by 35.5% to KZT 4,163.4 billion as at 31 December 2017 from KZT 3,072.5 billion as at 31 December 2016. This increase was principally due to the issuance of three series of Notes under the Programme in an aggregate principal amount of U.S.\$2.75 billion in April 2017 and the Eurobonds issued by KTG in an aggregate principal amount of U.S.\$750 million in September 2017. See "*—Principal Debt Obligations of the Company and its Subsidiaries*". The Company's long-term borrowings (excluding the current portion of long-term debt) increased to KZT 3,399.5 billion as at 31 December 2017 from KZT 2,706.1 billion as at 31 December 2016, primarily for the same reason.

The Company's total borrowings decreased by 4.8% to KZT 3,072.5 billion as at 31 December 2016 from KZT 3,228.9 billion as at 31 December 2015. This decrease was principally due to repayment of a principal amount of U.S.\$400 million due in respect of a syndicated loan, the partial repayment of local bonds, which were subscribed by JSC Development Bank of Kazakhstan in a total amount of U.S.\$106 million, and scheduled repayments of indebtedness by KMG RM (which has since been merged with the Company). The Company's long-term borrowings (excluding the current portion of long-term debt) decreased to KZT 2,706.1 billion as at 31 December 2016 from KZT 2,932.3 billion as at 31 December 2015, primarily for the same reasons. See "*—Principal Debt Obligations of the Company and its Subsidiaries*".

### **Financial Policy**

The objectives of the Company's financial policy are to:

- measure, limit and manage the financial risks of the Company;

- monitor the Company's leverage and take steps to decrease the overall level of the Company's debt, by repayment of such debt at maturity without refinancing;
- maintain an optimal working capital position at the level of the Company's subsidiaries; and
- maintain a high level of financial flexibility within the Group.

In line with this policy, the Company aims to finance projects without affecting its balance sheet by entering into non-recourse project financing, by and entering into acquisition financing with limited recourse to the acquired asset and applying its own cash realised from dividends received from its subsidiaries, joint ventures and associates. In financing projects undertaken by the Company or its subsidiaries, the Company generally arranges financing at the Company level and then allocates such liquidity to fund projects, as and when needed, by different entities within the Group. Separately, the Company encourages its joint ventures and associates to participate in financing directly.

### ***Principal Debt Obligations of the Company and its Subsidiaries***

The following describes the principal outstanding or available debt obligations of the Company and its subsidiaries:

- In December 2017, MMG entered into a U.S.\$300 million facility agreement with Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch and JSC Industrial and Commercial Bank of China (Almaty), with proceeds to be used for general corporate purposes. Loans to be drawn down under the facility bear interest at a rate of three months LIBOR +2.19% *per annum* and mature 36 months following receipt of the first tranche under the facility.
- In September 2017, KTG issued Eurobonds in an aggregate principal amount of U.S.\$750 million, which bear interest at a rate of 4.375% *per annum* and mature in September 2027. KTG's obligations under the Eurobonds are guaranteed by ICA. Interest on the Eurobonds is to be paid semi-annually. As at 31 December 2017, the outstanding principal amount of Notes was U.S.\$750 million.
- In May 2016, ICA entered into a U.S.\$140.0 million facility agreement with the EBRD for refinancing purposes. Loans to be drawn down under the facility bear interest at rates of three months CPI + 3.15% and mature in 2023. In May 2017, an additional U.S.\$80.0 million was drawn down under the facility. As at 31 December 2017, the outstanding principal amount under this facility was U.S.\$196.7 million.
- In May 2016, KTG Aimak entered into a KZT 20 billion facility agreement with the EBRD, for purposes of financing the extension and modernisation of distribution networks, and financing maintenance capital expenditures. Loans to be drawdown under the facility bear interest at rates of 10.15% and mature in 2026. As at 31 December 2017, the outstanding principal amount under this facility was KZT 15.7 billion.
- In December 2015, KTG Aimak issued KZT 3.78 billion in Notes, which bear interest at a rate of 7.50% *per annum* and mature in December 2018. The notes are listed on the KASE. As at 31 December 2017, the outstanding principal amount of notes was KZT 3.78 billion.
- In August 2014, KMG RM entered into a U.S.\$400 million facility agreement with Sberbank, which is guaranteed by the Company, for the purposes of financing reconstruction and modernisation works at the Shymkent Refinery. The loan bears interest at a rate of twelve-month LIBOR plus 3.5% *per annum* and matures in August 2024. In October 2017, this loan was assigned to the Company in advance of the merger of KMG RM with the Company in December 2017. As at 31 December 2017, the outstanding principal amount under this facility was U.S.\$400 million.
- In August 2014, KMG International entered into a U.S.\$200 million syndicated loan agreement with Raiffeisen Bank International AG, Raiffeisen Bank S.A., Banca Commerciale Romana S.A., ING Bank N.V. Amsterdam – Bucharest Branch and Unicredit Tiriac Bank S.A., which is guaranteed by the Company. This loan bears interest at a rate of three-month LIBOR plus 2.5% *per annum* and matures in August 2019 (the "**Raiffeisen Facility**"). The proceeds of this loan were used to repay a U.S.\$250 million syndicated loan agreement entered into by Rompetrol in February 2012. As at 31 December 2017, the outstanding principal amount under this facility was U.S.\$107.7 million.
- In March 2014, KTG Aimak entered into a KZT 21.5 billion facility agreement with JSC Development Bank of Kazakhstan for the purposes of financing the Southern Kazakhstan Region's Gasification Project. Amounts due

under this facility bear interest at a fixed rate of 8.2% per annum and mature in April 2027. As at 31 December 2017, the outstanding principal amount under this facility was KZT 14.2 billion.

- In December 2013, KTG, KTG Aimak and ICA entered into U.S.\$100 million revolving facility with Citibank N.A. Nassau/Citibank Kazakhstan, the proceeds of which were used for general corporate purposes. The principal amount available under the facility was subsequently increased to U.S.\$200 million in December 2014, and the lender was changed from Citibank N.A. Nassau to Citibank N.A. Jersey in May 2016. As at 31 December 2017, the outstanding principal amount under this facility was U.S.\$0 million.
- In July 2013, KTG Aimak entered into a KZT 16.4 billion facility agreement with JSC Development Bank of Kazakhstan for the purposes of financing the Taraz Gasification Project. Amounts due under this facility bear interest at a fixed rate of 8.1% and mature in September 2028. As at 31 December 2017, the outstanding principal amount under this facility was KZT 7.4 billion.
- In December 2014, PNHZ entered into a loan agreement with JSC Development Bank of Kazakhstan for a total amount of KZT 51.5 billion in connection with funds related to the modernisation project at the Pavlodar Refinery. Amounts due under this loan agreement bear interest at a rate of 7% *per annum* and the loan matures in December 2024. As at 31 December 2017, the outstanding principal amount under this loan agreement was KZT 51.5 billion.
- In April 2015, KMG Trading AG entered into a U.S.\$240 million facility agreement and, together with KMG International and other KMG International group companies, a real estate mortgage agreement with Banca Commerciale Romana S.A., Unicredit Tiriac Bank Sa, Raiffeisen Bank SA ING Bank NV Bucharest Branch and Bancpost SA. Amounts due under this facility agreement bear interest at a rate of one month LIBOR +2.75% *per annum* and the facility matures in April 2017. As at 31 December 2017, the outstanding principal amount under this facility was U.S.\$215.8 million.

Twelve Series of Notes have been issued under the Programme to date, as follows:

- In April 2017, the Company issued its Series 12 Notes under the Programme consisting of U.S.\$1,250,000,000 5.75% Notes due 2047 (the “**2047 Notes**”). As at 31 December 2017, the principal nominal amount of 2047 Notes outstanding was U.S.\$ U.S.\$1,250.0 million.
- In April 2017, the Company issued its Series 11 Notes under the Programme consisting of U.S.\$1,000,000,000 4.75% Notes due 2027 (the “**2027 Notes**”). As at 31 December 2017, the principal nominal amount of 2027 Notes outstanding was U.S.\$1,000.0 million.
- In April 2017, the Company issued its Series 10 Notes under the Programme consisting of U.S.\$500,000,000 3.875% Notes due 2022 (the “**2022 Notes**”). As at 31 December 2017, the principal nominal amount of 2022 Notes outstanding was U.S.\$500.0 million.
- In November 2014, the Company issued its Series 9 Notes under the Programme consisting of U.S.\$1 billion 6.0% Notes due 2044 Notes (the “**2044 Notes**”). As at 31 December 2017 and following the cash tender offer in 2015 (described below), the principal nominal amount of 2044 Notes outstanding was U.S.\$30.1 million.
- In November 2014, the Company issued its Series 8 Notes under the Programme consisting of U.S.\$500 million 4.875% Notes due 2025 (the “**2025 Notes**”). As at 31 December 2017 and following the cash tender offer in 2015 (described below), the principal nominal amount of 2025 Notes outstanding was U.S.\$123.2 million.
- In April 2013, the Company issued its Series 7 Notes under the Programme consisting of U.S.\$2 billion 5.75% Notes due 2043 (the “**2043 Notes**”). As at 31 December 2017 and following the cash tender offer in 2015 (described below), the principal nominal amount of 2043 Notes outstanding was U.S.\$512.2 million.
- In April 2013, the Company issued its Series 6 Notes under the Programme consisting of U.S.\$1 billion 4.4% Notes due 2023 (the “**2023 Notes**”). As at 31 December 2017 and following the cash tender offer in 2015 (described below), the principal nominal amount of 2023 Notes outstanding was U.S.\$406.6 million.
- In November 2010, the Company issued its Series 5 Notes under the Programme consisting of U.S.\$1.25 billion 6.375% due 2021 (the “**2021 Notes**”). As at 31 December 2017 and following the cash tender offer in 2015 (described below), the principal nominal amount of 2021 Notes outstanding was U.S.\$1,130.3 million.

- In May 2010, KMG Finance issued its Series 4 Notes, guaranteed by the Company, under the Programme consisting of U.S.\$1.5 billion 7% Notes due 2020 (the “**2020 Notes**”). As at 31 December 2017 and following the cash tender offer in 2015 (described below), the principal nominal amount of 2020 Notes outstanding was U.S.\$1,371.4 million.
- In July 2009, KMG Finance issued its Series 3 Notes, guaranteed by the Company, under the Programme consisting of U.S.\$1.5 billion 11.75% Notes due 2015 (the “**2015 Notes**”), which were issued in two tranches and consolidated to form a single series, and which have been fully repaid in accordance with their terms.
- In July 2008, KMG Finance issued two series of Notes, guaranteed by the Company, the Series 1 Notes consisting of U.S.\$1.4 billion 8.375% Notes due 2013, which have been fully repaid in accordance with their terms, and the Series 2 Notes consisting of U.S.\$1.6 billion 9.125% Notes due 2018 (the “**2018 Notes**”). As at 31 December 2017 and following the cash tender offer in 2015 (described below), the principal nominal amount of 2018 Notes outstanding was U.S.\$1,600.0 million.
- In June 2015, the Company, in conjunction with KMG Finance, conducted a consent solicitation seeking certain consents from holders of the 2018 Notes, the 2020 Notes, the 2021 Notes, the 2023 Notes, the 2025 Notes, the 2043 Notes and the 2044 Notes (collectively the “**Consent Solicitation / Tender Offer Notes**”) to permit the proposed sale by Coöperatieve KazMunaiGaz U.A. of 50% KMG Kashagan B.V. to Samruk-Kazyna (the “**Kashagan Consent Solicitation**”). As part of the Kashagan Consent Solicitation, the Company also sought consent to amend the calculation of certain ratios in the terms and conditions of the Consent Solicitation / Tender Offer Notes. The Kashagan Consent Solicitation received the support of the requisite percentage of Noteholders.
- On 5 November 2015, the Company launched a cash tender offer to holders of the outstanding Consent Solicitation / Tender Offer Notes for aggregate cash consideration of up to U.S.\$3.4 billion. On 7 December 2015, the Company accepted for purchase an aggregate principal amount of U.S.\$3.7 billion of Consent Solicitation / Tender Offer Notes, comprising U.S.\$1,487,751,000 of the 2043 Notes, U.S.\$969,888,000 of the 2044 Notes, U.S.\$593,436,000 of the 2023 Notes, U.S.\$376,823,000 of the 2025 Notes, U.S.\$128,563,000 of the 2020 Notes, and U.S.\$119,726,000 of the 2021 Notes.
- On 9 March 2017, the Company, in conjunction with KMG Finance, launched a consent solicitation seeking the consent of holders of the Consent Solicitation / Tender Offer Notes to the KMG International Sale, as well as an amendment to the judgment event of default contained in the terms and conditions of the Consent Solicitation / Tender Offer Notes. The consent solicitation received the support of the requisite percentage of Noteholders.
- In October 2017, the Company launched a consent solicitation seeking the consent of holders of the 2020 Notes, 2021 Notes, 2023 Notes, 2025 Notes, 2043 Notes and the 2044 Notes (the “**October 2017 Consent Solicitation Notes**”), in relation to certain consents and amendments required to align the terms and conditions of October 2017 Consent Solicitation Notes with the 2047 Notes, the 2027 Notes and the 2022 Notes issued in April 2017. The October 2017 Consent Solicitation received the support of the requisite percentage of Noteholders in respect of the 2023 Notes and the 2044 Notes only and, accordingly, only those series of Notes were amended.
- In April 2018, the Company launched a tender offer and consent solicitation exercise in respect of the 2020 Notes, the 2021 Notes, the 2025 Notes and the 2043 Notes to repurchase such Notes by way of tender and the insertion of a mandatory redemption provision in the terms and conditions of such Notes. If successful, the settlement date of the Liability Management Transaction is expected to be 4 May 2018.

Atyrau Refinery has entered into a number of loan agreements to finance its modernisation programme and the cost of related goods and services, as well as its general operations as follows:

*General corporate purposes:*

- In July 2015, Atyrau Refinery entered into a U.S.\$70 million revolving facility with JSC Halyk Bank used for general corporate purposes. As at 31 December 2017, the outstanding amount under this facility was U.S.\$70 million.

*The construction of the deeper oil refining complex:*

- In August 2012, Atyrau Refinery LLP entered into a loan agreement with JSC Development Bank of Kazakhstan for a principal amount of U.S.\$252 million. This loan bears interest at a fixed rate of 5.0% per annum and matures on 17 December 2025. The loan is guaranteed by the Company. As at 31 December 2017, the outstanding principal

amount under this loan was U.S.\$214.2 million. See “*Business—Refining, Marketing and Trading—KMG RM—Atyrau Refinery*”.

- In August 2012, Atyrau Refinery LLP entered into a U.S.\$297.5 million loan facility with Japan Bank for International Cooperation and Bank of Tokyo Mitsubishi UFJ, Ltd. Two tranches have been provided under this facility: (i) the first tranche comprises a loan from Japan Bank for International Cooperation and bears interest at a rate of 4.64% per annum and (ii) the second tranche comprises a loan from Bank of Tokyo Mitsubishi UFJ secured by Nippon Export and Investment Insurance Agency and bears interest at a rate of six-month LIBOR plus 1.1% per annum. The facility matures on 15 December 2025 and is guaranteed by the Company. As at 31 December 2017, the outstanding principal amount under this loan was U.S.\$193.2 million.
- In June 2012, Atyrau Refinery LLP entered into a U.S.\$1.1 billion loan agreement with the Export-Import Bank of China. This loan is secured by China Export & Credit Insurance Corporation (SINOSURE) and bears interest at a rate of six-month LIBOR plus 4.1% per annum and matures on 6 November 2025. The loan is guaranteed by the Company. As at 31 December 2017, the outstanding principal amount under this loan was U.S.\$1.1 billion.

#### *The construction of an aromatic hydrocarbons production complex:*

- In August 2010, Atyrau Refinery LLP entered into a loan agreement with JSC Development Bank of Kazakhstan for a principal amount of U.S.\$884 million. This loan bears interest of six-month LIBOR plus 4.5% and matures in 2023. As at 31 December 2017, the outstanding principal amount under this loan was U.S.\$577.2 million.
- In August 2010, Atyrau Refinery LLP entered into a loan agreement with JSC Development Bank of Kazakhstan for a principal amount of KZT 26.4 billion. This loan bears interest at a fixed rate of 9.0% per annum and matures in 2023. As at 31 December 2017, the outstanding principal amount under this loan was U.S.\$54.4 billion.
- In May 2015, Atyrau Refinery LLP entered into a loan agreement with JSC Development Bank of Kazakhstan for a principal amount of U.S.\$40.4 million. This loan bears interest at a rate of 7.72% and payments of principal are to be made in several instalments between 2016 and 2023. As at 31 December 2017, the outstanding principal amount under this loan was U.S.\$30.8 million.

#### *Debt Securities*

- In October 2010, the Company was substituted as primary obligor in respect of the Series 1 Notes, the Series 2 Notes, the Series 3 Notes and the Series 4 Notes issued under the Programme. Upon such substitution, KMG Finance was released from its obligations in respect of such Notes and the Company’s guarantee thereof was cancelled, although no other changes to the terms of such Notes were affected.
- In October 2009, in order to fund a portion of its share of the 2009 cash call for the North Caspian Project (Kashagan Field), the Company issued bonds on the KASE, which were fully subscribed by JSC Development Bank of Kazakhstan, in a total principal amount of KZT 120 billion. The bonds bear interest at a rate of 6 month LIBOR plus 8.5% per annum, payable semi-annually after a three-year grace period, indexed to the KZT/U.S.\$ exchange rate and mature in 2019. Between 2012 and 2017, the Group repurchased a portion of the bonds. As at 31 December 2017, the outstanding principal amount of these bonds was KZT 70.5 billion.

#### ***Principal Debt Obligations of Non-Consolidated Joint Ventures***

In addition, although these are not consolidated with the borrowings of the Company, certain joint ventures and associates of the Company and its subsidiaries have significant debt obligations, the most important of which are described below:

In September 2010, Caspi Bitum LLP, a joint venture between KMG RM and CITIC, entered into a U.S.\$232 million loan agreement with the Bank of China for the purpose of funding the proposed road bitumens production plant at the plastics plant in Aktau. On 17 June 2016, Caspi Bitum LLP entered into two additional loan agreements with the Bank of China in an aggregate principal amount of U.S.\$208 million, for the purposes of refinancing the loan entered into in 2010. As at the date of this Base Prospectus, such funds have been drawdown and the 2010 loan has been fully repaid.

AGP, KCP and BSGP have entered into loan facilities in connection with the construction of the Asia Gas Pipeline, the KC Pipeline and the Beineu-Bozoi-Shymkent Gas Pipeline, as follows:

- In August 2013, KCP entered into a U.S.\$300.0 million facility agreement with Industrial and Commercial Bank of China Limited and ICBC Almaty for the purpose of refinancing its notes issued in 2005. Loans drawn down under this facility bear interest at a rate of six-month LIBOR plus 3.75% per annum. As at 31 December 2017, the outstanding principal amount under this loan was U.S.\$180.0 million (KZT 59.8 billion).
- In December 2012, AGP entered into a U.S.\$4.7 billion loan facility with Chinese Development Bank for the purpose of financing the construction of the third line of the Asia Gas Pipeline. The loan bears interest at a rate of three-month LIBOR plus 2.35% per annum for the duration of the guarantee period and, thereafter, at a rate of three-month LIBOR plus 3.45% per annum and matures on 27 December 2027. As at 31 December 2017, the outstanding principal amount under this loan was U.S.\$2.9 billion (KZT 971.5 billion).
- In December 2012, BSGP entered into a U.S.\$1.8 billion syndicated loan facility with, inter alia, the China Development Bank for the purpose of financing the development, construction and operation of the Bozoi-Shymkent part of the Beineu-Bozoi-Shymkent Gas Pipeline. In February 2016, certain amendments to this facility were signed. Amounts due under this loan facility bear interest at a rate of three-month LIBOR plus 2.7% per annum for the duration of the guarantee period and, thereafter, at a rate of three-month LIBOR plus 3.2% per annum. The loan matures on 11 March 2028. The loan is secured by corporate guarantees from the Company and CNPC. As at 31 December 2017, the outstanding principal amount under this loan was U.S.\$1.0 billion (KZT 341 billion).
- In October 2008, AGP entered into a U.S.\$7.5 billion syndicated loan facility with Chinese Development Bank for the purposes of financing the construction of the Asia Gas Pipeline. The loan bears interest at a rate of three-month LIBOR plus 2.15% per annum for the duration of the guarantee period and, thereafter, at a rate of three-month LIBOR plus 2.9% per annum and matures on 22 October 2023. As at 31 December 2017, the outstanding principal amount under this loan was U.S.\$4.0 billion (KZT 1,339 billion).
- On 12 August 2008, KCP entered into a U.S.\$1.18 billion credit facility with Industrial and Commercial Bank of China Limited and ING Bank N.V. with a term of ten years, subject to extension for up to five additional years. This credit facility was entered into for the purpose of financing construction of the Kenkiyak-Kumkol pipeline. KCP had the right to draw down the loan in four tranches, three of which were drawn down during 2008 in an aggregate principal amount of U.S.\$1.0 billion. The availability period for this credit facility expired at the end of 2011. Amounts borrowed under the facility accrued interest at a rate of six-month LIBOR plus 2% per annum until February 2013 and six-month LIBOR plus 4% per annum thereafter and are guaranteed by CNPC. As at 31 December 2017, the outstanding principal amount under this facility was U.S.\$403.9 million (including the capitalised interest) (KZT 134.3 billion).

The Company has no Security Interests (as defined in the Conditions) outstanding in respect of Relevant Indebtedness (as defined in the Conditions).

### ***Certain Provisions and Terms of Debt Obligations***

The debt arrangements of the Company and its subsidiaries contain standard market terms, including certain financial and other restrictive covenants. By way of example, under the Raiffeisen Facility, the Company (as guarantor) must comply with a number of financial covenants, including maintaining: (i) a ratio of net debt to consolidated EBITDA of not more than 4.0:1; (ii) a ratio of consolidated financial indebtedness of “material subsidiaries” (as defined in the Raiffeisen Facility) to consolidated EBITDA of such material subsidiaries of not more than 2.5:1; and (iii) a ratio of net debt to net capitalisation of not more than 0.55:1. As at the date of this Base Prospectus, the Company is in compliance with these covenants. See “*Risk Factors—Risks Relating to the Company—The Company is required to comply with certain financial and other restrictive covenants*”.

The following table sets forth the estimated scheduled maturities of the Company's long-term debt as at 31 December 2017, assuming that all credit lines available to the Company had been fully-drawn down as at such date:

<u>Year Due</u>	<u>Amount Due</u> <i>(KZT billions)</i>
2018 .....	766.1
2019 .....	196.4
2020 .....	591.7
2021 .....	579.9
2022 .....	317.3
2023 .....	300.1
2024 .....	104.0
2025 .....	115.0
2026 .....	50.1
2027 .....	614.8
2028 and after .....	717.0

The Company's short-term borrowings (including the current portion of long-term debt) increased to KZT 764.0 billion as at 31 December 2017 from KZT 366.4 billion as at 31 December 2016. This increase was primarily due to the reclassification of debt from long-term to short-term obligations and the upcoming maturity of a portion of the Company's debt. The Company's short-term borrowings (including the current portion of long-term debt) increased to KZT 366.4 billion as at 31 December 2016 from KZT 296.5 billion as at 31 December 2015. This increase was primarily due to same reasons.

The weighted average interest rate on the Company's fixed interest rate borrowings decreased to 6.30% as at 31 December 2017 from 7.93% as at 31 December 2016, primarily due to the issuance of Notes under the Programme in April 2017 with lower interest rates than certain of the Company's other borrowings. The weighted average interest rate on the Company's variable interest rate borrowings increased to 5.21% as at 31 December 2017 from 4.57% as at 31 December 2016, primarily due to an increase in LIBOR rates.

The weighted average interest rate on the Company's fixed interest rate borrowings increased to 7.93% as at 31 December 2016 from 7.82% as at 31 December 2015, primarily due to higher average interest rates applicable to new facilities entered into by the Company in 2016. The weighted average interest rate on the Company's variable interest rate borrowings increased to 4.57% as at 31 December 2016 from 4.4% as at 31 December 2015, primarily due to the repayment of loans with lower interest rates during 2016, as well as an increase in LIBOR rates.

### **Quantitative and Qualitative Disclosures about Market Risk**

The Company operates in a highly competitive industry, and faces intense competition for new Subsoil Use Agreements, qualified staff and markets for its crude oil exports and its refined oil products.

The Company is subject to risks relating to reserves and production, evaluation of oil and gas reserves, Kazakhstan environmental legislation, prices for crude oil, gas and refined oil products, foreign currency, liquidity, credit, interest rates, taxation and other risks. The Company does not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and commodity agreements, to manage these market risks.

See Note 33 to the 2017 Financial Statements.

### **Reserves and Production**

The Company's ability to acquire oil and gas reserves is one of the key factors to its success. New exploration acreage must be acquired through acquisitions or obtaining additional Subsoil Use Agreements. The Company is actively pursuing acquisitions while adhering to its investment criteria. The Company believes it is well positioned to continue to succeed as it has a continual involvement in the oil and gas industry, including its pre-emptive right in respect of deposits of strategic importance in Kazakhstan and with the Government, and the financial capacity to execute transactions.

The Company's ability to develop its reserves is another key to its success. The Company has introduced and continues to utilise western technology in developing reserves. The Company has the financial capacity to acquire and implement this technology, but it competes for properly qualified and trained staff necessary to fully utilise it. The Company has addressed this through offering competitive compensation packages to its employees and recruiting on a worldwide basis.



### ***Evaluation of Oil and Gas Reserves***

The process of estimating the Company's oil and gas reserves is complex and requires significant assumptions and decisions in the evaluation of engineering, geological, geophysical and financial information. On an annual basis, the Company obtains evaluations of reserves from the Company's professional engineering staff prepared in accordance with Kazakhstan methodology and independent evaluations for some of its subsidiaries and joint ventures in accordance with PRMS. These reserve evaluations may change substantially from year-to-year as a result of numerous factors, including, but not limited to, the development of economic conditions under which the Company operates its business. As a result, despite all reasonable efforts involved in the process of evaluation, the estimation of the Company's reserves may materially change from period to period.

### ***Kazakhstan Environmental Legislation***

Environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities, which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Other than as discussed in Note 4 of the 2017 Financial Statements and Note 4 of the 2016 Financial Statements, the Company's management believes that there are no probable or possible environmental liabilities that could have a material adverse effect on the Company's financial position, statement of comprehensive income or cash flows based on the current state of the law.

### ***Prices for Crude Oil, Gas and Refined Oil Products Risk***

The Company's operating results and financial condition depend substantially upon prevailing prices of crude oil, gas and refined oil products. Historically, prices for crude oil have fluctuated widely for many reasons, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and refined oil products;
- changes in geopolitics and geopolitical uncertainty;
- weather conditions and natural disasters;
- access to pipelines, railways and other means of transporting crude oil, gas and refined oil products;
- prices and availability of alternative fuels;
- the ability of the members of OPEC, and other crude oil producing nations, to set and maintain specified levels of production and prices;
- political, economic and military developments in Kazakhstan, neighbouring countries and other oil producing regions, particularly the Middle East;
- Kazakhstan and foreign governmental regulations and actions, including export restrictions and taxes;
- market uncertainty and speculative activities; and
- global and regional economic conditions.

A substantial amount of the Company's crude oil and refined oil products are sold on the spot market or under short-term contracts at market sensitive prices. Market prices for export sales of crude oil and refined oil products are subject to volatile trading patterns in the commodity futures market. The Company's revenue and net income fluctuate significantly with changes in crude oil prices. Crude oil prices have been particularly volatile in recent years. See "*—Main Factors Affecting Results of Operations and Liquidity—Changes in Crude Oil and Refined Oil Product Prices and Advanced Sales of Oil*". Average selling prices can differ from quoted market prices due to the effects of uneven volume distributions during the period, quality differentials, different delivery terms compared to quoted benchmarks, different conditions in local markets and other factors. Domestic prices generally follow the trend of world market prices but are volatile due to the nature of the Kazakhstan market, however, sales prices for exported crude oil have been significantly higher than the domestic sales prices. Apart from KMG EP, which has recently entered into derivatives contracts to hedge its exposure to a decrease in oil prices related to a portion of its oil production, the Company does not use any derivative instruments

to hedge its production in order to decrease its price risk exposure. See “—*Main Factors Affecting Results of Operations and Liquidity—Changes in Crude Oil and Refined Oil Product Prices and Advanced Sales of Oil*”.

See “*Risk Factors—Risk Factors Relating to the Company’s Business—The Company’s revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company’s control*”.

### **Foreign Currency Risk**

The Company’s principal exchange rate risk involves changes in the value of the U.S. Dollar relative to the Tenge and, to a lesser extent, relative to other currencies. On 20 August 2015, the NBK adopted a free-floating exchange rate and medium-term inflation targeting policy, as a result of which the official exchange rate depreciated from KZT 188.38 per U.S.\$1.00 to KZT 339.47 per U.S.\$1.00. As at 31 December 2017, the official KZT/U.S.\$ exchange rate reported by the KASE was KZT 332.33 per U.S.\$1.00. See “*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—Further devaluations of the Tenge or the adoption of a new currency exchange policy could have an adverse impact on the Company and Kazakhstan’s public finances and economy*”. Under applicable regulations and policies, the NBK may reintroduce a KZT/U.S. Dollar corridor at any time in the future and at any level in its sole discretion.

Most of the Company’s cash inflows (approximately 64.0% in 2017), as well as its accounts receivable balances, are denominated in U.S. Dollars, while a significant amount of the Company’s costs of sales (approximately 51.0% in 2017) are denominated in Tenge. On the revenue side, all of the Company’s export revenue, including the exports of crude oil and refined oil products, are denominated in U.S. Dollars or are correlated with U.S. Dollar-denominated prices for crude oil and refined oil products.

As at 31 December 2017, KZT 3,942.7 billion of the Company’s indebtedness was denominated in U.S. Dollars (representing 94.7% of the Company’s total indebtedness of KZT 4,163.4 billion as at that date). Decreases in the value of the U.S. Dollar relative to the Tenge have reduced, and will continue to reduce, the value of the Company’s U.S. Dollar-denominated liabilities when measured in Tenge, whereas increases in the value of the U.S. Dollar relative to the Tenge have increased, and will increase, the value of the Company’s U.S. Dollar denominated liabilities when measured in Tenge. Because the Company’s reporting currency is Tenge, the Company has suffered, and will continue to suffer, foreign currency translation losses when the U.S. Dollar increases in value against the Tenge. See “—*Main Factors Affecting Results of Operations and Liquidity—Impact of Changes in Exchange Rates*”.

The Company does not use foreign exchange or forward contracts to manage its exposure to changes in foreign exchange rates. The Company’s management regularly monitors the Company’s currency risk and keeps track of changes in foreign currency exchange rates and its effect on operations of the Company. The Company maintains a policy of managing its foreign currency risk in U.S. Dollars by matching U.S. Dollar-denominated financial assets with U.S. Dollar-denominated financial liabilities or by designating hedges between non-financial assets and financial liabilities.

### **Interest Rate Risk**

The Company is exposed to interest rate risk on its indebtedness that bears interest at floating rates and, to a lesser extent, on its indebtedness that bears interest at fixed rates. The Company’s policy is to manage its interest rate cost using a mix of fixed and variable rate borrowings. As at 31 December 2017, the Company had loans and borrowings outstanding in an aggregate amount of KZT 4,163.4 billion, of which KZT 3,137.2 billion bears interest at fixed rates (at a weighted average rate of 6.30%) and KZT 1,026.3 billion bears interest at floating rates (at a weighted average rate of 5.21%), largely determined by reference to LIBOR for U.S. Dollar deposits. See “—*Debt Obligations*”.

The Company incurs debt for general corporate purposes including financing capital expenditures, financing acquisitions and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the Company’s debt obligations. A homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category (*e.g.*, U.S. Dollars, Tenge). However, the Company’s sensitivity to decreases in interest rates and corresponding increases in the fair value of the Company’s debt portfolio would negatively affect results and cash flows only to the extent that the Company elected to repurchase or otherwise retire all or a portion of the Company’s fixed rate debt portfolio at prices above carrying value.

### ***Credit Risk***

The Company trades only with recognised, creditworthy parties, and it has a credit verification policy in place with respect to customers who wish to trade on credit terms. The Company's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of accounts receivable. While the Company may be subject to losses up to the contract value of the instruments in the event of non-performance by its counterparties, it does not expect such losses to occur. Although collection of these receivables could be influenced by economic factors affecting these entities, the Company believes there is not a significant risk of loss beyond allowances already recorded. The maximum exposure is the carrying amount as disclosed in Note 35 of the 2017 Financial Statements and Note 16 of the 2016 Financial Statements.

With the exception of Gazprom, which accounted for 28.8% 43.9% and 57.2% of the gas transportation fees of ICA for 2017, 2016 and 2015, respectively, concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers included in the Company's customer base and the uses of letters of credit for most sales. Insurance for deposits of legal entities is not offered by financial institutions operating in Kazakhstan. The Company's management periodically reviews the creditworthiness of the financial institutions with which it deposits cash.

With respect to credit risks arising on other financial assets of the Company, which comprise cash and cash equivalents, bank deposits, trade accounts receivable, loans and notes receivable and other financial assets, the Company's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

In addition, the Company is also exposed to credit and liquidity risk from its investing activities, principally in relation to its placing of deposits with Kazakhstan banks. The Company expects the portion of its deposits with Kazakhstan banks to increase in order to comply with a directive from Samruk-Kazyna that its Group companies, including the Company, maintain 90% of their deposits with Kazakhstan banks.

### ***Liquidity Risk***

Liquidity risk arises when the maturities of assets and liabilities do not match, causing the Company to encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Company's management monitors liquidity requirements on a regular basis and believes that the Company has sufficient funds available to meet its commitments as they arise.

### ***Hedging Policy***

Historically, the Company has not utilised forward exchange contracts, currency swaps, put options or other hedging arrangements.

In the year ended 31 December 2016, the Company utilised hedging of net investments in certain subsidiaries classified as foreign operations against selected U.S. Dollar-denominated borrowings, the effect of which was equal to KZT 38.0 billion. See Note 3 to the 2016 Financial Statements. In the year ended 31 December 2017, the Company utilised hedging of net investments in certain subsidiaries classified as foreign operations against selected U.S. Dollar-denominated borrowings, the effect of which was equal to KZT 67.2 billion.

### ***Off Balance Sheet Arrangements***

As at 31 December 2017, the Company had no material off balance sheet items. The Company reports all recognised contingent liabilities and commitments as provisions, or otherwise discloses them in its consolidated financial statements. Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Company's management does not believe that off balance sheet instruments are material to its consolidated operations or financial position.

## BUSINESS

### General

The Company's legal and commercial name is JSC NC "KazMunayGas" (or joint stock company "National Company "KazMunayGas"). The Company was organised as a closed joint stock company under the laws of Kazakhstan on 27 February 2002. Pursuant to Presidential Decree № 811 of the President dated 20 February 2002, and a number of subsequent decisions of authorised state bodies and certain transfer agreements, the Company is the successor of CJSC "National Oil and Gas Company Kazakhoil" ("**Kazakhoil**") and CJSC "National Company Oil and Gas Transport" (both companies were liquidated upon transfer of all their assets, including shares in joint ventures, to the Company). The Company was re-registered as a joint stock company pursuant to the Law on Joint Stock Companies of the Republic of Kazakhstan (№ 415-II, dated 13 May 2003), as amended (the "**JSC Law**") under re-registration certificate № 11425 1901 AO issued by the Justice Department of the City of Astana on 16 March 2004. The Company's business identification number (BIN) is: 020240000555.

The business address of the Company is 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan, and its telephone number is +7 (7172) 976 000.

### Overview

The Company is the national oil and gas company of Kazakhstan with vertically-integrated upstream, midstream and downstream operations located principally in Kazakhstan. The Company's management believes, based on information provided by the Statistics Committee, and the Company's internal information, that, as at 31 December 2017, on a consolidated basis (including the proportionate interest of joint ventures and associates), the Company was the largest crude oil producer in Kazakhstan in terms of production volume. According to information obtained from the Statistics Committee, and the Company's internal information, the Company also operates the largest crude oil and gas pipeline networks in Kazakhstan in terms of length and throughput capacity (primarily through KTO and KTG, respectively). In addition, the Company holds a significant or controlling interest in each of the three principal refineries in Kazakhstan, as well as a major refinery in Romania. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Acquisitions, Discontinued Operations and Loss of Control—KMG International*".

In the year ended 31 December 2017, the Company's production was 23.4 million tonnes (9.9 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of crude oil and 8.2 bcm (3.2 bcm, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of gas. In the year ended 31 December 2016, the Company's production was 22.6 million tonnes (9.8 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of crude oil and 7.4 bcm (3.1 bcm, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of gas.

Based on the Company's internal information and information obtained from the Statistics Committee, the Company's production of crude oil (including the proportionate share of the Company and its subsidiaries in joint ventures and associates) represented 27.1%, 29.0% and 28.5% of the total crude oil production in Kazakhstan in 2017, 2016 and 2015, respectively, while the Company's production of gas (including the proportionate share of the Company and its subsidiaries in joint ventures and associates) represented 15.5%, 15.9% and 16.0% of the total gas production in Kazakhstan in 2017, 2016 and 2015, respectively.

As at 31 December 2017, the total length of the crude oil pipeline networks that the Company owns and operates was 8,037.0 km and the total length of the gas pipeline networks that the Company owns and operates was 14,031.0 km (primarily through KTO and KTG, respectively). In addition, as at 31 December 2017, the Company had an interest in a further 2,657 km of crude oil pipeline network and 2,759 km of gas pipeline network as part of its joint-venture network.

The Company produced a total of 18.9 million tonnes (16.8 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of refined oil products in 2017, 18.4 million tonnes (16.3 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of refined oil products in 2016 and 18.3 million tonnes (16.1 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of refined oil products in 2015.

The Company calculates its reserves using the Kazakhstan methodology, which differs significantly from the internationally accepted classifications and methodologies established by PRMS and SEC Standards, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

According to Kazakhstan methodology, as at 31 December 2017, the Company's A+B+C1 reserves of crude oil were 639.7 million tonnes (219.6 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates), the Company's A+B+C1 reserves of gas condensate were 43.3 million tonnes (34.0 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) and the Company's A+B+C1 reserves of gas were 418.8 bcm (191.9 bcm, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates). The decrease in the Company's A+B+C1 reserves in 2017 primarily reflected the reassessment of the reserves of the Karachaganak Field conducted in 2017, as a result of the recalculation of the extraction factor. Reserves are measured only on an annual basis, and, accordingly, no reserve information is available as at any date subsequent to 31 December 2017. In 2017, the Company's A+B+C1 reserves replacement ratio for crude oil (calculated by comparing net new proved crude oil reserves additions in tonnes to yearly crude oil production in tonnes) was 0% compared to 32.0% (57% excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) in 2016. The decrease in the Company's A+B+C1 reserves replacement ratio in 2017 primarily reflected the reassessment of the reserves of the Karachaganak Field conducted in 2017, as a result of the recalculation of the extraction factor. See *"The Oil and Gas Industry in Kazakhstan—Reserve Classifications"* and *"Presentation of Financial, Reserves and Certain Other Information—Certain Reserves Information"*.

The Company's total revenue increased by 32.4% to KZT 2,458.8 billion for the year ended 31 December 2017 from KZT 1,857.4 billion for the year ended 31 December 2016, which itself represented an increase of 69.8% compared to KZT 1,093.8 billion for the year ended 31 December 2015. The Company's net profit increased by 44.2% to KZT 519.5 billion for the year ended 31 December 2017 from KZT 360.2 billion for the year ended 31 December 2016, which itself represented a decrease of 27.2% compared to KZT 494.7 billion for the year ended 31 December 2015.

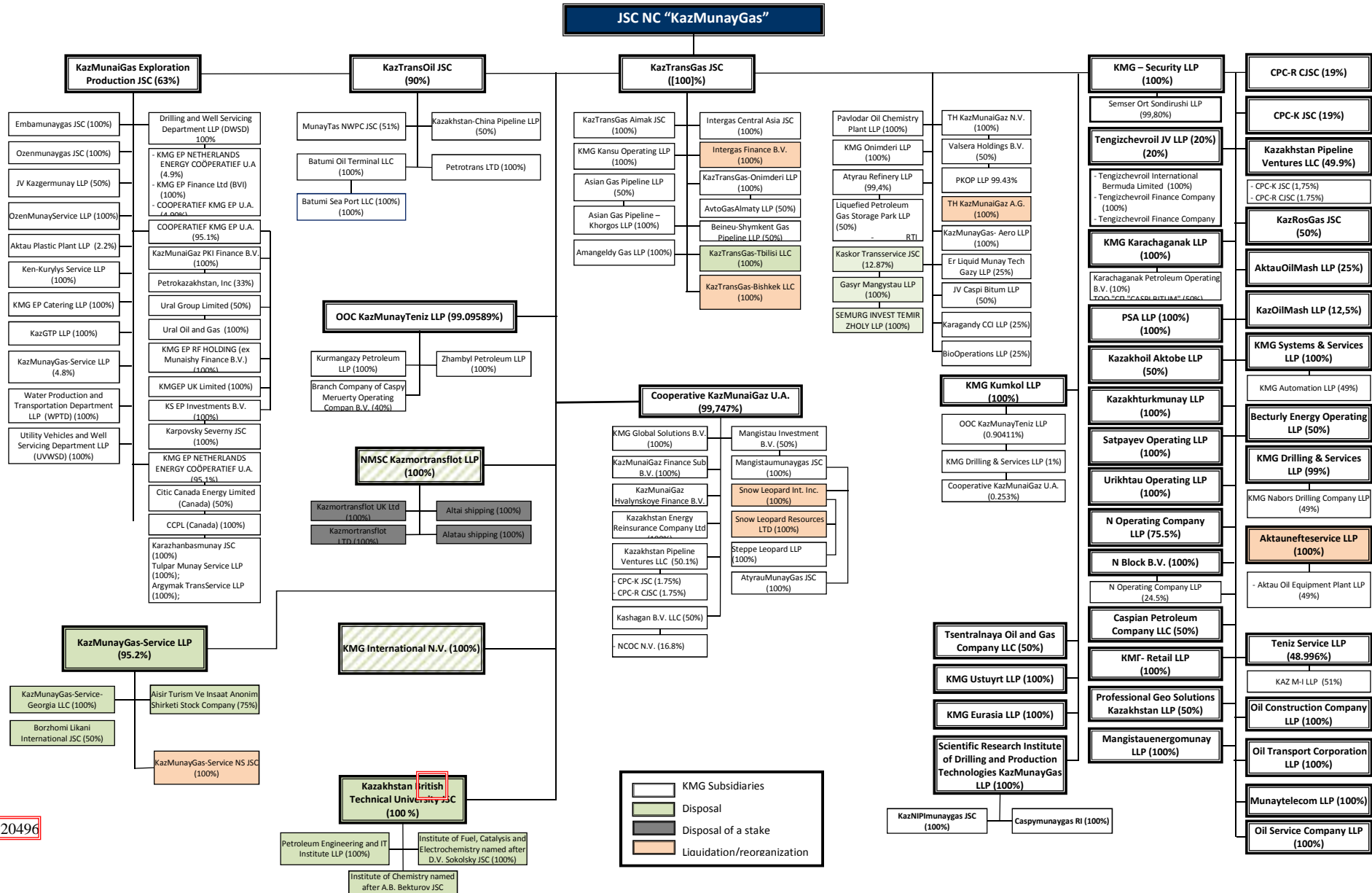
As at 31 December 2017, the Company had total assets of KZT 13,388.8 billion, as compared to total assets of KZT 11,883.1 billion as at 31 December 2016 and KZT 10,709.7 billion as at 31 December 2015.

The following map sets forth the principal Kazakhstan onshore exploration and production, transportation and refining and trading assets as at 31 December 2017:



# Corporate Structure

The organisational structure of the principal members of the Group, as at 31 December 2017, was as set out below:



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## **Key Strengths**

The Company believes that it benefits from the following key strengths:

### ***The Company Enjoys Strong Support from the Government.***

As a company that is 90%-owned by Samruk-Kazyna and 10% (plus one share)-owned by the NBK, both of which are, in turn, State-owned, the Company benefits from the strong support of the Government, Samruk-Kazyna and the NBK. Among other things, the Government historically has assisted the Company by providing significant equity and debt financing and strategic support and has played an important role in assisting the Company in the expansion of its operations, reserves, production levels and transportation and refining networks. The Company is a significant contributor to the Government's budget, having contributed KZT 600.2 billion in taxes in the year ended 31 December 2017 and KZT 461.6 billion in the year ended 31 December 2016, and, in 2017, declared dividends in respect of 2016 profits in a total amount of KZT 6.7 billion and dividends in respect of 2013 profits that had not been previously distributed in a total amount of KZT 39.2 billion. The Company is also a significant employer in Kazakhstan and, as at 31 December 2017, employed approximately 63,715 people.

### ***The Company is the Beneficiary of the State's Pre-Emptive Rights.***

Under Kazakhstan law (including both the 2010 Subsoil Law currently in force and the Subsoil Code that is expected to enter into force on 29 June 2018), in respect of the deposits of strategic importance (a list of which is approved by the Government and is amended from time-to-time) (See "*Regulation in Kazakhstan—The Right to Grant Consents for Transfer of Subsoil Use Rights and Objects—Limitation of use of the State's Pre-Emptive Right*"), the State has a pre-emptive right of acquisition with respect to any transfer of subsoil use rights and any transfer of interests in a legal entity directly or indirectly controlling another legal entity with subsoil use rights, if the core business of the controlling entity is related to subsoil use in Kazakhstan. The State has designated the Company to be the beneficiary of such pre-emptive right. The Company used this pre-emptive right to acquire interests in MMG, PKI, Kazgermunai and CCEL. The Company's management believes that this pre-emptive right will continue to enable the Company to further expand its interests in the Kazakhstan oil and gas production and exploration industry over time. In addition, under the Gas Law, KTG has been appointed as the "national operator" for the transportation of gas, which gives KTG a priority right (on behalf of the State) to purchase all associated gas produced in Kazakhstan, which it resells on the domestic market.

### ***The Company is a Vertically-Integrated Oil and Gas Company.***

The Company is vertically-integrated across the energy value chain and conducts prospecting, exploration and development, preparation, refining, transportation and retail activities, principally in Kazakhstan. Its exploration and development and transportation activities are conducted onshore and offshore (in the Caspian Sea). With its established track record of oil and gas production, the Company is well placed to strengthen its position in the region.

In addition to its domestic retail activities, it also conducts retail activities in Romania, Spain and France, among other countries. It conducts petrochemical activities both domestically and through KMG International. Although the Company has announced its intention to sell all or a significant portion of its stake in KMG International in one or more transactions over the near- to medium-term, including by way of the Proposed KMG International/CEFC Sale, following the Proposed KMG International/CEFC Sale, the Company will continue to hold 49% of KMG International and, in the short- to medium-term expects to continue to sell a significant portion of its retail products through KMG International, providing the Company with access to, and a presence in, the downstream oil and gas segment in Europe without being required to make additional investments.

### ***The Company is the Largest Producer of Crude Oil in Kazakhstan.***

The Company is the largest producer of oil in Kazakhstan (based on information obtained from the Statistics Committee, and the Company's own statistics and including the proportionate share of the Company and its subsidiaries in joint ventures and associates), with production of 23.4 million tonnes (9.9 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of crude oil in the year ended 31 December 2017. The Company and its subsidiaries have increased, directly and through its joint ventures and associates, the scale of their operations through the Company's acquisitions of interests in MMG, as well as in other smaller exploration and production companies, by KMG EP; acquisitions of interests in PKI, Kazgermunai and CCEL, which also are significant producers of crude oil and, in 2011, the Company acquired a 10% indirect interest in KPO, which operates the Karachaganak field, which has contributed significantly to the Company's oil and gas production since 2013. The Company also has increased production over time with respect to KMG EP's mature oil and gas fields through the use of stimulation and secondary enhancement techniques. The Company continues to increase its crude oil production through



its joint venture, TCO, after construction of the next phases of the Tengiz Field expansion projects commenced in 2014. Production has further increased, and is expected to continue to increase, as a result of the resumption of commercial production in the Kashagan Field in November 2016. For the year ended 31 December 2017, the Kashagan Field produced 686.0 thousand tonnes of oil and gas condensate and 404.0 mcm of gas attributable to the Company.

In December 2017, KMG EP launched the KMG EP Tender Offer and, in January 2018, KMG EP launched the KMG EP Share Offer. The first settlement date for the KMG EP Tender Offer and the KMG EP Share Offer was 19 February 2018 and, on 20 February 2018, KMG EP announced that, following the first settlement date of the KMG EP Tender Offer and the KMG EP Share Offer, the Company and KMG EP together held a total of 47,194,539 common shares and 134,781,116 GDRs of KMG EP, which represented approximately 99.2% of the total common shares of KMG EP. On 20 February 2018, KMG EP announced that the first settlement date had been effected and, as a result, KMG EP had repurchased a total of: (i) 134,070,054 GDRs, which, as at 31 January 2018, represented approximately 97.7% of the outstanding GDRs of KMG EP (excluding GDRs owned by the Company) and representing approximately 31.8% of the total outstanding common shares of KMG EP; and (ii) 320,688 common shares, which, as at 31 January 2018, amounted to approximately 0.5% of the total outstanding common shares of KMG EP. The repurchase was funded by KMG EP's own funds. The common shares repurchased by KMG EP will be held in treasury, and the GDRs will be held by KMG EP, subject to surrendering such GDRs for common shares in due course. On 20 February 2018, KMG EP announced that, following the first settlement date of the KMG EP Tender Offer and the KMG EP Share Offer, the Company and KMG EP together held a total of 47,194,539 common shares and 134,781,116 GDRs of KMG EP, which represented approximately 99.2% of the total common shares of KMG EP. On 13 March 2018, KMG EP announced that, in accordance with their respective terms and conditions, the KMG EP Tender Offer closed on 8 March 2018 and the KMG EP Share Offer closed on 12 March 2018. As at 8 March 2018, KMG EP had acquired or received valid acceptances pursuant to the KMG EP Tender Offer in respect of a total of 135,328,231 GDRs, which, as at 18 February 2018, represented approximately 98.6% of the outstanding GDRs. As at 21 February 2018, 54 million GDRs had been converted into common shares. At the close of trade on the KASE on 12 March 2018, KMG EP had acquired or received bids for sale pursuant to the KMG EP Share Offer in respect of a total of 331,677 outstanding common shares, which, as at 18 March 2018, represented approximately 0.5% of the outstanding common shares (including common shares represented by GDRs). The final settlement date of the KMG EP Tender Offer and the KMG EP Share Offer is expected to be 5 April 2018.

As a result of KMG EP Tender Offer and the KMG EP Share Offer, the percentage of ordinary voting shares of KMG EP owned by the Company will increase, thus continuing to strengthen the Company's position as a the largest producer of crude oil in Kazakhstan. The Company is in the process of considering its options in respect of the re-integration of KMG EP into the Company in the context of its other transformation programmes. See "*—Exploration and Production—Significant Production Fields of KMG EP—KMG EP Ownership and Buyback*". The final settlement date of the KMG EP Tender Offer and the KMG EP Share Offer is expected to be 5 April 2018.

***The Company is the Operator of Kazakhstan's Extensive Oil and Gas Pipeline Networks.***

Due to its strategic location and hydrocarbon reserves, Kazakhstan is a key focal point in the transportation of oil and gas from Central Asia to Europe and China. The Company's subsidiaries, KTO and KTG, directly or indirectly are the operators of the primary hydrocarbon transport networks in Kazakhstan and thus the principal pipelines for the transport of oil and gas produced in Kazakhstan within and to the borders of Kazakhstan and through Kazakhstan from other countries. On 30 September 2017, KTG entered into a natural gas purchase and sale agreement with PetroChina International Company Limited to supply 5 bcm of natural gas during the period from 15 October 2017 until 14 October 2018. The total estimated consideration under this agreement is U.S.\$889.7 million. Negotiations are ongoing with respect to the signing of a long-term gas supply agreement. The Company also expects to benefit from the completed expansion works at the CPC Pipeline (which have increased the Company's preferential capacity rights to 14.3 million tonnes of crude oil per year from 5.8 million tonnes) and ongoing expansion and modernisation works projects at key pipelines, including the Asia Gas Pipeline and the Beineu-Bozoi-Shymkent Gas Pipeline, which, following completion, are expected to increase the Company's export capacity, in particular to China. The Company believes that its midstream operations, which are subject to less volatility compared to oil and gas production, provide the Company with stable cash flows and support the overall profitability of the Group. In addition, under the Gas Law, KTG has been appointed as the "national operator" for the transportation of gas, which gives KTG a priority right (on behalf of the State) to purchase all associated gas produced in Kazakhstan, which it resells on the domestic market. The Company expects KTG's status as national operator to continue to enhance the Company's revenue from gas sales to end-users and lessen its dependence on gas transportation tariffs.

### ***The Company Owns Significant Interests in, and Exerts Operating Control over, All Three Major Refineries in Kazakhstan.***

The Company currently has a controlling or significant interest in all three major refineries in Kazakhstan. More specifically, the Company controls the Atyrau Refinery in western Kazakhstan and the Pavlodar Refinery in north-eastern Kazakhstan, and, as at 31 December 2017, it held a 49.7% interest in the Shymkent Refinery in southern Kazakhstan. Following the merger of KMG RM with the Company in December 2017, the Company directly holds the interests in the Atyrau Refinery and the Pavlodar Refinery and holds the interest in the Shymkent Refinery through Valsera Holdings B.V. See “—Refining, Marketing and Trading—Refining—KMG RM Merger”. The Company believes that its refining operations comprise an important part of its operations and the Company is continuing its efforts to modernise its refineries with the aim of improving the efficiency and profitability of its downstream business.

In addition, through its interest in KMG International, the Company had a 54.63% interest in Rompetrol Rafinare, as at 31 December 2017. Rompetrol Rafinare owns and operates, among others, the Petromidia Refinery in Romania and the Vega Refinery in Romania. See “Management’s Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Acquisitions, Discontinued Operations and Loss of Control—KMG International”.

### **Strategy**

In 2016, the Company adopted a new strategy for the period from 2016 to 2025. Pursuant to this strategy, the Company’s goal is to become a top-30 global oil and gas company in terms of commercial oil and condensate production volumes, by focusing on the following three priorities:

#### ***Strengthen the Company’s Financial Position***

The Company intends to strengthen its financial position by: improving operational performance and labour productivity; establishing a balanced portfolio of investment projects; increasing cash-positive production; optimising the Company’s tax position; and improving operational structures and business processes.

The Company’s key strategic aim is to strengthen its financial position and develop its operational efficiency, in particular to combat the low international market prices for crude oil that, despite some recovery, have prevailed since 2015. Such strategy includes reducing the Company’s production cost and improving labour productivity through: (i) analysing the causes of underground equipment failures and developing a programme to improve the mean time between failures (“MTBF”) to include standard solutions for common failures; (ii) conducting hydrodynamic studies of all wells at the Company’s key fields to identify and implement an efficient reservoir pressure maintenance system and injection system; (iii) conducting systemic analysis of the drilling of horizontal and directional wells and the implementing services for drilling wells; and (iv) setting goals for the long-term optimisation of headcount in the Company’s upstream activities, including the out-sourcing of all work related to non-core assets and transferring the oilfield service divisions out of the Company’s producing assets.

In parallel with the implementation of measures to improve operational efficiency, the Company plans to review, with the aim of reducing, its downstream investments in order to establish a more balanced portfolio of investment projects. The sale of 51% of the Company’s interest in KMG International, which is expected to be completed by the end of June 2018, subject to fulfilment of certain closing conditions, is in line with this strategy. The Company is targeting reducing its capital costs overall by more than U.S.\$20 billion by 2025 through optimisation of its investment programme, including by reducing its investments in the downstream sector.

#### ***Develop the Company’s national upstream and midstream offerings in Kazakhstan and, to a lesser extent, target opportunities in EEU countries***

The Company is working towards adopting a new business model with a significant focus on business in Kazakhstan and, to a lesser extent, EEU countries.

In order to implement this business model, the Company plans to restructure its existing portfolio and reduce the number of its portfolio companies by: (i) fully- or partially-selling its retail network; (ii) fully- or partially-exiting from the retail gas sector; (iii) exiting from non-core assets (other than high-tech assets); (iv) fully- or partially-exiting from businesses conducted outside of Kazakhstan (including through the sale of 51% of the Company’s interest in KMG International, which is expected to be completed by the end of June 2018); and (v) privatising certain of the Company’s assets as required pursuant to the Government’s 2016 Complex Privatisation Plan. In line with the 2016 Complex Privatisation Plan, in November 2017, the Company sold 100% of its interest in Eurasia Air.

The Company also intends to exercise its option to repurchase the interest in KMG Kashagan B.V. sold to Samruk-Kazyna before its option to do so expires. In January 2018, the exercise period for the call option was extended to between 1 January 2020 and 31 December 2022. In order to implement the privatisation programme, raise funds for sustainable growth, and repurchase shares in Kashagan B.V. from Samruk-Kazyna, the Company may consider raising funds, although the timing and terms of such financing have not yet been finalised, and no such financing may materialise.

In order to strengthen its upstream activities in Kazakhstan and the surrounding region, the Company intends to consider strategic partnerships with third parties in order to conduct further exploration and development activities in the Caspian Basin.

### ***Strengthen the Company's role as an Oil and Gas Stakeholder in Kazakhstan***

Based on information obtained from the Statistics Committee, and the Company's internal information and including the proportionate share of the Company and its subsidiaries in joint ventures and associates, the Company was the largest producer of oil in Kazakhstan as at 31 December 2017. The Company intends to maintain and consolidate its position as a key stakeholder in the oil and gas sector in Kazakhstan by: (i) strengthening its control over its exploration and production operations in Kazakhstan; (ii) improving the efficiency of its joint ventures, including TCO, NCPC and KPO, by, *inter alia*, expanding existing capacities to organically increase production levels, extending existing licenses; and (iii) developing new reserves in Kazakhstan, in particular in the Caspian Sea basin, through strategic partnerships with international oil and gas companies, as the Company has done in the past with respect to TCO, NCPC and KPO. The Company intends to work with relevant parties and authorities to encourage strategic investment in its operations and businesses to further such aims.

### ***Implement transformation projects aimed at encouraging rationalisation and simplification of the Company's processes and Group structure***

The Company has also adopted a development plan for 2018-2022, which targets, among other things: (i) the sale of 51% of the shares of Kazmortransflot, which is targeted to be completed by the end of 2019, subject to identifying a suitable purchaser, and 51% of the shares of KMG International, which is expected to be completed by the end of June 2018 (each of which are in line with, and are planned to be conducted under, the 2016 Complex Privatisation Plan); (ii) payment of the Company's share of advance payments in connection with the TCO Advanced Oil Sale Transaction and the Kashagan Advanced Oil Sale Transaction; (iii) the exercise of the call option to repurchase shares in KMG Kashagan B.V. sold to Samruk-Kazyna and the raising of financing in respect of such shares; (iv) receipt of dividends from TCO; and (v) the indexation of employee salaries to inflation forecasts.

In addition, as a result of KMG EP Tender Offer and the KMG EP Share Offer, the percentage of ordinary voting shares of KMG EP owned by the Company is expected to increase, thus continuing to strengthen the Company's position as a the largest producer of crude oil in Kazakhstan. The Company is considering its options in respect of the re-integration of KMG EP into the Company in the context of its other strategic programmes.

As part of the Company's strategy and in line with Samruk-Kazyna's "Business Transformation Programme", the Company is in the process of implementing a number of transformation projects aimed at, *inter alia*, improving and centralising organisational functions and methodologies (including accounting, treasury and supply-chain functions), increasing operational efficiency and promoting the automisation of functions. In furtherance of these transformation projects, the Company has been working with an independent consultant to advise on account method optimisation, following which it aims to introduce certain automated functions. The Company has also been working to improve its corporate governance and health, safety and environment functions in line with international best practices and has centralised certain functions at the Company-level in order to promote efficiency within the Group. The merger of KMG RM with the Company in December 2017 was in line with this aim and the Company is examining its options for the potential re-integration of KMG EP following the completion of the KMG EP Tender Offer and the KMG EP Share Offer.

In line with the Company's strategy, the ultimate aim of these transformation projects is to encourage rationalisation and simplification of the Company's processes and Group structure.

### **Reserves**

According to Kazakhstan methodology, as at 31 December 2017, the Company's A+B+C1 reserves of crude oil were 639.7 million tonnes (219.6 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates), the Company's A+B+C1 reserves of gas condensate were 43.3 million tonnes (34.0 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) and the Company's A+B+C1 reserves of gas were 418.8 bcm (191.9 bcm, excluding the proportionate share of the Company and

its subsidiaries in joint ventures and associates). The decrease in the Company's A+B+C1 reserves in 2017 primarily reflected the reassessment of the reserves of the Karachaganak Field conducted in 2017, as a result of the recalculation of the extraction factor. Reserves are measured only on an annual basis, and, accordingly, no reserve information is available as at any date subsequent to 31 December 2017.

The following table sets forth the Company's A+B+C1 reserves that are attributable to the Company as at 31 December 2017:

For the year ended 31 December 2017							
Company and Field	% ownership interest <sup>(1)</sup>	Oil	% of total	Gas Condensate	% of total	Gas	% of total
		<i>(tonnes in millions)</i>		<i>(tonnes in millions)</i>		<i>(mcm)</i>	
<i>Consolidated Subsidiaries, Joint Operations and KPO<sup>(3)</sup>:</i>							
<b>Total for KMG EP</b> .....	<b>63.01<sup>(2)</sup></b>	<b>191.8</b>	<b>30.0</b>	<b>4.4</b>	<b>9.8</b>	<b>56,120.1</b>	<b>12.0</b>
Uzen Field .....	100.00	103.2	16.1	0.0	0.0	13,602.2	2.9
EMG Fields .....	100.00	72.9	11.4	1.6	3.6	28,974.5	6.2
Other Fields .....	100.00	15.7	2.5	2.8	6.2	13,543.4	2.9
<b>Total for KPO, Karachaganak Field</b>	<b>10.00</b>	<b>8.4</b>	<b>1.3</b>	<b>26.1</b>	<b>58.7</b>	<b>83,338.7</b>	<b>17.8</b>
<b>Total for Urikhtau Operating</b> .....	<b>100.00</b>	<b>3.3</b>	<b>0.5</b>	<b>3.0</b>	<b>6.8</b>	<b>30,694.0</b>	<b>6.6</b>
Urikhtau Field .....		1.8	0.3	3.0	6.8	29,966.0	6.4
<b>Total for</b>							
<b>KazMunayTenz</b> .....	<b>100.00</b>	<b>6.9</b>	<b>1.1</b>	<b>0.0</b>	<b>0.0</b>	<b>726.0</b>	<b>0.2</b>
Khazar Field.....	<b>25.00</b>	5.7	0.9	0.0	0.0	652.3	0.1
Auezov Field.....	<b>25.00</b>	1.2	0.2	0.0	0.0	73.8	0.0
<b>Other subsidiaries</b> .....							
Pribrezhnoe .....	50.00	2.5	0.4	—	0.0	—	0.0
KazakhTurkMunay .....	100.00	6.7	1.0	0.04	0.1	2,057.0	0.4
AmangeldyGas.....	100.00	0.0	0.0	0.5	1.1	18,984.3	4.1
<b>Total for Subsidiaries and Joint Operations:</b> .....		<b>219.6</b>	<b>30.8</b>	<b>34.0</b>	<b>76.5</b>	<b>191,920.2</b>	<b>41.0</b>
<i>Non-consolidated Joint Ventures and Associates:</i>							
<i>of the Company:</i>							
<b>Total for NCPC</b> .....	<b>8.44<sup>(4)</sup></b>	<b>71.8</b>		<b>1.2</b>		<b>49,056.3</b>	
Kashagan Field .....		68.8	19.3	0.0	0.0	44,944.5	19.3
Other Fields.....		3.0	0.5	1.2	5.7	4,111.9	1.8]
<b>Total for TCO</b> .....	<b>20.00</b>	<b>213.5</b>	<b>33.4</b>	<b>0.0</b>	<b>0.0</b>	<b>108,311.1</b>	<b>23.1</b>
Tengiz Field .....		200.4	31.3	0.0	0.0	100,602.1	21.5
Other fields.....		13.2	2.1	0.0	0.0	7,709.0	1.7
<b>Total for KazakhOil Aktobe</b> .....	<b>50.00</b>	<b>24.9</b>	<b>3.9</b>	<b>0.5</b>	<b>1.1</b>	<b>7,726.0</b>	<b>1.7</b>
Alibekmola Field.....		16.2	2.5	0.0	<b>0.0</b>	3,855.5	0.8
Other fields.....		8.7	1.4	0.5	<b>1.1</b>	3,870.5	0.8
<b>Total for MMG</b> .....	<b>50.00</b>	<b>63.0</b>	<b>9.8</b>	<b>0.6</b>	<b>1.4</b>	<b>27,781.8</b>	<b>5.9</b>
Kalamkas Field.....		27.5	4.3	0.0	0.0	12,545.8	2.7
Zhetybai Field .....		25.5	4.0	0.6	1.3	12,632.1	2.7
Other fields.....		10.0	1.6	0.1	0.1	2,603.9	0.6
<b>Other joint ventures</b> .....	—	1.0	<b>0.2</b>	1.1	<b>2.4</b>	15,600.5	<b>3.3</b>
<i>of KMG EP:</i>							
<b>Total for Kazgermunai</b> .....	<b>50.00</b>	<b>13.6</b>	<b>2.1</b>	<b>0.2</b>	<b>0.4</b>	<b>3,325.0</b>	<b>0.7</b>
Akshabulak Field.....		11.5	<b>1.8</b>	0.0	<b>0.1</b>	1,553.2	<b>0.3</b>
Other Fields.....		2.1	<b>0.3</b>	0.1	<b>0.3</b>	1,771.9	<b>0.4</b>
<b>Total for PKI</b> .....	<b>33.00</b>	<b>11.8</b>	<b>1.8</b>	<b>0.1</b>	<b>0.1</b>	<b>4,143.7</b>	<b>0.9</b>
PKKR .....		6.4	1.0	0.0	0.1	2,779.3	0.6
Other Fields.....		5.4	0.8	0.0	0.1	1,364.4	0.3
<b>Total for CCEL</b> .....	<b>50.00</b>	<b>20.4</b>	<b>3.2</b>	—	—	<b>128.1</b>	<b>0.0</b>
Karazhanbas Field .....		20.4	3.2	—	—	128.1	0.0
<b>Total Ural Oil and Gas</b>		<b>0.0</b>	<b>0.0</b>	<b>5.5</b>	<b>12.4</b>	<b>10,844.0</b>	<b>2.3</b>
<b>Total for Joint Ventures and Associates</b>		<b>420.4</b>	<b>65.7</b>	<b>9.2</b>	<b>21.5</b>	<b>226,916.9</b>	<b>59.0</b>
<b>Total</b> .....		<b>639.7</b>	<b>100.0</b>	<b>43.3</b>	<b>100.0</b>	<b>418,837.7</b>	<b>100.0</b>

Notes:

(1) As at 31 December 2017.

- (2) As at 31 December 2017, as a percentage of ordinary voting shares of KMG EP. In December 2017, KMG EP launched a conditional tender offer to repurchase all of its outstanding GDRs and, in January 2018, KMG EP launched an unconditional offer to repurchase on KASE all of its outstanding common shares. As a result of these transactions, the percentage of ordinary voting shares of KMG EP owned by the Company will increase. On 20 February 2018, KMG EP announced that the Company and KMG EP together held approximately 99.2% of the common shares (including common shares represented by GDRs) of KMG EP. See “—Strategy” and “—Exploration and Production—Significant Production Fields of KMG EP”.
- (3) Recognising that KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method.
- (4) Represents the 8.44% interest in NCPC held by the Company for its own account only. The Company does not receive economic benefits from the 8.44% held by the Company on trust for Samruk-Kazyna.

See “Risk Factors—Risks Relating to the Company’s Business—The reported quantities or classifications of the Company’s crude oil and gas reserves may be lower than estimated because of inherent uncertainties in the calculation of reserves and because of the use of Kazakhstan methodology”, “The Oil and Gas Industry in Kazakhstan—Reserve Classifications” and “Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates”.

## Exploration and Production

### Overview

Based on information obtained from the Statistics Committee, and the Company’s internal information, the Company’s management believes that the Company was the largest crude oil producer (including the proportionate interest of joint ventures and associates) in Kazakhstan in terms of production volume as at 31 December 2017. In 2017, the Company’s production of crude oil was 23.4 million tonnes (9.9 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of crude oil, as compared to 22.6 million tonnes (9.8 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of crude oil in 2016 and 22.7 million tonnes (9.7 million tonnes, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of crude oil in 2015.

Based on the Company’s internal information and information obtained from the Statistics Committee, the Company’s production of crude oil (including the proportionate share of the Company and its subsidiaries in joint ventures and associates) represented 27.1%, 29.0% and 28.5% of the total crude oil production in Kazakhstan in 2017, 2016 and 2015, respectively, while the Company’s production of gas (including the proportionate share of the Company and its subsidiaries in joint ventures and associates) represented 15.5%, 15.9% and 16.0% of the total gas production in Kazakhstan in 2017, 2016 and 2015, respectively.

The Company’s major oil producing subsidiaries and interests are KMG EP (including KMG EP’s proportionate interests in Kazgermunai, CCEL and PKI), TCO and NCPC. KMG EP (including KMG EP’s proportionate interests in Kazgermunai, CCEL and PKI) represented 50.8%, 53.7% and 54.5% of the Company’s production of crude oil in the years ended 31 December 2017, 2016 and 2015, respectively. In December 2017, KMG EP launched a conditional tender offer to repurchase all of its outstanding GDRs and, in January 2018, KMG EP launched an unconditional offer to repurchase on KASE all of its outstanding common shares. As a result of these transactions, the percentage of ordinary voting shares of KMG EP owned by the Company is expected to increase. On 20 February 2018, KMG EP announced that the Company and KMG EP together held approximately 99.2% of the common shares (including common shares represented by GDRs) of KMG EP. See “—Strategy” and “—Significant Production Fields of KMG EP”. TCO represented 24.6%, 24.3% and 24.0% of the Company’s total production of crude oil in the years ended 31 December 2017, 2016 and 2015, respectively. NCPC represented 2.9% of the Company’s total production of crude oil in the year ended 31 December 2017, representing crude oil from the Kashagan Field, which recommenced operations in November 2016.

In 2017, the Company’s production of gas was 8.2 bcm (3.2 bcm, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of gas compared to 7.4 bcm (3.0 bcm, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of gas, in 2016 and 7.2 bcm (3.1 bcm, excluding the proportionate share of the Company and its subsidiaries in joint ventures and associates) of gas in 2015.

The Company’s production of gas (including the proportionate share of the Company and its subsidiaries in joint ventures and associates) represented 15.5%, 15.9% and 16.0% of the total gas production in Kazakhstan in 2017, 2016 and 2015, respectively, based on the Company’s internal information and information obtained from the Statistics Committee. The Company’s major gas producing subsidiaries and interests are KMG EP (including KMG EP’s proportionate interests in Kazgermunai, CCEL and PKI), TCO and KPO. KMG EP produced 18.9% (or 1.5 bcm), 18.3% (or 1.3 bcm) and 18.1% (or 1.3 bcm) of the Company’s production of gas in 2017, 2016 and 2015, respectively. TCO produced 38.6% (or 3.2 bcm), 40.9% (or 3.0 bcm) and 41.1% (or 3.0 bcm) of the Company’s production of gas in 2017, 2016 and 2015. KPO, in

which the Company holds a 10% interest (indirectly, through its subsidiary, KMG Karachaganak LLP), produced 23.0% (or 1.9 bcm), 23.9% (or 1.7 bcm) and 25.1% (or 1.8 bcm) of the Company's production of gas in 2017, 2016 and 2015, respectively.

The Company classifies its upstream operations into two categories: "production and development assets" and "exploration projects". Production and development assets are subsidiaries and joint ventures with fields that are either currently producing or are at the development stage, as approved by the Ministry of Energy. Exploration projects are subsidiaries and joint ventures that are not currently approved by the Ministry of Energy as producing fields and are still at the exploration stage. Generally, on completion of an initial exploration programme and if the Ministry of Energy approves the project, a project will enter the development phase and join the production and development assets category.

See "*The Oil and Gas Industry in Kazakhstan—Regulatory Body—Ministry of Energy*".

## Production and Development Assets

The following table sets forth the production attributable to the Company from its consolidated subsidiaries and non-consolidated joint ventures and associates for the periods indicated:

Company and Field	% Ownership Interest <sup>(1)</sup>	For the year ended 31 December					
		2017		2016		2015	
		Oil & Gas Condensate (thousand tonnes)	Gas (mcm)	Oil & Gas Condensate (thousand tonnes)	Gas (mcm)	Oil & Gas Condensate (thousand tonnes)	Gas (mcm)
<b>Consolidated Subsidiaries and KPO:</b>							
<b>Total for KMG EP ..</b>	63.01 <sup>(2)</sup>	<b>8,328.2</b>	<b>748.6</b>	<b>8,396.2</b>	<b>803.1</b>	<b>8,342.5</b>	<b>821.5</b>
Uzen Field .....	100.00	5,483.1	320.0	5,555.0	298.6	5,510.4	291.3
EMG Fields .....	100.00	2,840.0	199.7	2,832.0	191.6	2,823.0	187.9
Other Fields .....	100.00	5.0	228.9	9.2	312.9	9.1	342.3
<b>Total for KPO<sup>(3)</sup> .....</b>	10.00	<b>1,124.6</b>	<b>1,892.4</b>	<b>1,046.6</b>	<b>1,765.9</b>	<b>1,079.6</b>	<b>1,823.4</b>
<b>Other Subsidiaries...</b>		<b>407.5</b>	<b>519.0</b>	<b>312.7</b>	<b>514.1</b>	<b>260.7</b>	<b>465.8</b>
<b>Total for Subsidiaries.....</b>		<b>9,860.2</b>	<b>3,160.0</b>	<b>9,755.5</b>	<b>3,083.1</b>	<b>9,682.8</b>	<b>3,110.7</b>
<b>Non-consolidated Joint Ventures and Associates:</b>							
<i>of the Company:</i>							
<b>Total for NCPC .....</b>	8.44 <sup>(4)</sup>	<b>686.0</b>	<b>404.0</b>	<b>80.8</b>	<b>49.6</b>	—	—
<b>Total for TCO.....</b>	20.00	<b>5,739.3</b>	<b>3,172.0</b>	<b>5,511.0</b>	<b>3,016.0</b>	<b>5,432.0</b>	<b>2,978.0</b>
Tengiz Field.....		5,224.3	2,926.0	5,060.0	2,692.0	4,971.0	2,685.0
Other Fields .....		515.0	246.0	451.0	324.0	461.0	293.0
<b>Total for Kazakhoil Aktobe .....</b>	50.00	<b>351.1</b>	<b>301.1</b>	<b>380.7</b>	<b>307.3</b>	<b>400.6</b>	<b>302.4</b>
Alibekmola Field....		148.8	122.3	163.0	125.2	180.0	125.8
Other Fields .....		202.3	178.8	217.7	182.1	220.6	176.6
<b>Total for MMG.....</b>	50.00	<b>3,177.8</b>	<b>377.6</b>	<b>3,145.0</b>	<b>378.5</b>	<b>3,136.7</b>	<b>366.0</b>
Kalamkas Field.....		2,023.7	201.1	2,051.5	259.3	2,081.1	250.3
Other Fields .....		1,154.1	176.5	1,093.5	119.2	1,055.6	115.7
<b>Other Joint Ventures .....</b>		—	—	—	—	—	—
<i>of KMG EP:</i>							
<b>Total for Kazgermunai .....</b>	50.00	<b>1,400</b>	<b>279.9</b>	<b>1,468.0</b>	<b>299.2</b>	<b>1,499.9</b>	<b>241.7</b>
Akshabulak Field....		1,282.6	178.8	1,315.0	182.6	1,330.3	186.1
Other Fields .....		117.4	101.0	153.0	116.6	169.6	55.6
<b>Total for PKI .....</b>	33.00	<b>1,076.7</b>	<b>508.3</b>	<b>1,235.3</b>	<b>230.3</b>	<b>1,448.4</b>	<b>232.8</b>
PKKR .....		523.6	127.3	640.0	120.8	807.0	138.4
Other Fields .....		553.1	381.0	595.3	109.5	641.4	94.4
<b>Total for CCEL .....</b>	50.00	<b>1,070.6</b>	<b>18.0</b>	<b>1,063.5</b>	<b>18.9</b>	<b>1,069.2</b>	<b>19.9</b>
Karazhanbas Field ..		1,070.6	18.0	1,063.5	18.9	1,069.2	19.9
<b>Total for Joint Ventures and Associates .....</b>		<b>13,501.5</b>	<b>5,060.9</b>	<b>12,884.3</b>	<b>4,299.8</b>	<b>12,986.8</b>	<b>4,140.8</b>
<b>Total .....</b>		<b>23,361.7</b>	<b>8,220.9</b>	<b>22,639.8</b>	<b>7,382.9</b>	<b>22,669.6</b>	<b>7,251.5</b>

Notes:

(1) As at 31 December 2017.

(2) As at 31 December 2017, as a percentage of ordinary voting shares of KMG EP. In December 2017, KMG EP launched a conditional tender offer to repurchase all of its outstanding GDRs and, in January 2018, KMG EP launched an unconditional offer to repurchase on KASE all of its outstanding common shares. As a result of these transactions, the percentage of ordinary voting shares of KMG EP owned by the Company will increase. On 20 February 2018, KMG EP announced that the Company and KMG EP together held approximately 99.2% of the common shares (including common shares represented by GDRs) of KMG EP. See “—Strategy” and “—Significant Production Fields of KMG EP”.



- (3) Recognising that KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method.
- (4) Represents the 8.44% interest in NCPC held by the Company for its own account and the 8.44% held by the Company on trust for Samruk-Kazyna.

The following table sets forth certain information relating to the production and development activities of the Company and its subsidiaries, joint ventures and associates at their respective significant fields as at 31 December 2017:

<u>Company and Field</u>	<u>% of Ownership Interest</u>	<u>Year Commenced</u>	<u>Expiration of Agreement</u>	<u>Production wells</u>	<u>Injection wells</u>
<b>Consolidated Subsidiaries, Joint Operations and KPO:</b>					
<b>KMG EP:</b>	63.01 <sup>(1)</sup>				
Uzen Field .....		1965	2020	3,669	1,001
		between 1911-	between 2020-	2,104	413
EMG Fields .....		1999	2030		
		between 1973-	between 2020-	2,964	801
Other Fields .....		1982	2030		
<b>KPO:</b> <sup>(2)</sup>	10.00				
Karachaganak Field ..				150	17
<b>Total for Subsidiaries</b>		—	—	<b>6,997</b>	<b>2,232</b>
<b>Non-consolidated Joint Ventures and Associates:</b>					
<i>of the Company:</i>					
<b>NCPC:</b>					
Kashagan Field .....	8.44 <sup>(4)</sup>	2001	2041	22	4]
<b>TCO:</b>	20.00				
Tengiz Field .....		1993	2033	83	8
<b>Kazakhstan Aktobe:</b>	50.00				
Alibekmola Field .....		2001	2023	49	20
<b>MMG:</b>					
Kalamkas Field .....		1979	2031	2,117	708
Zhetybai Field .....		1967	2031	1,241	575
		between 1990-	between 2020-	136	46
<b>Other fields</b> .....		2003	2030		
<i>of KMG EP:</i>	63.01 <sup>(2)</sup>				
<b>Kazgermunai:</b>	50.00				
Akshabulak Field .....		1997	2024	136	23
Other Fields .....				77	12
<b>PKI:</b>	33.00				
		between 1984-	between 2019-		
PKKR .....		2000	2024	457	179
<b>CCEL:</b>					
Karazhanbas Field ....				2,719	731
<b>Total for Joint Ventures and Associates</b> .....		—	—	<b>6,901</b>	<b>2,306</b>
<b>Total</b> .....		—	—	<b>15,788</b>	<b>4,538</b>

Notes:

- (1) As at 31 December 2017, as a percentage of ordinary voting shares of KMG EP. In December 2017, KMG EP launched a conditional tender offer to repurchase all of its outstanding GDRs and, in January 2018, KMG EP launched an unconditional offer to repurchase on KASE all of its outstanding common shares. As a result of these transactions, the percentage of ordinary voting shares of KMG EP owned by the Company will increase. On 20 February 2018, KMG EP announced that the Company and KMG EP together held approximately 99.2% of the common shares (including common shares represented by GDRs) of KMG EP. See “—Strategy” and “—Significant Production Fields of KMG EP”.
- (2) Because KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method.

(4) Represents the 8.44% interest in NCPC held by the Company for its own account only.

The following table sets forth certain information relating to new wells drilled by the Company and its subsidiaries, joint ventures and associates at their respective significant fields as at the dates and for the periods indicated:

Company and Field	New wells drilled					
	Production wells	Other wells	Production wells	Other wells	Production wells	Other wells
	For the year ended 31 December					
	2017	2017	2016	2016	2015	2015
<b>Consolidated Subsidiaries, Joint Operations and KPO:</b>						
<b>KMG EP:</b>						
Uzen Field .....	106	46	188	0	231	0
EMG Fields .....	45	0	47	11	54	5
<b>KPO:<sup>(1)</sup></b>						
Karachaganak Field	6	0	7	0	7	0
<b>Total for Subsidiaries</b>	<b>157</b>	<b>46</b>	<b>242</b>	<b>11</b>	<b>292</b>	<b>5</b>
<b>Non-consolidated Joint Ventures and Associates:</b>						
<i>of the Company:</i>						
<b>NCPC:</b>						
Kashagan Field .....	0	0	0	0	4	0
<b>TCO:</b>						
Tengiz Field .....	12	0	12	0	10	0
<b>Kazakh oil Aktobe:</b>						
Alibekmola Field ..	0	0	0	0	0	0
<b>MMG:</b>						
Kalamkas Field .....	66	10	84	0	80	0
Zhetybai Field .....	73	34	52	0	54	0
<b>Other fields .....</b>	<b>9</b>	<b>5</b>	<b>36</b>	<b>0</b>	<b>23</b>	<b>0</b>
<i>of KMG EP:</i>						
<b>Kazgermunai:</b>						
Akshabulak Field ..	16	0	9	0	17	0
<b>PKI:</b>						
PKKR .....	19	0	2	0	19	0
<b>CCEL:</b>						
Karazhanbas Field	91	17	51	0	112	0
<b>Total for Joint Ventures and Associates .....</b>	<b>286</b>	<b>66</b>	<b>246</b>	<b>0</b>	<b>319</b>	<b>0</b>
<b>Total .....</b>	<b>443</b>	<b>112</b>	<b>488</b>	<b>11</b>	<b>611</b>	<b>5</b>

Note:

(1) Because KPO is a consortium operating under a joint operating agreement, the Company also accounts for its interests in KPO under the proportionate consolidation method.

### Significant Production Fields of KMG EP

KMG EP is the Company's largest consolidated subsidiary in terms of A+B+C1 reserves of crude oil, gas condensate and gas, representing 30.0% of the Company's A+B+C1 reserves of crude oil, 9.8% of the Company's A+B+C1 reserves of gas condensate and 12.0% of the Company's A+B+C1 reserves of gas (in each case, excluding Kazgermunai, PKI and CCEL) as at 31 December 2017. KMG EP is also the Company's largest subsidiary in terms of production volume, representing 35.6% of the Company's production of crude oil in 2017 and 9.1% of the Company's production of gas in 2017 (in each case, excluding Kazgermunai, PKI and CCEL).

Many of KMG EP's significant fields are mature; therefore, production levels are achieved by various field stimulation and rehabilitation projects, including drilling and completing new wells, completing well workovers and introducing

various secondary enhancement and well stimulation and recovery techniques. See “—*Oil Field Development and Rehabilitation*”.

#### *KMG EP Ownership and Buyback*

As at 31 December 2017, the Company owned 63.01% of the share capital of KMG EP, with the remaining issued share capital (represented by common shares listed on the KASE and GDRs listed on the London Stock Exchange) being publicly held.

In 2016, an offer by the Company to purchase the publicly-held common shares and GDRs of KMG EP was rejected by KMG EP’s shareholders. See “*Share Capital, Shareholders and Related Party Transactions—Relationships between the Company and KMG EP—Relationship Agreement with KMG EP and Further Offer to Buyback Shares*”.

On 8 December 2017, KMG EP launched the KMG EP Tender Offer to holders of its outstanding GDRs to purchase GDRs at a price of U.S.\$14.00 per GDR. On 23 January 2018, KMG EP announced that it had received valid acceptances in respect of approximately 87% of all outstanding GDRs (excluding GDRs held by KMG EP) and, accordingly, the KMG EP Tender Offer had become unconditional. On 23 January 2018, KMG EP launched the KMG EP Share Offer, an offer to repurchase on the KASE (at a price of U.S.\$84.00 per common share, payable in Tenge) all of its outstanding common shares. The first settlement date for the KMG EP Tender Offer and the KMG EP Share Offer was 19 February 2018. On 20 February 2018, KMG EP announced that the first settlement date had been effected and, as a result, KMG EP had repurchased a total of: (i) 134,070,054 GDRs, which, as at 31 January 2018, represented approximately 97.7% of the outstanding GDRs of KMG EP (excluding GDRs owned by the Company) and representing approximately 31.8% of the total outstanding common shares of KMG EP; and (ii) 320,688 common shares, which, as at 31 January 2018, amounted to approximately 0.5% of the total outstanding common shares of KMG EP. The repurchase was funded by KMG EP’s own funds. The common shares repurchased by KMG EP will be held in treasury, and the GDRs will be held by KMG EP, subject to surrendering such GDRs for common shares in due course. On 20 February 2018, KMG EP announced that, following the first settlement date of the KMG EP Tender Offer and the KMG EP Share Offer, the Company and KMG EP together held a total of 47,194,539 common shares and 134,781,116 GDRs of KMG EP, which represented approximately 99.2% of the total common shares of KMG EP. On 13 March 2018, KMG EP announced that, in accordance with their respective terms and conditions, the KMG EP Tender Offer closed on 8 March 2018 and the KMG EP Share Offer closed on 12 March 2018. As at 8 March 2018, KMG EP had acquired or received valid acceptances pursuant to the KMG EP Tender Offer in respect of a total of 135,328,231 GDRs, which, as at 18 February 2018, represented approximately 98.6% of the outstanding GDRs. As at 21 February 2018, 54 million GDRs had been converted into common shares. At the close of trade on the KASE on 12 March 2018, KMG EP had acquired or received bids for sale pursuant to the KMG EP Share Offer in respect of a total of 331,677 outstanding common shares, which, as at 18 March 2018, represented approximately 0.5% of the outstanding common shares (including common shares represented by GDRs). The final settlement date of the KMG EP Tender Offer and the KMG EP Share Offer is expected to be 5 April 2018.

On 12 March 2018, KMG EP held an extraordinary general meeting at which resolutions were passed to approve: (i) the cancellation of the listing of the GDRs on the Official List of the FCA and of their admission to trading on the London Stock Exchange (the “**LSE delisting**”); the cancellation of the admission of KMG EP’s common shares and the GDRs to the official list of KASE (the “**KASE delisting**”); and (iii) certain amendments to KMG EP’s charter, including: (a) changing the requisite majority to pass shareholder resolutions on certain matters including the delisting of KMG EP’s securities, from a qualified majority to a simple majority of votes; (b) changing the requirement for resolutions of the Board of Directors on certain matters specified in the charter to be adopted by a majority vote of the directors to a simple majority of those directors present at a meeting; (c) removing the express right of independent executive directors to engage professional consultants to advise them at the expense of KMG EP; (d) changing the requirement that the agenda of all board meetings to be approved by a majority of the independent non-executive directors present at the relevant meeting to a simple majority of all directors; (e) changing the quorum for a board meeting from two-thirds of the directors to half of the directors; and (f) removing the requirement that two-thirds of independent non-executive directors must be present for a board meeting to be quorate. KMG EP has announced its intention, subject to the expiry of the KMG EP Share Offer, to apply for the LSE delisting and the KASE delisting, which are expected to occur on 9 May 2018. Upon the LSE delisting, the Relationship Agreement will be terminated immediately. On 13 March 2018, KMG EP announced that, in accordance with the JSC Law, holders of common shares or preferred shares in KMG EP that did not attend the extraordinary general meeting or that voted against the resolutions passed at the meeting have the right to demand KMG EP to acquire their respective shares by serving a demand within 30 days. See “*Share Capital, Shareholders and Related Party Transactions—Relationships between the Company and KMG EP—Relationship Agreement with KMG EP and Further Offer to Buyback Shares*”.

As a result of KMG EP Tender Offer and the KMG EP Share Offer, the percentage of ordinary voting shares of KMG EP owned by the Company is expected to increase. The Company is in the process of considering its options in respect of the re-integration of KMG EP into the Company in the context of its other transformation programmes.

#### *Uzen Field*

The Uzen Field is the largest oil field of KMG EP in terms of crude oil reserves and production volume. As at 31 December 2017, the Uzen Field had estimated A+B+C1 reserves of crude oil of 103.2 million tonnes and A+B+C1 reserves of gas of 13.6 bcm, representing 16.1% and 2.9% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Uzen Field, located in the Mangistau oblast, was discovered in 1961 and started producing in 1965. Oil production at the Uzen Field is from 13 horizons in the Jurassic formation, located at depths shallower than 1,800 m. The Ural and Brent grades of crude oil produced at the Uzen Field usually have maximum API gravity of 34 degrees, sulphur content ranging from 0.16% to 0.24%, significant paraffinic content and an average watercut of 81.5%.

The Uzen Field's wellstock consisted of 3,669 production wells and 1,001 injection wells as at 31 December 2017, including 152 new wells drilled in 2017. The Uzen Field produced 5.5 million tonnes of crude oil in 2017, 5.6 million tonnes of crude oil in 2016 and 5.5 million tonnes of crude oil in 2015, representing 23.5%, 24.5% and 24.3%, respectively, of the Company's production of crude oil for the respective years. In 2017, production wells at the Uzen Field produced an average of 15,022.2 tonnes of crude oil per well per day.

In 2017, the Uzen Field produced 320.0 mcm of gas, representing 3.9% of the Company's production of gas, 5.6 mcm of which was used for the internal needs of the Uzen Field. Gas utilised for internal needs is used to heat the oil contained in KMG EP's pipelines, which otherwise solidifies at temperatures below -35 C° due to its paraffinic nature. The remaining gas is sent to KMG EP's gas processing plant in Uzen for processing and subsequent sale. The Uzen Field produced 298.6 mcm of gas in 2016 and 291.3 mcm of gas in 2015, representing 3.8% and 4.0%, respectively of the Company's production of gas for those years.

In 2017, production of crude oil at the Uzen Field decreased by 1.3%, or by 74.9 thousand tonnes, as compared to 2016, reflecting a decrease in oil production. In 2016, production of crude oil at the Uzen Field increased by 0.8% or by 44.6 thousand tonnes, as compared to 2015, reflecting an increase in oil production as a result of new wells drilled at the Uzen Field.

As at 31 December 2017, KMG EP had budgeted to spend KZT 232.6 billion on capital expenditures in 2018 and KZT 488.4 billion between 2019 and 2022, of which KZT 221.6 billion and KZT 266.8 billion, respectively, is expected to be spent on exploration and production support. These expenditures are expected to be funded from KMG EP's own funds.

#### *EMG Fields*

The EMG fields comprise a total of 39 oil fields located around the northern and eastern shores of the Caspian Sea in the Atyrau oblast. Of the producing EMG fields, the following eight fields are the largest in terms of reserves, as well as production volume: (i) Kenbai (East Moldabek/North Kotyrtas) Field; (ii) Nurzhanov Field; (iii) Kamyshitovoye Southwest Field; (iv) Botakhan Field; (v) Makat East Field; (vi) Zaburunye Field; (vii) Zhanatalap Field; and (viii) Kamyshitovoye Southeast Field. As at 31 December 2017, the EMG fields had estimated A+B+C1 reserves of crude oil of 72.9 million tonnes, A+B+C1 reserves of gas condensate of 1.6 million tonnes and A+B+C1 reserves of gas of 29.0 bcm, representing 11.4%, 3.6% and 6.2% of the Company's A+B+C1 reserves of crude oil, gas condensate and gas, respectively.

The following table sets forth certain information relating to the most significant EMG fields:

<b>Field</b>	<b>Year production commenced</b>	<b>Producing geologic formation</b>
Kenbai (East Moldabek/North Kotyrtas) Field .....	1996	Production is from 15 horizons in the Cretaceous, Jurassic and Triassic formations, located at depths shallower than 1,900 m
Nurzhanov Field.....	1967	Production is from nine horizons in the Cretaceous, Jurassic and Triassic formations, located at depths shallower than 3,320 m

Kamyshitovoye Southwest Field....	1972	Production is from seven horizons in the Cretaceous, Jurassic and Permian formations, located at depths shallower than 850 m
Botakhan Field.....	1981	Production is from two horizons in the Jurassic formation, located at depths shallower than 1,400 m
Makat East Field.....	1993	Production is from six horizons in the Cretaceous, Jurassic and Permian formations, located at depths shallower than 1,350 m
Zaburunye Field.....	1989	Production is from three horizons in the Cretaceous formation, located at depths shallower than 920 m
Zhanatalap Field.....	1974	Production is from seven horizons in the Jurassic and Permian formations, located at depths shallower than 1,200 m
Kamyshitovoye Southeast Field.....	1987	Production is from four horizons in the Cretaceous and Jurassic formations, located at depths shallower than 650 m

The EMG fields' wellstock consisted of 2,104 production wells and 413 injection wells as at 31 December 2017, including 45 new wells drilled in 2017. The EMG fields produced 2.8 million tonnes of crude oil in each of 2017, 2016 and 2015, representing 12.2%, 12.5% and 12.5%, respectively, of the Company's production of crude oil for those years. In 2017, production wells at the EMG fields produced an average of 7,808.8 tonnes of crude oil per well per day.

In 2017, the EMG fields produced 199.7 mcm of gas, as compared to 191.6 mcm of gas in 2016 and 187.9 mcm of gas in 2015, representing 2.4%, 2.6% and 2.6%, respectively, of the Company's production of gas for those years. Gas produced at the EMG fields is used exclusively to satisfy KMG EP's internal needs. Gas utilised for internal needs is used to heat the oil contained in KMG EP's pipelines which otherwise solidifies at temperatures below -35°C due to its paraffinic nature.

### ***Significant Production Fields of KMG EP's Joint Ventures and Associates***

#### *Kazgermunai*

Kazgermunai is a joint venture in the form of a joint venture between KMG EP and PKI, with each having a 50% interest as at 31 December 2017. The Company acquired a 50% interest in Kazgermunai in July 2006 and sold its entire interest in Kazgermunai to KMG EP on 24 April 2007. Through its 33% interest in PKI (as at 31 December 2017), KMG EP also realises economic benefits from PKI's 50% interest in Kazgermunai, which are, in turn, largely passed on to the Company through its interest in KMG EP.

Kazgermunai operates the Akshabulak Field, the largest of its fields, pursuant to a Subsoil Use Agreement that expires in 2024. As at 31 December 2017, the Akshabulak Field had estimated A+B+C1 reserves of crude oil of 11.5 million tonnes, A+B+C1 reserves of gas condensate of 0.0 million tonnes and A+B+C1 reserves of gas of 1.5 bcm attributable to the Company through KMG EP, representing 1.6%, 0.1% and 0.3% of the Company's A+B+C1 reserves of crude oil, gas condensate and gas, respectively.

The Akshabulak Field, located in the Kyzylorda oblast, was discovered in 1984 and started producing in July 1989. Oil production at the Akshabulak Field is from three horizons in the Jurassic and Cretaceous formations, located at depths shallower than 1,800 m. The Ural grade of crude oil produced at the Akshabulak Field usually has maximum density of 900 kg per cubic metre, sulphur content ranging from 0.1% to 0.3% and an average watercut of 2.0%.

The Akshabulak Field's wellstock consisted of 136 production wells and 23 injection wells as at 31 December 2017, including 17 new wells drilled in the year ended 31 December 2017. The Akshabulak Field produced 1.3 million tonnes of crude oil in each of 2017, 2016 and 2015, in each case attributable to the Company through KMG EP, representing 5.5%, 5.8% and 5.9%, respectively, of the Company's production of crude oil for those years. In 2017, production wells at the Akshabulak Field produced an average of 3,514.0 tonnes of crude oil per day attributable to the Company through KMG EP.

The Akshabulak Field produced 178.8 mcm of gas in 2017, 182.6 mcm of gas in 2016 and 186.1 mcm of gas in 2015, which was attributable to the Company through KMG EP, representing 2.2%, 2.5% and 2.6%, respectively, of the Company's production of gas for those years.

#### *CCEL*

CCEL is a joint venture between KMG EP and CITIC, with each having a 50% interest as at 31 December 2017. KMG EP acquired its 50% interest in CCEL on 12 December 2007. See Note 12 to the 2017 Financial Statements.

CCEL has a 100.0% interest in the entity developing the Karazhanbas Field in western Kazakhstan. As at 31 December 2017, the Karazhanbas Field had estimated A+B+C1 reserves of crude oil of 20.4 million tonnes and A+B+C1 reserves of gas of 128.1 mcm attributable to the Company through KMG EP, representing 3.2% of the Company's A+B+C1 reserves of crude oil and an immaterial percentage of the Company's A+B+C1 reserved of gas.

The Karazhanbas Field, located in the Mangistau oblast, was discovered in 1974 and started producing in 1980. Oil production at the Karazhanbas Field is from five horizons in the Jurassic and Cretaceous formations, located at depths shallower than 400 m. The Ural grade of crude oil produced at the Karazhanbas Field usually has maximum density of 900 kg per cubic metre, sulphur content ranging from 0.1% to 0.2% and an average watercut of 80%.

The Karazhanbas Field's wellstock consisted of 2,719 production wells and 731 injection wells as at 31 December 2017, including 108 new wells drilled in the year ended 31 December 2017. The Karazhanbas Field produced 1.1 million tonnes of crude oil in each of 2017, 2016 and 2015, representing 4.6% of the Company's production of crude oil for each year. In 2017, production wells at the Karazhanbas Field produced an average of 2,933.2 tonnes of crude oil per day.

The Karazhanbas Field produced 18.0 mcm of associated gas in 2017, 18.0 mcm of associated gas in 2016 and 19.9 mcm of associated gas in 2015, representing 1.5%, 0.3% and 0.3% of the Company's production of gas in each such year, respectively.

#### PKI

On 5 July 2006, the Company acquired a 33% interest in PKI from CNPC for KZT 169.4 billion. In December 2009, the Company sold its interest in PKI to KMG EP (which it maintains). Accordingly, PKI is an associate of KMG EP, and, as such, the Company does not have a direct interest in PKI's reserves or production.

The exploration and development activity of PKI is performed by Kazgermunai (in which PKI has a 50% interest) and PKKR, PKI's wholly-owned subsidiary. For details of Kazgermunai's operations, see "*Kazgermunai*". PKKR has obtained two exploration and five exploration and production contracts from the MEMR (now the Ministry of Energy) in exchange for seven fields in the 80,000 km<sup>2</sup> South Turgai Basin in southern Kazakhstan.

The following table sets forth certain information regarding PKKR's five production fields:

Field	Year production commenced	Producing geologic formation
Kumkol South and blocks adjacent thereto .....	1984	Located in the Kyzylorda oblast in the lower Cretaceous and Jurassic formations with depths ranging from 900 to 1,370 m
Aryskum Field .....	1985	Located in the Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth of 1,200 m
South-east Kumkol Field.....	1997	Located in the Kyzylorda and Dzheskazgan oblasts in the lower Cretaceous and Jurassic formations with the depth shallower than 1,585 m
Maibulak Field.....	1988	Located in the Karaganda and Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth shallower than 1,160 m
Kyzylkiya Field.....	2000	Located in the Kyzylorda oblast in the lower Cretaceous and Jurassic formations with the depth shallower than 1,550 m

As at 31 December 2017, PKKR's fields had estimated A+B+C1 reserves of crude oil of 6.4 million tonnes, and A+B+C1 reserves of gas of 2.8 bcm attributable to the Company through PKI and KMG EP, representing 1.0% and 0.6% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Ural grade of crude oil produced at the PKKR's fields typically has maximum density of 800 kg per cubic metre, sulphur content of 0.1% and an average watercut of 65%.

The PKKR fields' wellstock consisted of 457 production wells and 179 injection wells as at 31 December 2017, including two new wells drilled in the year ended 31 December 2017. The PKKR fields produced 0.5 million tonnes of crude oil in 2017, 0.6 million tonnes in 2016 and 0.8 million tonnes of crude oil in 2015, which was attributable to the Company through PKI and KMG EP, representing 2.2%, 2.8% and 3.6%, respectively, of the Company's production of crude oil

for those years. In 2017, production wells at the PKKR fields produced an average of 1,434.5 tonnes of crude oil per day attributable to the Company through PKI and KMG EP.

The PKKR fields produced 127.3 mcm of gas in 2017, 120.8 mcm of gas in 2016 and 138.4 mcm of gas in 2015, which were attributable to the Company through PKI and KMG EP, representing 1.5%, 1.6% and 1.9%, respectively, of the Company's production of gas for those years.

### ***Significant Production Fields of Other Joint Ventures and Associates***

#### ***TCO***

TCO owns the single largest production field in Kazakhstan, is the Company's most significant joint venture in terms of production of oil and was a key driver of the Company's growth in total production in 2017, 2016 and 2015. TCO is a joint venture between the Company (20% (as at 31 December 2017)), Chevron Overseas (50%), ExxonMobil Kazakhstan Ventures Inc. (25%) and LukArco (5%). TCO was incorporated under Kazakhstan law on 6 April 1993 for a 40-year term, which may be extended by mutual agreement of all parties. TCO's activities are governed by a number of agreements, including a formation agreement and a project agreement, to which the Company is a party. See "*Share Capital, Shareholders and Related Party Transactions—Relationships Between the Company and TCO*" for a discussion of the agreements relating to the operation and internal governance of TCO.

TCO operates the Tengiz Field in western Kazakhstan, which is among the largest fields under development in the world based on estimated A+B+C1 reserves. TCO also operates the nearby Korolevskoye Field. The Government granted TCO exclusive rights to develop an area adjacent to the Caspian Sea under bespoke agreements (rather than a Subsoil Use Agreement) that may be extended by TCO to 2033.

#### **Tengiz Field**

As at 31 December 2017, the Tengiz Field had estimated A+B+C1 reserves of crude oil of 200.4 million tonnes and A+B+C1 reserves of gas of 100.6 bcm attributable to the Company, representing 31.3% and 21.5% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

The Tengiz Field, located in the Atyrau oblast on the south side of the 500,000 km<sup>2</sup> Pre-Caspian Basin on the north-eastern edge of the Caspian Sea, was discovered in 1979 and started producing in 1991. The Tengiz reservoir is over 110 km<sup>2</sup> in area at its top and 400 km<sup>2</sup> at its base with a maximum thickness from the top of the reservoir to the bottom of the reservoir of about 1.5 km. The top of the reservoir is 3,850 m below sea level. The lowest known oil is 5,429 m below sea level. The Tengiz reservoir is part of a large ring like complex 50 km in diameter, which includes the Korolevskoye, Karaton, Tazhigali and Pustyn carbonate structures. The Tengiz reservoir was formed during the Devonian and Carboniferous eras by recurrent deposition of skeletal fragments and lime mud.

Since the oil from Tengiz Field has a high sulphur content, TCO estimates that, 0.2 million tonnes as at 31 December 2017, 0.1 million tonnes as at each of 31 December 2016 and 2015 of sulphur by-product were stored in the form of large sulphur blocks. TCO sold 2.5 million tonnes of sulphur in 2017, 2.3 million tonnes of sulphur in 2016 and 2.7 million tonnes of sulphur in 2015. TCO produced 2.6 million tonnes of sulphur in 2017, 2.5 million tonnes of sulphur in 2016 and 2.4 million tonnes in 2015. See "*Risk Factors—Risks Related to the Company's Business—Oil at several of the Company's fields has a high sulphur content and produces a high level of sulphur by-product that must be managed carefully*".

The Tengiz Field's wellstock consisted of 83 production wells and eight injection wells as at 31 December 2017, including 12 new wells drilled in 2017. The Tengiz Field produced 5.2 million tonnes of crude oil attributable to the Company in 2017, 5.1 million tonnes of crude oil in 2016 and 5.0 million tonnes of crude oil in 2015, representing 22.4%, 22.4% and 21.9%, respectively, of the Company's production of crude oil for those years. In 2017, production wells at the Tengiz Field produced an average of 14,313 tonnes of crude oil per day attributable to the Company.

The Tengiz Field produced 2,926.0 mcm of gas attributable to the Company in 2017, 2,692.0 mcm of gas attributable to the Company in 2016 and 2,685.0 mcm of gas in 2015, representing 36.5%, 36.5% and 37.0%, respectively, of the Company's production of gas for such years.

## Tengiz Expansion Projects

TCO is continuing its ongoing FGP and WPMP, which are being executed as an integrated project, in order to realise synergies in design and execution. The two projects have a shared scope in respect of utilities, power generation and distribution, infrastructure and the gathering system.

TCO has completed the first of three phases of the FGP, work on which commenced in 2012. The FGP involves the construction of injection and extracting lines and adjacent infrastructure, a large processing train for treating crude oil and the associated sour gas due to the crude oil's high sulphur content, as well as the implementation of a well drilling programme lasting until 2022. TCO expects the completion of the second and third phases of the FGP to further increase its oilfield production and plant processing capacity, allowing TCO to increase its crude oil production capacity by 12 million tonnes per year through to 2025.

As an integral part of the FGP, TCO is also implementing a WPMP. The WPMP is expected to lower the flowing wellhead pressure at TCO's plants from approximately 90 bar to 30 bar through the installation of a pressure boost facility and the debottlenecking of the gathering system.

First oil from the projects is targeted by the end of 2018, and work on the two projects is expected to be completed by 2022.

In November 2013, the Government and TCO entered into a memorandum of understanding with the aim of promoting investment, education, training and employment in Kazakhstan through the implementation of the FGP and WPMP projects. The FGP is expected to create approximately 20,000 jobs.

The total cost of the FGP and the WPMP is expected to be up to U.S.\$36.8 billion, which TCO expects to fund through external financing and, to the extent necessary, out of its cash flows. As at 31 December 2017, approximately U.S.\$13.3 billion has been expended in respect of FGP and WPMP since July 2013. In July 2016, TCO issued its U.S.\$1.0 billion 4.0% Series A Notes due 2026, the proceeds of which are being used to finance the FGP and the WPMP. There is no direct recourse to the Company under such notes. (See "*Management's Discussion and Analysis—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*").

The budget of U.S.\$36.8 billion for the FGP and WPMP projects was approved by the shareholders of TCO (including the Company) in July 2016. Of the total estimated cost, U.S.\$27.1 billion is expected to be used for production facilities, U.S.\$3.5 billion for wells and U.S.\$6.2 billion on miscellaneous expenses. The Company does not have any binding cash call obligations towards TCO in respect of the FGP and WPMP. There can be no assurance, however, that the Company will not at some point be requested or required to provide cash or guarantees to cover all or a portion of such capital expenditures. In addition, the Company and TCO have agreed that the level of dividends payable by TCO to the Company will depend on the crude oil price for the relevant year. In a low oil price environment, amounts required to fund the FGP and WPMP may limit the funds available to be distributed as dividends to the Company. In 2015, the dividend paid by TCO to its shareholders was U.S.\$2.4 billion (gross of withholding tax), of which U.S.\$402 million (excluding amounts withheld due to withholding tax) was paid to the Company. No dividend was paid by TCO in 2016 as a result of the low oil price environment. In December 2017, based on the results of TCO's activities for 2017, TCO distributed a dividend of U.S.\$1.4 billion (gross of withholding tax) to its shareholders, of which U.S.\$238 million (excluding amounts withheld due to withholding tax) was paid to the Company.

## TCO Advanced Oil Sale Transaction

In March 2016, KMG Finance, as seller, and the Company, as guarantor, entered into a transaction (the "**TCO Advanced Oil Sale Transaction**") involving the advanced sale by the Company of up to U.S.\$3 billion of crude oil and LPG (together, the "**Commodity**") to a special purpose vehicle, CA-VIT B.V. (the "**Buyer**").

The principal obligations of the parties in respect of the TCO Advanced Oil Sale Transaction are governed by (i) a contract between KMG Finance, as seller, and the Buyer for the purchase of 30.2 million tonnes of crude oil (of which 20.8 million tonnes of crude oil is attributable to TCO and the remainder is attributable to MMG and KBM) and one million tonnes of LPG, rateably on a monthly basis over the period of 48 months starting from 1 May 2016, subject to standard shipment size limitations (the "**Export Contract**"); (ii) an addendum to the Export Contract between the Buyer and KMG Finance, as seller, documenting the terms on which the Buyer will make prepayments to KMG Finance in respect of the specified future deliveries of the Commodity and KMG Finance will deliver the Commodity to the Buyer (the "**Prepayment Addendum**"); and (iii) a deed of guarantee between the Company, as guarantor, and the Buyer, as beneficiary, pursuant to which the Company has agreed to guarantee the performance of the obligations of KMG Finance under the Export Contract, the Prepayment Addendum and certain related ancillary documents.



In December 2017, a further prepayment addendum was entered into, which increased the contract value by a further U.S.\$1 billion and extended the obligation to deliver crude oil for one year from March 2020 to March 2021 (the “**Further Amendment**”).

Neither KMG Finance’s or the Company’s obligations constitute financial indebtedness of the Company under applicable financial covenants in its bilateral and syndicated facilities, as well as under Notes issued or to be issued under the Programme. KMG Finance is expected to discharge its obligations in the contractually specified period after the date on which the commercial contracts relating to the TCO Advanced Oil Sale Transaction were signed (the “**Final Discharge Date**”), subject to an initial grace period of 12 months. Under the Prepayment Addendum, KMG Finance is required to comply with a coverage ratio tested over the life of the transaction and a coverage ratio tested for each delivery period, which may require the volume of oil to be delivered under the Export Contract to be increased from time-to-time.

As at 31 December 2017, the Company had partially settled the prepayments under the TCO Advanced Oil Sale Transaction in an amount of U.S.\$750.0 million and, pursuant to the Further Amendment, KMG Finance had received an additional prepayment in the amount of U.S.\$488.5 million, which is to be discharged by the supply of oil from TCO commencing in December 2018. In January 2018, KMG Finance received a further prepayment of U.S.\$250.0 million pursuant to the Further Amendment and a further prepayment of U.S.\$250 million is expected to be received in April 2018.

See Note 20 to the 2017 Financial Statements and Note 21 to the 2016 Financial Statements.

### *NCPC*

In December 1993, the Kazakhstan sector of the Caspian Sea was opened for international oil exploration. Seven international oil companies and the state-owned company KazakhstanCaspShelf were selected by the Government to form NCPC, the purpose of which is to develop the major offshore oil and gas fields, including the Kashagan Field, in the north part of the Kazakhstan sector of the Caspian Sea. On 18 November 1997, the NCPC participants at the time signed a PSA with a term of 40 years from commercial discovery, and, on 6 July 1998, the NCPC participants signed a joint operating agreement. Since then, the PSA and the joint operating agreement have been amended on several occasions to reflect changes in share ownership of the NCPC participants. The Company became a participant of the North Caspian Project in May 2005, having acquired an 8.33% share from the existing participants, which was subsequently transferred to its wholly-owned subsidiary KMG Kashagan B.V.

As at 31 December 2017, the participants in NCPC are KMG Kashagan B.V. (8.44% held by the Company for its own account and 8.44% held by the Company on trust for Samruk-Kazyna) (16.9%), ENI S.p.A. (Agip Caspian Sea B.V.) (16.8%), Exxon Mobil Kazakhstan Inc. (16.8%) and Shell Kazakhstan Development B.V. (16.8%), Total E&P Kazakhstan (16.81%), CNPC Kazakhstan B.V. (8.33%) and Inpex North Caspian Sea, Ltd (7.56%). NCPC operates the Kashagan Field based on the PSA, as amended, and the amended and restated joint operating agreement and shareholders agreement dated 12 June 2015.

In accordance with the terms of the PSA, KMG Kashagan B.V. must pay deferred consideration for its ownership interest in NCPC in three equal annual instalments following the commencement of commercial production. As at the date of this Base Prospectus, two such instalments have been paid using monies received under the Kashagan Advanced Oil Sale Transaction (as defined below). In October 2016, KMG Kashagan B.V. entered into an agreement to borrow U.S.\$873 million from the Company in order to fund payment of an instalment of the deferred consideration and, in October 2017, the period for the availability of funds under the agreement was extended to October 2018. As at the date of this Base Prospectus, however, no funds have been drawn down under this agreement.

### Transfer of Interest to Samruk-Kazyna

In April 2014, 100% of the share capital of KMG Kashagan B.V. was transferred to Coöperatieve KazMunaiGaz U.A., which is wholly-owned by the Company. On 16 October 2015, Coöperatieve KazMunaiGaz U.A. sold 50% of its shares in KMG Kashagan B.V. to Samruk-Kazyna for U.S.\$4.7 billion, with a call option to buy back all or part of the shares at any time between 1 January 2018 to 31 December 2020. In January 2018, the exercise period for the call option was extended to between 1 January 2020 and 31 December 2022. On 16 October 2015, Samruk-Kazyna transferred the shares it purchased to be held in trust for it to Coöperatieve KazmunaiGaz U.A., a subsidiary of the Company, and the Group continues to control the operations of KMG Kashagan B.V. As a result of the sale, the Company deconsolidated approximately U.S.\$2.2 billion of indebtedness relating to the NCPC, which, in turn, improved the Group’s overall financial profile, reduced the Group’s current debt service and, thereby, improved its overall liquidity position, and allowed the Group to continue to fund its on-going capital expenditure programme.

In January 2018, the Amsterdam District Court issued a judgment in which it upheld an earlier *ex parte* attachment granted to the Stati Parties with respect to the Republic of Kazakhstan's 8.44% shareholding in KMG Kashagan B.V. held through Samruk-Kazyna. While the attachment does not relate to the 8.44% interest the Company holds directly in KMG Kashagan B.V., if the attachment remains in place, or is enforced, the Company will not be able to benefit from its call option to repurchase the 8.44% interest in KMG Kashagan B.V. held by Samruk-Kazyna. See "*Risk Factors—Risks Relating to the Company—The Company is subject to legal proceedings from time-to-time*".

### Kashagan Field

The Company has a direct 8.44% interest in production from the Kashagan Field, which it holds through KMG Kashagan B.V., as well as an 8.44% interest as a result of the shares of KMG Kashagan B.V. held by the Company on trust for Samruk-Kazyna. In 2001, a commercial discovery was made in the Kashagan Field in the North Caspian Sea, 80 km southeast of Atyrau. The Kashagan Field extends over a surface of 820 km<sup>2</sup>. As at 31 December 2017, the Kashagan Field had A+B+C1 reserves of crude oil of 68.8 million tonnes and A+B+C1 reserves of gas of 44,944.5 mcm attributable to the Company on a consolidated basis, representing 19.3% and 19.3% of the Company's A+B+C1 reserves of crude oil and gas, respectively.

Developing the Kashagan Field combines technical complexity and environmental challenges. The climate in this part of Kazakhstan is extreme with cold winters, hot summers and drastic variations of temperature. Winters are harsh and temperatures can drop to -40°C, while summer temperatures can reach +40°C. See "*Risk Factors—Risks Relating to the Company—The Company's production and other activities could be reduced by adverse weather events*". The sea water over the Kashagan Field is only 3-4 m deep and is frozen for four to five months per year, from November to March, with an average ice thickness of 0.6-0.7 m. The combination of ice, shallow waters and sea level fluctuations has represented a significant logistical challenge. The complicated natural and geological conditions at the Kashagan Field, as well as additional design enhancements to the offshore element of the project also added to the complexity of the project.

The phased development plan of the Kashagan Field provides for the drilling of 240 wells and the construction of production plants located on artificial islands in the Caspian Sea, which are expected to collect production from other satellite artificial islands. Natural gas produced in the Kashagan Field is expected to be used primarily for re-injection into the reservoir to maintain pressure levels.

The experimental phase of the project involved the construction of five artificial islands in the Caspian Sea and 40 wells, including 30 production wells and ten injection wells. The parties to the North Caspian Production Sharing Agreement dated 18 November 1997 and joint operating agreement dated 29 March 2005 (the "**NC PSA**") (a consortium consisting of AGIP Caspian Sea B.V., ExxonMobil Kazakhstan Inc., Inpex North Caspian Sea Ltd, Phillips Petroleum Kazakhstan Ltd, Shell Kazakhstan Development B.V. and Total EP Kazakhstan) estimate that the Kashagan Field has up to 9 billion bbl of recoverable crude oil. The results of the well tests and the findings of subsoil studies support estimates for a full field production of up to 1.5 million bbl per day. A second phase is currently being considered by the parties to the NC PSA.

There were a number of delays to the start of commercial production from 2008 to 2013, which led to significantly increased capital expenditures. On 11 September 2013, commercial production began at the Kashagan Field. On 24 September 2013, a sulphur dioxide leak in a section of the pipeline was detected. Following repairs to the pipeline, production was resumed on 6 October 2013. A second gas leak was identified on 9 October 2013 and production was halted. Diagnostics programmes were conducted on the gas and oil pipelines in December 2013 and January 2014 and further diagnostics assessments and tests were also conducted. In 2015, replacement works were carried out on the oil and gas pipeline, while maintenance, conservation and modernisation works were carried out on the production facilities. Commercial production at the Kashagan Field recommenced in November 2016.

The Kashagan Field produced 404.0 mcm of gas attributable to the Company in 2017 and 49.6 mcm of gas attributable to the Company in 2016, representing 4.9% and 0.7%, respectively, of the Company's gas production for those years. The Kashagan Field produced 686.0 thousand tonnes of oil and gas condensate attributable to the Company in 2017, as compared to 80.8 thousand tonnes of oil and gas condensate in 2016, representing 2.9% and 0.4%, respectively, of the Company's production of crude oil for those years

### Kashagan Advanced Oil Sale Transaction

In November 2016, KMG Kashagan B.V., as seller, entered into a transaction with Heston B.V., as buyer, and Vitol S.A., as offtaker, relating to the advanced sale by KMG Kashagan B.V. of crude oil produced at the Kashagan Field (the

“**Kashagan Advanced Oil Sale Transaction**”). The initial advanced sale amount was U.S.\$1.0 billion, which relates to 6.9 million tonnes of crude oil to be delivered between 2017 and 2021.

In August 2017, KMG Kashagan B.V. entered into additional agreements with Vitol S.A. to increase the advanced sale amount by an additional U.S.\$1.0 billion to U.S.\$2.0 billion and the corresponding total amount of crude oil to be delivered to 10.7 million tonnes of crude oil. Pursuant to these additional agreements, the period during which the crude oil is to be delivered has been extended to between 2017 and 2022. As a result of these amendments, in August 2017, KMG Kashagan B.V. received a further prepayment of U.S.\$593 million. The Company acts as a guarantor in respect of the transaction.

Neither KMG Kashagan B.V.’s nor the Company’s obligations constitute financial indebtedness under applicable financial covenants in its financings. Pursuant to the terms of the Kashagan Advanced Oil Sale Transaction documentation, KMG Kashagan B.V. is prohibited from entering into intercompany loan agreements in a principal amount of more than U.S.\$50 million and is subject to a negative pledge.

#### *Kazakhoil Aktobe*

Kazakhoil Aktobe is a 50/50 joint venture between the Company and Caspian Investments Resources Ltd. Caspian Investments Resources Ltd. is, in turn, controlled by Sinopec International Petroleum E&P Hongkong Overseas Limited. Kazakhoil Aktobe operates both the Alibekmola Field, the largest of its fields, and the Kozhassai Field pursuant to a Subsoil Use Agreement (dated August 1999, as amended) that expires in 2023. As at 31 December 2017, the Alibekmola Field had estimated A+B+C1 reserves of crude oil of 16.2 million tonnes and A+B+C1 reserves of gas of 3.9 bcm attributable to the Company, representing 2.5% and 0.8% of the Company’s A+B+C1 reserves of crude oil and gas, respectively.

The Alibekmola Field, located in the Aktobe oblast, was discovered in 1987 and started producing in 2001. Oil production at the Alibekmola Field is from two horizons in the Cretaceous formation, located at depths shallower than 3,500 m. The Ural grade of crude oil produced at the Alibekmola Field usually has maximum density of 722 kg per cubic metre, sulphur content ranging from 1.2% to 1.4% and an average watercut of 6.7%.

The Alibekmola Field’s wellstock consisted of 49 production wells (a reduction from the number of production wells as at 31 December 2016 due to a number of wells being determined as inactive or temporarily idle) and 20 injection wells as at 31 December 2017. No new wells were drilled in 2017. The Alibekmola Field produced 0.1 million tonnes of crude oil attributable to the Company in 2017 and 0.2 million tonnes of crude oil in 2016 and 2015, representing 0.6%, 0.7% and 0.8%, respectively, of the Company’s production of crude oil for those years. In 2017, production wells at the Alibekmola Field produced an average of 407.7 tonnes of crude oil per day attributable to the Company.

The Alibekmola Field produced 122.3 mcm of gas attributable to the Company in 2017, 125.2 mcm of gas in 2016 and 125.8 mcm of gas in 2015, representing 1.5%, 1.7% and 1.7%, respectively, of the Company’s production of gas for those years.

#### MMG

MMG is an upstream oil and gas company owned by MIBV, a 50/50 joint venture between KMG and CNPC E&D. KMG acquired its indirect interest in MMG (through MIBV) on 25 November 2009. MMG is one of the largest oil producers in Kazakhstan and operates (through PU Kalamkasmunaigas) the Kalamkas Field, one of the largest fields in Kazakhstan, pursuant to a Subsoil Use Agreement that expires in 2027. As at 31 December 2017, the Kalamkas Field had estimated A+B+C1 reserves of crude oil of 27.5 million tonnes and A+B+C1 reserves of gas of 12.5 bcm attributable to the Company, representing 4.3% and 2.7% of the Company’s A+B+C1 reserves of crude oil and gas, respectively.

The Kalamkas Field, which is located in the northern part of the Buzachi Peninsula in the Tupkaragansky region of the Mangistau oblast, within the limits of the Caspian Depression adjacent to the Caspian Sea, was discovered in 1976 and started producing in 1979. Oil production at the Kalamkas Field is from 11 horizons in the Lower Cretaceous and Jurassic formations, located at depths shallower than 900 m. The Ural grade of crude oil produced at the Kalamkas Field usually has a maximum density of 904 kg per cubic metre, sulphur content ranging from 1.21% to 1.45% and an average watercut of 85%.

The Kalamkas Field’s wellstock consisted of 2,117 production wells and 708 injection wells as at 31 December 2017, including 76 new wells drilled in 2017 and 84 new wells drilled in 2016. The Kalamkas Field produced 2.0 million tonnes of crude oil attributable to the Company in 2017, as compared to 2.1 million tonnes of crude oil in 2016 and 2015, representing 8.7%, 9.1% and 9.2%, respectively, of the Company’s production of crude oil for those years. In 2017,

production wells at the Kalamkas Field produced an average of 5,544.4 tonnes of crude oil per day attributable to the Company.

The Kalamkas Field produced 201.1 mcm of associated gas in 2017, 259.3 mcm of gas in 2016 and 250.3 mcm of gas in 2015, representing 2.4%, 3.5% and 3.5%, respectively, of the Company's production of gas for those years.

The Zhetybai Field is MMG's second most significant field. The Zhetybai Field, which is located in the Karakiyansky region of the Mangistau Oblast, adjacent to the Caspian Sea, was discovered in 1961 and started producing oil in 1967. As at 31 December 2017, the Zhetybai Field had estimated A+B+C1 reserves of crude oil of 25.5 million tonnes, A+B+C1 reserves of gas condensate of 0.6 million tonnes and A+B+C1 reserves of gas of 12,632.1 mcm attributable to the Company, representing 4.0%, 1.3% and 2.7% of the Company's A+B+C1 reserves of crude oil, gas condensate and gas, respectively. The Company operates the Zhetybai Field through PU Zhetybaimunaigas.

Oil production at the Zhetybai Field is from 11 horizons in the Middle Jurassic formations, located at depths shallower than 2,450 m. The Ural grade of crude oil produced at the Zhetybai Field usually has a maximum density of 870 kg per cubic metre, sulphur content of 0.1% and an average watercut of 58%.

The Zhetybai Field's wellstock consisted of 1,241 production wells and 575 injection wells as at 31 December 2017, including 107 new wells drilled in 2017. The Zhetybai Field produced 1.2 million tonnes of crude oil in 2017 and 2016 and 1.1 million tonnes of crude oil in 2015, representing 4.9%, 4.8% and 4.7%, respectively, of the Company's production of crude oil for those years. In 2017, production wells at the Zhetybai Field produced an average of 3,161.9 tonnes of crude oil per day attributable to the Company.

The Zhetybai Field produced 176.5 mcm of associated gas in 2017, 119.2 mcm of gas in 2016 and 115.7 mcm of gas in 2015, representing 2.2% of the Company's production of gas for each of those years.

In addition to the Kalamkas Field and the Zhetybai Field, MMG also has licences to explore and develop 15 other oil and gas fields in Kazakhstan and the Caspian region. In each of 2017, 2016 and 2015, 3D seismic operations were performed in accordance with these licences and the relevant data is currently being processed and interpreted.

In June 2011, the Company acquired a 100% interest in ANS for U.S.\$334 million. ANS, which had five subsidiaries, was primarily involved in the provision of services, including drilling, repairs, transportation and other services, to oil producers in western Kazakhstan. ANS's principal client is MMG. As at the date of this Base Prospectus, ANS is in the process of being liquidated.

### ***Other Significant Production Fields***

#### **KPO**

KPO is a consortium operating under a joint operating agreement among Royal Dutch Shell (following its acquisition of the BG Group in February 2016) (29.25%), Agip (29.25%), Chevron (18.0%), Lukoil (13.5%) and the Company (10%). The Company holds its interest in KPO through its wholly-owned subsidiary, KMG Karachaganak. KPO operates the Karachaganak Field, which is one of the world's largest gas and condensate fields and the largest gas producing field in Kazakhstan. As at 31 December 2017, the Karachaganak Field had estimated A+B+C1 reserves of crude oil of 8.4 million tonnes, A+B+C1 reserves of gas condensate of 26.1 million tonnes and A+B+C1 reserves of gas of 83.3 bcm attributable to the Company, representing 1.3%, 58.7% and 17.8% of the Company's A+B+C1 reserves of crude oil, gas condensate and gas respectively. The estimated reserves of the Karachaganak Field attributable to the Company as at 31 December 2017 were lower than the estimated reserves attributable to the Company as at 31 December 2016 following a reassessment of the reserves of the Karachaganak Field conducted in 2017, in turn, as a result of the recalculation of the extraction factor.

In November 1997, members of the then-international consortium developing the Karachaganak Field (BG Group, Agip, Chevron and Lukoil) entered into a 40-year PSA with the Government that provided for investments of U.S.\$16 billion to be made to develop the field. It is anticipated that the Government will be paid 80% of the shared income from the Karachaganak Field over the life of the PSA. Under the terms of the PSA, British Gas and Agip are the operators of the project.

In 2011, the Government and the international consortium agreed to transfer a 10.0% interest in the project to the Company. Pursuant to this agreement, the Company purchased 5.0% of KPO for cash and the remaining 5.0% was contributed to the Company by Samruk-Kazyna, following Samruk-Kazyna's acquisition of the interest by way of settlement of the Government's arbitration proceedings against the consortium participants, effective in June 2012. See

*“Management’s Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Acquisitions, Discontinued Operations and Loss of Control”.*

The Karachaganak Field is a large gas-oil-condensate field located in north-western Kazakhstan, with an area of approximately 280 km<sup>2</sup>. The field was discovered in 1979. The Ural grade of crude oil produced at the Karachaganak Field usually has maximum density of 888 kg per cubic metre, sulphur content ranging from 0 to 2.0% and an average watercut of up to 1.0%.

The Karachaganak Field’s wellstock consisted of 115 production wells and 35 injection wells as at 31 December 2017, including six new wells drilled in 2017. The Company’s share of production from the Karachaganak Field was 1.1 million tonnes of crude oil in 2017, 1.0 million tonnes of crude oil in 2016 and 1.1 million tonnes of crude oil in 2015, representing 4.8%, 4.6% and 4.8% of the Company’s production of crude oil for those years. In 2017, production wells at the Karachaganak Field produced an average of 3,081.1 tonnes of crude oil per day. The Karachaganak Field produced 1,892.4 mcm of gas attributable to the Company in 2017, 1,765.9 mcm of gas attributable to the Company in 2016 and 1,823.4 mcm of gas in 2015, representing 23.0%, 23.9% and 25.1%, respectively, of the Company’s gas production for those years. Crude oil produced at the Karachaganak Field is allocated among the members of the consortium (including the Company) and is sold through traders affiliated with the consortium members.

KPO is in the process of implementing the second phase of industrial development at the Karachaganak Field. After the completion of the second phase of development, KPO plans to initiate an extension project aimed at maintaining the liquid hydrocarbon production shelf. The extension project is expected to be implemented in several stages. The first stage of the extension project, which is expected to begin in 2023, consists of the drilling of new wells, major repair works in respect of existing wells, the construction of gas preparation facilities and the installation of additional compressors to increase the volume of reverse gas injections and the construction of auxiliary facilities.

The Company is required to pay 10% of the costs of this development (in line with its 10% ownership interest), which amounted to KZT 17.5 billion in 2017 and is expected to amount to KZT 35.3 billion in 2018, KZT 41.1 billion in 2019, KZT 20.3 billion in 2020 and KZT 18.2 billion in 2021 and KZT 17.9 billion in 2022; in total, the Company’s contribution to the development is expected to be KZT 150.3 billion, although such contributions are expected to be covered by the project company’s internal cashflows. In 2017, the Company had no capital expenditures for KPO (through KMG Karachaganak) as any such capital expenditures for this period were covered by KPO itself.

### ***Exploration Projects***

The Company must actively pursue exploration opportunities in order to maintain its current reserves base and to support its long-term production growth strategy. The Company believes it will generate sufficient exploration prospects by exercising its rights as beneficiary of the State’s pre-emptive right to acquire interests in Subsoil Use Agreements and entities that are party to Subsoil Use Agreements offered for sale. See *“Regulation in Kazakhstan—Regulation of Mineral Rights in Kazakhstan—2010 Subsoil Law—The State’s Pre-Emptive Right”*. Both the development of the Company’s national upstream offerings in Kazakhstan and the strengthening of the Company’s position as a key stakeholder in the Kazakhstan oil and gas sector are key strategic aims for the Company. See *“—Strategy”*.

Due to the mature nature of many of its fields, KMG EP has identified exploration as a key aspect of its long-term strategy to keep production stable. Exploratory drilling is limited at the Dossor and Uzen fields and nearly all new geological and geophysical works are carried out at other fields where KMG EP has Subsoil Use Agreements in place. Since the late 1990s, KMG EP and its predecessors (OMG and EMG, which were merged with KMG EP in March 2004) have been exploring for additional oil reserves around the pre-Caspian Basin in areas that are now being developed by KMG EP. KMG EP and its legal predecessors have been exploring the Mangistau Basin since 2002. For 2018, KMG EP’s budget for exploration is KZT 232.6 billion.

The principal exploration assets of the Company and its subsidiaries and its and their joint ventures in Kazakhstan are located in the west of Kazakhstan, including the shelf of the North Caspian Sea, which includes the Kashagan Field, and the Central Caspian Sea.

The following table sets forth the significant exploration activities of the Company and its subsidiaries and its and their joint ventures as at 31 December 2017:

Exploration area	As at 31 December 2017					
	Owning entity <sup>(1)</sup>	Aggregate project area (in km <sup>2</sup> )	Expiration <sup>(2)</sup>	Number of exploratory wells	% interest in licence or contract	
					Sole operations	Joint operations
<b>Offshore</b>						
North Caspian Project .....	NCPC	5,600	2041	6	—	16.88 <sup>(3)</sup>
<i>of which Kashagan Field .....</i>	<i>NCPC</i>	<i>1,420</i>	<i>2041</i>	<i>2</i>	<i>—</i>	<i>16.88<sup>(3)</sup></i>
Zhemchuzhiny Block .....	KazMunayTeniz	521	2040	3	—	25.00
N Block .....	KMG	8,029	2018	1	—	75.00
Zhambyl .....	KMG	1,935	2021	1	100	—
Satpayev .....	KMG	1,481	2020	2	—	75.00
Mertvyi Kultuk (Ustyurt) .....	KMG	—	—	0	—	50.00
Isatay .....	KMG	—	2023	0	—	50.00
Tsentrlnaya .....	NGKC	—	2043	0	—	50.00
Hvalynskaya .....	—	3,199	2022	0	—	50.00
<b>On-shore</b>						
Urikhtau .....	KMG	286	2021	2	—	50.00
Orken .....	KMG	18	2021	0	100	—
Bekturly East .....	KMG	5,600	2041	0	—	8.44 <sup>(3)</sup>
Samtyr .....	KMG	1,420	2041	0	—	8.44 <sup>(3)</sup>
Pribrezhnoye .....	KMG	286	2021	2	—	50.00

Notes:

(1) Includes direct and indirect ownership.

(2) There is one licence/contract for each exploration area.

(3) Including Samruk-Kazyna's 8.44% interest in NCPC, which the Company holds on trust for Samruk-Kazyna. Following the disposal of 50% of the shares in KMG Kashagan B.V. by Coöperatieve KazMunaiGaz U.A to Samruk-Kazyna, the Company holds an 8.44% interest in the North Caspian Project on its own behalf and an 8.44% interest on trust for Samruk-Kazyna. The Company has a call option to buy back all or part of the shares in KMG Kashagan B.V. transferred to Samruk-Kazyna. In January 2018, the exercise period for the call option was extended to between 1 January 2020 and 31 December 2022.

(4) As at 31 December 2017, as a percentage of ordinary voting shares of KMG EP.

### Significant Exploration Projects of KazMunayTeniz

#### Zhemchuzhiny Block

Caspian Meruerty Operating Company B.V. is a joint venture among KazMunayTeniz (25%), which is a wholly-owned subsidiary of the Company, Shell EP Offshore Ventures Limited (55%) and Oman Pearls Company Limited (20%). Caspian Meruerty Operating Company (25% as at 31 December 2017) is currently exploring the Zhemchuzhiny Block.

The Zhemchuzhiny Block is comprised of the Khazar Field and the Auezov Field and is located in the northern part of Kazakhstan's sector of the Caspian Sea. The contract area covers 521 km<sup>2</sup>. The structures are mainly Jurassic. Water depth ranges from 4-10 m. In 2007, the joint venture partners conducted site surveys and drilled a first exploration well, reaching a total depth of 2,118 m below sea level. In 2008, the joint venture partners drilled a second exploration well, reaching a total depth of 2,465 m below sea level at a cost of U.S.\$65.5 million. In 2009, the joint venture partners drilled a second exploration well, Khazar-2, at a total depth of 2,032 m below sea level at a cost of U.S.\$60.4 million. All exploration wells were successful.

During 2008-2009, 3D seismic operations were performed within a scope of 900 km<sup>2</sup> covering the whole Zhemchuzhiny Block. In 2010, the joint venture partners drilled a third exploration well, Khazar-3, at a total depth 2,049 m below sea level, which was successful in obtaining oil flow. Geophysical work and soil surveying have since been carried out, and analytical work on the drilled materials of all wells has also been conducted, as a result of which anticipated reserves at the Zhemchuzhiny Block have been estimated at approximately 25 million tonnes.

In 2011 and 2012, the joint venture partners carried out preparatory works for the drilling of a fourth well with a target depth of 2,440 m.

In 2013, 3D seismic data processing, assessments of reserves and a feasibility study, as well as the drilling of three exploratory wells was conducted. Between July and November 2013, the Naryn-1 exploration well and the Auezov-2 appraisal well were also drilled and a notification of hydrocarbons discovery was sent to the MOG in respect of non-commercial Jurassic deposits at the Naryn-1 well. Approval of reserves was received from the State Reserves Committee in July 2016. In 2016 and 2017, engineering studies and offshore surveys were conducted in respect of the development of the Kalamkas sea and Khazar Field.

The exploration period for the Zhemchuzhiny Block was due to expire in December 2013 but has, following receipt of the MOG's approval, been extended on a number of occasions, most recently to December 2019.

KazMunayTeniz's share in the exploration expenses at Zhemchuzhiny Block was KZT 0.6 billion in 2017 and is expected to be KZT 0.9 billion in 2018.

### Significant Exploration Projects of the Company

#### N Block Project

N Operating Company LLP is a joint venture of the Company (75.5%, as at 31 December 2017) and N Block B.V., the Company's wholly-owned subsidiary (24.5% as at 31 December 2017). N Operating Company LLP is the operator of the N Block Project, a project for exploration and development in the N Block, which is an area covering 8,209 km<sup>2</sup> (including the sea structure area of Rakushechnoye of 7,625 km<sup>2</sup>) located 30 km off of Aktau. N Block is estimated to hold 270 million tonnes of oil in recoverable reserves. The Company and N Block B.V. are conducting subsoil use operations at the N Block pursuant to a contract for exploration and production of hydrocarbons dated 29 December 2007, as amended (the "**N Block Subsoil Use Agreement**"). Commercial production at the N Block is currently on hold and work is underway to initiate the assessment stage of development.

In December 2013, the N Block Subsoil Use Agreement was extended until 29 December 2015. In December 2015, the ninth amendment to the N Block Subsoil Use Agreement was signed and registered, which further extended the exploration period to 29 December 2017. This amendment also provided a work programme and budgets for prospecting works to be carried out at the N Block during 2016 and 2017 and appraisal works to be carried out at the Rakushechnoe-More structure during 2016, up to a total amount of U.S.\$1.9 million.

#### Project Zhambyl

The Company conducts subsoil use operations at the Zhambyl area in the Kazakhstan sector of the Caspian Sea (the "**Zhambyl Field**") based on a contract for exploration of raw hydrocarbons with the Competent Authority, dated 21 April 2008, as amended (the "**Zhambyl Subsoil Use Agreement**"). As at 31 December 2017, the Company holds 100% of the rights and obligations under the Zhambyl Subsoil Use Agreement to the Company. Zhambyl Petroleum LLP ("**Zhambyl Petroleum**") is a wholly-owned subsidiary of KazMunayTeniz, the Company's subsidiary. Zhambyl Petroleum engages in exploration activities at the Zhambyl Field based on a contract signed with the Company in September 2016.

Initially, the Zhambyl Subsoil Use Agreement provided for a six-year exploration term (*i.e.*, until 22 April 2014), with the possibility of two extensions, each for a two-year period, and further, if appraisal is required. The Company has paid a subscription bonus in the amount of U.S.\$3 million in connection with the Zhambyl Subsoil Use Agreement. In the event of a commercial discovery, the Company may exercise its priority right to enter into a production contract with the Competent Authority. The term of the Zhambyl Subsoil Use Agreement has been extended on two occasions, and the exploration period is scheduled to expire on 21 April 2018. In 2017, a supplement to the Zhambyl Subsoil Use Agreement was prepared to extend the period of the agreement until 21 April 2022. This supplement is in the process of being signed by the Ministry of Energy.

The Zhambyl Field is situated on the northern slope of the Caspian Sea, 170 km away from Bautino and 160 km away from Atyrau. The Zhambyl Field covers an area of 1,935 km<sup>2</sup>, includes five separate prospective oilfields and lies in water depths of four to five metres. Currently, activities at the Zhambyl Field are limited, but 2D exploration seismology indicates that the Zhambyl Field could hold as much as 651.9 million tonnes of oil in recoverable reserves. In 2011, based on the interpretation of seismic gravity surveys, approval to drill an exploration well was granted. In 2012, field soil surveys of a further construction site and well were conducted. In 2013, drilling was conducted on a new wildcat structure in the Zhambyl Field to a depth of 2,200 metres and, in May 2013, two prospects for petroleum in Jurassic deposits were discovered and tested. A request to extend the exploration period at the Zhambyl Field by two years to 21 April 2016, as well as to reschedule for the construction of an exploration well from 2013 to 2014, was sent to the MOG in December 2013. In 2014, oil and gas flows were produced based on the results of exploratory well drilling at the Zhetysu structure.

In 2016, field seismic surveys were carried out on the Zhetysu structure covering an area of 400 km<sup>2</sup>. In 2017, exploration and preparatory work was conducted in preparation for the evaluation phase of work.

The Company's exploration expenses at Zhambyl Field was KZT 1.5 billion in 2017 and is expected to be KZT 2.1 billion in 2018.

### Project Satpayev

The Company, jointly with ONGC Videsh Limited (India) (“**OVL**”), a wholly-owned subsidiary of Oil and Natural Gas Corporation Limited, conducts subsoil use operations at the Satpayev Block in the Kazakhstan sector of the Caspian Sea (the “**Satpayev Block**”), pursuant to an agreement for exploration and development of hydrocarbons signed in June 2010, as amended (the “**Satpayev Subsoil Use Agreement**”). The Company and OVL hold 75% (as at 31 December 2017) and 25% shares of the subsoil use rights, respectively. The Satpayev Block is an area situated in the pre-Caspian Basin of Kazakhstan, with an area of 1,582 m<sup>2</sup> in shallow waters.

Pursuant to a joint operating agreement among the Company, OVL and Satpayev Operating LLP, a subsidiary of the Company, dated 16 April 2011, Satpayev Operating LLP operates the Satpayev Project. Pursuant to a carry agreement dated 16 April 2011 between the Company and OVL, relating to the Satpayev Subsoil Use Agreement, OVL agreed to finance the majority of the exploration activities related to the project, provided that upon the commencement of commercial production, the Company would repay to OVL its share of the costs.

Pursuant to the Satpayev Subsoil Use Agreement, the initial exploration period was six years. In November 2015, the Company and OVL applied to the Ministry of Energy for the first extension of the exploration period. In June 2016, the Ministry of Energy, the Company and OVL signed an addendum to the Satpayev Subsoil Use Agreement, which: (i) extended the exploration period to 15 June 2018; and (ii) outlined a programme of works to be carried out during this period in a total amount of U.S.\$29.8 million. In July 2017, the Ministry of Energy, the Company and OVL signed a further addendum to the Satpayev Subsoil Use Agreement pursuant to which the subsoil user's obligations increased from U.S.\$29.8 million to U.S.\$31.9 million for the period from 2016 until 2018.

In 2011 and 2012, field geochemical works, laboratory testing and 2D seismic works were conducted. In 2013, analysis of 2D seismic data and monitoring activities in respect of the operational environment were conducted. In 2015, drilling of an exploration well STP-1 at the Satpayev Block was completed. In 2016, the exploratory well STP-1 was liquidated in accordance with the plan for isolation and liquidation works during the liquidation of the exploration well STP-1 on the Satpayev structure. In 2017, work began on the drilling of a second exploratory well, STPZ-1, with a design depth of 3,500 metres for studying the prospects of salt deposits. In November 2017, the drilling of a well with a depth of 3,505 metres was completed and geophysical studies were carried out.

The Company's share in the exploration expenses at Satpayev Field was KZT 25.5 billion in 2017. The Satpayev Subsoil Use Agreement expires on 15 June 2018 and the agreement has not been extended. Accordingly, the Company does not currently anticipate exploration expenses at Satpayev Field for 2018.

### Project Issatay

The Issatay project is being implemented in accordance with the Subsoil Use Agreement (№ 4160) dated 26 June 2015 for the combined exploration and production of hydrocarbon raw materials at the Issatay site located in the Kazakhstan part of the Caspian Sea, as amended (the “**Issatay Subsoil Use Agreement**”). The area of the contract territory is 1,348 km<sup>2</sup> and the basic perspective geological structures covered are Issatay, Tolkyin and Sunkar. The projected recoverable resources from the exploration area are 72 million tonnes of crude oil. The depth of water in the area of work is 4-8 metres. The exploration period for Project Issatay is 2015 to 2021.

In May 2014, the Company and ENI entered into an agreement regarding the Issatay project and, in April 2015, the Ministry of Energy approved ENI Issatay B.V., a subsidiary of ENI, as a strategic partner of the Company for the Issatay project. In June 2015, Company and ENI signed an agreement relating to the assignment of the interest in the Issatay Subsoil Use Agreement. In September 2015, the Ministry of Energy granted the Company permission to transfer a 50% interest in the Issatay Subsoil Use Agreement to ENI. In October 2016, the Management Board of Samruk-Kazyna approved the creation of “Issatay Operating Company” LLP, as the project company operator. In June 2017, the Company transferred a 50% interest in the Issatay Subsoil Use Agreement to ENI Issatay B.V., and, in November 2017, the Issatay Subsoil Use Agreement was amended to reflect this transfer and to include the work programme for the project.

Pursuant to a joint operating agreement among the Company and ENI Issatay B.V. dated 21 December 2017, Issatay Operating Company LLP is the operator of the Issatay project. Pursuant to a carry agreement relating to the Issatay Subsoil



Use Agreement dated 21 December 2017 between the Company and ENI Issatay B.V., ENI Issatay B.V. has agreed to finance the Company's portion of the exploration expenses at the Issatay Field, provided that the Company reimburse ENI Issatay B.V. for its share of such expenses upon the commencement of commercial production from the Issatay Field.

### Project Urikhtau

Urikhtau Operating is a wholly-owned subsidiary of the Company. Urikhtau Operating engages in exploration activities at the Urikhtau Field under an operating agreement between the Company and the then existing Ministry of Energy and Mineral Resources dated 5 December 2008.

The Urikhtau oil and gas field was discovered in 1983. Initial reserves estimates for free gas, condensate, oil and dissolved gas were 39,815 mcm, 11,623 thousand tonnes, 6,493 thousand tonnes and 2,389 mcm, respectively. In 2010, the construction of an exploration well to a depth of 4,000m in the southern part of the Urikhtau deposit began for the purpose of supplementary exploration of the KT 1 horizon and exploration of the KT 2 horizon. In 2011, drilling of the U-1 well, to a target depth of 4,000 m, was completed, as well as a number of target tests on the U-1 well. Oil and gas was produced from three of the targets and oil-and-gas occurrences were also discovered in the KT-2 horizon. Completion of testing works of the fourth target of the U-1 well, is planned. In addition, in 2012, drilling of the U-2 well, to a depth 4,070 m commenced and drilling of the U-3 well, with a target depth of 4,300 m, was completed, resulting in the identification of oil-bearing reservoirs in the KT-1 horizon. Further surveys were conducted in respect of the U-1 and U-2 wells. In 2013, testing was conducted on the U-3, U-4 and U-5 wells. Drilling of the U-5 well to a target depth of 6,000 km began in July 2013 and is continuing. In addition, in 2013, the Company obtained a permit to extend the geological allocation of the field of 239,95 km<sup>2</sup> up to the basement. In 2014, the construction of an industrial facility near Zhanazhol camp at the Urikhtau Field was completed and studies into the development of the oil rim upon pilot production and integrating the development of the oil and gas condensate field upon pilot production were filed. In 2015, well testing materials were submitted to establish an estimate of the hydrocarbon reserves at the Vostochniy and Yuzhniy Urikhtau fields. 3D seismic prospecting works were conducted and completed in 2015. In 2016, 3D field seismic studies were processed in respect of 234 km<sup>2</sup>, including in the eastern and southern Urikhtau structures. In 2017, drilling began on the VU-2 well in east Urikhtau. Based on the results of the interpretation of such data, reports on the operational calculations of hydrocarbon reserves on such structures were considered by the Central Committee for Exploration and Development, in 2017, and an increase in the resource base for recoverable volumes of hydrocarbons for Project Urikhtau to 9.5 million tonnes of liquid hydrocarbons and 7 bcm of gas have been recorded.

The Company is currently discussing and negotiating joint exploration and development opportunities in the Urikhtau Field with potential joint venture partners. The Company's share in the exploration expenses at the Urikhtau Field was KZT 1.7 billion in 2017 and is expected to be KZT 3.2 billion in 2018.

### Project Kansu

The Kansu gas field is located in the Mangistau region, 135 km south-east of Zhanaozen. Following prospecting works between 1965 and 1968, deep drilling commenced on the Kansu Field in 1969. The field was discovered in 1970 but pilot commercial development of the Kansu Field did not begin until the end of 2005. Gas reserves in chalk deposits at the Kansu Field are estimated to be between 12 billion to 20 billion cubic metres. On 15 November 2012, the Company began direct negotiations with the MOG for the acquisition of the subsoil rights at Kansu Field. On 15 March 2013, the Central Commission for Exploration and Development agreed upon the Project of Exploration Works at the Kansu field, which was approved by the Committee of Geology and Subsoil Use in April 2013 (the "**Kansu Subsoil Use Agreement**"). On 1 October 2013, the Company entered into a contract with the MOG for the exploration rights to the Kansu Field. In 2014, KMG-Kansu Operating LLP was established as an operator of Project Kansu, with the Company as its subsoil user. In 2015, seismic works were conducted. In May 2015, the Company transferred KMG-Kansu Operating LLP to KTG, as a contribution to its share capital.

On 30 May 2016, pursuant to the second amendment to the Kansu Subsoil Use Agreement, the Company transferred its subsoil use rights under the Kansu Subsoil Use Agreement to KMG-Kansu Operating LLP, which is a 100% subsidiary of KTG. In 2017, development began on the technical design for the construction of the R1 well, at a cost of KZT 10 million.

The Kansu Subsoil Use Agreement provides for the Company's financial obligations in respect of the works programme to be carried out between 2016-2019 in an amount of U.S.\$1.3 million. KTG's share in the exploration expenses for Project Kansu was KZT 1.0 million in 2017 and is expected to be KZT 12.5 million in 2018.

## Significant Exploration Projects of KMG EP

### Liman Field

At the Liman Field, between May 2004 and October 2005, KMG EP completed 1,180 km of 2D seismic surveys that are being processed and analysed. KMG EP drilled a 1,688 m exploration well in the second half of 2005 that failed to flow; and, in 2006, KMG EP drilled four additional exploration wells in the R9 Block, each of which also failed to flow. In 2008, KMG EP conducted additional 2D and 3D seismic surveys of 550 km<sup>2</sup>. KMG EP also conducted seismic surveys in 2008 in the prospective structures at horizons with a depth ranging from 5,000 to 7,000 m. KMG EP has since completed additional 3D seismic work covering 165 km<sup>2</sup> of the Novobogat South Eastern structure. In 2011, drilling of the G-3 well was stopped at a depth of 1,250 m (rather than the projected 1,400 m) and is currently being tested. Such testing has indicated that 36 tonnes of oil per day could be produced from the G-3 well. The G-4 was drilled to a depth of 1,650 m, but has since been abandoned due to the absence of productive reservoirs. In 2012, two further exploratory wells were drilled at the Liman Field to depths of 1,600 m and 1,400 m, respectively, and, following 3D seismic results, two subsalt wells were also drilled to a depth of 2,500 m. In 2013, the drilling of early-producing wells to a target depth of 1,500 m, of the G-2 Novobogat South-East well to a total depth of 1,200 m and of the G-5 wildcat in the Novobogat South-East to a target depth of 1,328 m was completed. The drilling of the PR-1 wildcat well of the Novobogat South-East began in 2013 and is continuing. Technical designs for the construction of wildcats on the Novobogat SE (supra-cornice) area with a target depth of 1,500 m and for the construction of wildcats on the Novobogat SE (subsalt) area with a target depth of 2,500 m have also been developed. In 2016, drilling of the PR-4 and PR-7 wells was completed. In 2017, the drilling of the PR-5 well was completed and the PR-5 and PR-7 wells were tested. The drilling of the PR-8 well began and was completed in 2018 and testing is currently in process. As at the date of this Base Prospectus, Novobogat South-East is in the exploration stage and the technological design is expected to be approved in the first half of 2017. Novobogat Central is expected to be in the exploration stage of development until December 2019.

Exploration expenses in respect of the Liman Field were KZT 1,142.7 million in 2017. Estimated expenses for 2018 are not yet available.

### Other activities

In April 2011, KMG EP acquired 50% of the common shares of UGL. MOL Hungarian Oil and Gas Plc and First International Oil Company own the remaining 50%. UGL holds a 100% equity interest in UOG (as at 31 December 2017), which in turn, holds the exploration licence for the Fedorovskiy hydrocarbon field. At the Fedorovskiy block, three subsalt wells were drilled in 2012 with a total depth of 13,500 m and were transferred to temporary conservation for future testing. This test period was extended due to gas flaring. Two further wells were drilled to depths of 4,500 m and 5,200 m. In 2013, testing of the six exploration wells was completed with inflow. In 2016, another well was drilled to depth of 5,200 m. KMG EP did not conduct any exploration works in 2017. The exploration licence in respect of the Fedorovskiy block expires in May 2018 and the Expert Commission has approved its extension until 2021, subject to further approval. In respect of the Rozhkovskoye field, the Company concluded a Rozhkovskoye field production contract in 2015 and exploration activities are continuing.

In August 2011, KMG EP acquired contracts for exploration activities in each of the Temir, Teresken, Karaton and Sarkamys blocks, as well as the territory adjacent to the Uzen and Karamandys fields. The Temir and Teresken blocks are located in the Aktobe region, close to the assets of Kazakhoil Aktobe and KazakTurkMunay LLP. The Company estimates that the four blocks have geological resources of 1.5 billion barrels of oil equivalent. In the Temir Block, 2D seismic surveys and a gravity survey were conducted in 2011 and 2012, respectively. In the Teresken Block, 2D seismic surveys have been completed, as a result of which further exploration work is being contemplated. In the Karaton-Sarkamys Block, a well was drilled to a depth of 3,000 m on the Kernel Structure and a well was drilled to a depth of 3,500 m in the eastern wing of Dosmukhambetovskoe Field, both in 2012. Magnetotelluric depth sounding work and 3D and 2D seismic work has also been conducted on the block. In the Uzen-Karamandybas Block, an exploratory well was drilled on the Bodrai structure in 2012 to a total depth of 2,200 m and tests were carried out on four objects. The well has since been abandoned for geological reasons. In 2013, geological analysis of 2D seismic data relating to an 800 km<sup>2</sup> area, as well as additional 3D seismic works were conducted. In 2014, the testing was conducted on a new well, NW-1. In 2016, KMG EP received approval from the Ministry of Energy to the extension of the exploration period for the Uzen-Karamandybas Block, Bodrai structure until 2018. The processing and interpretation of 3D seismic data of the Birlestick cube, which is a recycled 3D seismic cube at the Birlestick site on the Karaton and Sarkamys blocks and the drilling of the NSV-1 well to a depth of 3,818 m has been completed. In 2017, geological exploration of the Uzen and Karamandys fields and analysis of 3D seismic data was carried out in order to determine the location of a well with a 6000 m depth. Geological exploration of the Karaton subsalt was also conducted. See *“Risk Factors—Risk Factors Related to the Company’s Business—A number of the Company’s production fields are mature.”*

In December 2011, KMG EP acquired 100% of the shares of JSC Karpovskiy Severnyi (now KS EP) from GazMunaiOnim LLP for a total consideration of U.S.\$57.3 million. In July 2012, KMG EP entered into an agreement with MOL Hungarian Oil and Gas Plc to sell 49% of its shares in KS EP. This sale was completed in November 2012. In June 2017, KMG EP repurchased this 49% interest and, accordingly, as at 31 December 2017, owned 100% of KS EP. KS EP holds the subsoil use right for exploration in the Karpovskiy Severnyi block in western Kazakhstan. The block covers an area of 1,669.2 km<sup>2</sup> and the Company estimates that the block has prospective recoverable reserves of 240 million barrels of oil equivalent (98 million gas and 142 million oil and oil condensate). In 2013, drilling of a new well to a projected depth of 5250 m began. In 2014, 3D seismic field works on a 732 km<sup>2</sup> area of the block were completed and field work results were processed and interpreted. In 2016, four intervals of the well were tested. There was no exploration work conducted in 2017.

The exploration licence for the Karpovskiy Severnyi block expired in June 2017, and an application has been made to the Ministry of Energy to extend the licence. An application has been submitted for the extension of the exploration licence until 30 July 2018, when the exploration work is expected to be completed. As at the date of this Base Prospectus, this application is still in progress.

See “—*Subsoil Use Agreements*”.

### ***Subsoil Use Agreements***

#### **Onshore Licences and Contracts of the Company**

Since 1999, the Company has been required to obtain production and exploration rights by entering into exploration, production or exploration and production contracts to extract hydrocarbons for fixed periods of time. As at 31 December 2017, the Company (excluding associates) held a total of 58 licences and contracts, including: (i) seven exploration contracts; (ii) 44 production contracts; and (iii) seven combined exploration and production contracts. See “*Regulation in Kazakhstan—Regulation of Mineral Rights in Kazakhstan—General*” for a description of the terms of exploration and production contracts.

On 27 December 2017, the Parliament adopted the Subsoil Code (which becomes effective on 29 June 2018). Pursuant to the Subsoil Code, all newly-awarded subsoil agreements must have either (i) exploration and production components or (ii) a production component. Exploration agreements that do not include a production component will no longer be awarded under the Subsoil Code. This does not impact any of the Company’s existing Subsoil Use Agreements.

See “*The Oil and Gas Industry in Kazakhstan—Subsoil Use Agreements*”.

#### **Offshore Production Sharing Agreements**

As at 31 December 2017, the Company, its subsidiaries and its joint ventures were participants in a total of five PSAs, comprised of the four PSAs described below and one in which TCO is a participant that consists of both a PSA and a Concession Agreement (as described below).

The following table sets forth summary information concerning PSAs covering the Company's largest offshore exploration fields as at 31 December 2017:

<b>Production sharing agreement</b>	<b>Parties</b>	<b>Date</b>	<b>Term</b>	<b>Production/Exploration field</b>
NC PSA .....	AGIP, Total, ExxonMobil and Shell, each holding 16.81%, CNPC holding 8.33%, Inpex holding 7.56% and the Company with 16.88%	18 November 1997	40 years from the date of commercial discovery	Kashagan, Kalamkas Sea, Kashagan Southwest, Aktoty, Kairan
Zhemchuzhiny PSA .....	KazMunayTeniz holding 25%, Shell EP Offshore Ventures Limited holding 55%, and Oman Pearls Company Limited holding 20%	14 December 2005	35 years	Zhemchuzhiny Field
Kurmangazy PSA <sup>(1)</sup> .....	RN-Kazakhstan LLP and KazMunayTeniz, each holding 50%	6 July 2005	45 years	Kurmangazy Block
Karachaganak PSA .....	BG Group and AGIP, each holding 29.25%, Chevron holding 18%, Lukoil holding 13.5% and the Company holding 10.0%.	18 November 1997	40 years	Karachaganak Field

Note:

(1) Exploration activities at the Kurmangazy Block were stopped in 2011.

#### Taxes, Fees and Royalty under Licences and Contracts

The subsidiaries, joint ventures and associates of the Company are subject to a variety of taxes, fees and duties under their contracts and licences, including the payment of excess profit taxes. On 1 January 2009, the Government cancelled the royalty regime for all producers (except TCO, which continues to pay royalties to the Government). Under the 2009 Tax Code, however, the royalty regime was effectively replaced by the mineral extraction tax.

On 1 January 2018, the 2018 Tax Code came into effect. The 2018 Tax Code introduces a number of key amendments to the taxation system for subsoil users, such as the Company, its subsidiaries, joint ventures and associates, including the establishment of an "Alternative Tax on Subsoil Use" and the abolition of the commercial discovery bonus.

See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Taxation*".

#### ***Oil Field Development and Rehabilitation***

The overall level of crude oil production from the fields described herein has been, and will continue to be, affected by several key factors, including the relative age of the fields and, to a lesser degree, the characteristics of the oil and the complex geological formations of the reservoirs. For example, the Uzen Field and several of the EMG fields with the largest reserves and production volumes contain highly paraffinic oil within shallow, low permeability formations. Additionally, oil from the EMG fields also tends to have a high water content, or watercut. Taken together, these factors make oil from the EMG fields difficult to extract and in some cases transport. However, the Company's long production history has provided it with a comprehensive understanding of the geology of its fields. The relatively shallow depth and predominantly onshore location of its reservoirs have generally enabled the Company to produce oil in a more cost efficient manner than if the reservoirs were deeper or were offshore.

The Company, its subsidiaries and its joint ventures apply a wide variety of field development and rehabilitation techniques, such as drilling new wells, drilling injection wells and utilising secondary, enhanced recovery and well stimulation techniques, including fracking and various chemical and thermal methods. The Company does this to meet its strategic objective of sustaining its current production levels.

The following table sets forth the principal activities that were undertaken by the Company's subsidiaries, joint ventures and associates to develop and rehabilitate their fields in the periods indicated.

	Ownership	Wells where hydro-fracturing applied	Well workovers	New wells drilled						Total incremental increase in production (tsd tonnes)
				Production wells			Injection wells			
				For the year ended 31 December			For the year ended 31 December			
			2017	2016	2015	2017	2016	2015		
Uzen Field.	KMG EP	155	989	106	156	192	46	13	37	155
EMG fields	KMG EP	9	286	44	47	53	0	0	1	9
Akshabulak Field.....	Kazgermunai	4	12	16	22	28	0	0	0	4
Alibekmola Field.....	Kazakhoil Aktobe	0	5	0	0	0	0	0	0	0

## Transportation

### Overview

The Company partially owns and solely operates the largest crude oil and gas pipeline network in Kazakhstan in terms of length and throughput capacity. As at each of 31 December 2017, 2016 and 2015, the total length of the Company's natural gas pipeline system was 14,031.0 km. As at each of 31 December 2017, 2016 and 2015, the total length of the Company's oil pipeline system was 8,037.0 km.

The following table sets forth certain information with respect to the pipeline segments owned and operated by the Company as at 31 December 2017:

Pipeline	As at 31 December 2017				Primary source of gas or crude oil
	Kilometres of pipelines	Diameter of pipelines		Throughput capacity <sup>(1)</sup>	
		Under 0.5 m	0.5 m to 1.4 m		
<b>Transportation of Gas</b>					
Western Pipeline Network:					
Central Asian System .....	5,042.0	—	5,042.0	60.0	Russia and Kazakhstan (from TCO and Karachaganak Fields)
Uralsk System .....	1,116.0	—	1,116.0	45.0	Turkmenistan
Aktobe System .....	2,659.0	9.0	2,650.0	20.0	Uzbekistan
Southern Pipeline Network .....	2,333.0	—	2,333.0	14.0	Akshabulak Field
Kyzylorda Pipeline Network <sup>(2)</sup> .....	122.0	122.0	—	1.0	Turkmenistan
Asia Gas Pipeline .....	1,305.0	—	1,305.0	30.0	Kazakhstan
Beineu-Bozoi-Shymkent Gas Pipeline ...	1,454.0	—	1,454.0	2.5	
<b>Total</b> .....	<b>14,031.0</b>	<b>131.0</b>	<b>13,900.0</b>	<b>172.5</b>	
<b>Transportation of Crude Oil</b>					
<i>KTO System:</i>					
Western Branch:					
UAS pipeline .....	1,237.0	—	1,237.0	17.5	Western Kazakhstan
Other Western Branch pipelines .....	1,495.8	229.0	1,195.1	9.8	Western Kazakhstan
Eastern Branch:					
Omsk-Pavlodar-Shymkent pipeline .....	1,861.0	—	1,861.0	24.0	Siberia
Other Eastern Branch pipelines .....	901.0	—	715.9	13.0	Kazakhstan (Kumkol and Turgai fields)
<i>Kazakhstan-China System:</i>					
Atyrau-Kenkiyak pipeline .....	448.9	—	448.9	10.0	Western Kazakhstan
Atasu-Alashankou pipeline .....	962.0	—	962.0	10.0	Western Kazakhstan, Kumkol and Turgai fields
Kenkiyak-Kumkol pipeline .....	794.0	—	794.0	10.0	Western Kazakhstan
<i>CPC System:</i>					
CPC Pipeline <sup>(3)</sup> .....	452.0	—	452.0	28.0	Western Kazakhstan, Tengiz Field
<b>Total</b> .....	<b>8,037.0</b>	<b>229.0</b>	<b>7,665.8</b>	<b>122.3</b>	

Notes:

- (1) bcm per year for gas and millions of tonnes per year for crude oil (annualised).
- (2) Comprises the Akshabulak-Kyzylorda gas pipeline running from Akshabulak Field to one of ICA's gas compressor units in Kyzylorda, which is used for transportation of Akshabulak Field gas.
- (3) The Company holds a 20.75% interest (as at 31 December 2017) and does not operate the CPC Pipeline.

### Transportation and Storage of Gas

#### Overview

Under the Gas Law, KTG has been appointed as the “national operator” for the transportation of gas. Accordingly, KTG has been given a priority right to purchase (on behalf of the State) all associated gas produced in Kazakhstan at a regulated price, which it will then sell on the domestic market. A significant portion of any premium from such sales is typically used to modernise and extend the domestic pipeline network. The Company expects that its status as national operator will continue to enhance its revenue from gas sales to end-users and lessen its dependence on gas transportation tariffs. See “Risk Factors—Risk Factors Relating to the Company's Business—The Government has appointed KTG as the “national operator” for the transportation of gas”.

Although KTG was originally identified as a potential target for inclusion in the “People's IPO” programme when this programme was announced in 2011, KTG was not referred to in the Government Resolution dated 31 March 2014 regarding the “People's IPO” programme. The “People's IPO” programme was terminated at the end of 2015 and has since been replaced with the 2016 Complex Privatisation Programme. KTG is not included in the list of candidates in the 2016 Complex Privatisation Programme.

In September 2017, KTG issued Eurobonds in an aggregate principal amount of U.S.\$750 million in Notes, which bear interest at a rate of 4.375% *per annum* and mature in September 2027. KTG's obligations under the Eurobonds are guaranteed by ICA. See "*Risk Factors—Risk Factors relating to the Company's Business—The Company is required to comply with certain financial and other restrictive covenants*".

On 11 November 2016, KTG entered into a natural gas sale and purchase agreement with Crude Energy International Limited to supply up to 0.1 bcm (which was subsequently increased to up to 3.7 bcm) during the period from November 2016 to December 2018 for a total consideration of U.S.\$301.9 million

On 30 December 2016, KTG entered into a natural gas sale and purchase agreement with Gazprom to supply up to 2 bcm during the period from January 2018 to December 2018 for a total consideration of U.S.\$303.8 million.

## *ICA*

ICA, a wholly-owned subsidiary of KTG, operates Kazakhstan's main natural gas pipelines consisting of two separate networks: (i) a network in western Kazakhstan that services Central Asia's producing natural gas fields (the "**Western Pipeline Network**"); and (ii) a network in southern Kazakhstan that delivers imported natural gas from the Uzbekistan/Kazakhstan border to the southern region of Kazakhstan, including Almaty (the "**Southern Pipeline Network**"). See "*—Overview*". Prior to December 2014, KTG operated the mainline gas distribution network in Kazakhstan pursuant to an agreement (the "**Concession Agreement**") between ICA and the Government. On 5 December 2014, the Concession Agreement was terminated, and a trust management agreement was signed between the State Property and Privatisation Committee of the Ministry of Finance, Samruk-Kazyna and ICA. The parties have also agreed the framework for the transfer of the assets from the State to ICA in the form of a contribution to ICA's share capital, although this transfer has not been completed.

The Company uses ICA's main natural gas pipelines for: (i) the transit of third parties' natural gas, principally from Turkmenistan and Uzbekistan, to Russia; (ii) the export of Kazakhstan's natural gas, in particular from the Tengiz and Karachaganak condensate and natural gas fields, to Russia; (iii) the transportation of natural gas from one part of Russia to another through Kazakhstan; and (iv) the distribution of natural gas produced by the Company and others, including joint ventures and associates of the Company.

As at 31 December 2017, ICA operated 8,873.4 km of natural gas pipelines, utilised 22 linear and four booster compressor stations equipped with 300 gas compressor units, having a total capacity of 2,157 mW, operated 198 natural gas distribution stations and had a total active natural gas storage capacity of 4.7 bcm. The majority of the natural gas transportation system operated by ICA is above-ground with diameters of 1,000 mm, 1,200 mm or 1,400 mm.

The pipeline system operated by ICA was constructed during the 1960s and 1970s with an initial certificated lifetime of 20 to 50 years, which has been extended as ICA has undertaken its capital expenditure programme to upgrade and modernise its pipeline system. See "*—Gas Pipeline Projects*".

See "*—Key Strengths—The Company is the Operator of Kazakhstan's Extensive Oil and Gas Pipeline Networks*" and "*Risk Factors—Risk Factors Relating to the Company's Business—The Government has appointed KTG as the "national operator" for the transportation of gas*".

### The Western Pipeline Network

ICA's Western Pipeline network consists of three separate systems aggregating 8,817 km of pipeline systems that include: (i) the Central Asian pipeline system (the "**Central Asian System**"); (ii) the Uralsk pipeline system (the "**Uralsk System**"); and (iii) the Aktobe pipeline system (the "**Aktobe System**").

### Central Asian System

The Central Asian System runs from the Kazakhstan border with Uzbekistan and Turkmenistan in the south to the Kazakhstan border with Russia in the north. It consists of three separate pipeline subsystems, the principal one being the Central Asian Centre pipeline subsystem (the "**CAC Pipeline**"). The CAC Pipeline is used primarily to transport Uzbek and Turkmen natural gas through Kazakhstan to Gazprom's pipeline networks in Russia, through which natural gas is delivered to Ukraine and Europe. In addition, TCO uses the CAC Pipeline for transportation of natural gas from the Tengiz Field to Russia.

### The Uralsk System

The Uralsk System comprises the segment of the Western Pipeline Network that runs through north-western Kazakhstan. It links two segments of a Russian pipeline and is used to transport Russian natural gas from eastern to western Russia.

#### The Aktobe System

The Aktobe System runs from the Kazakhstan border with Uzbekistan in the south to the Russian border in the north. It consists of three separate pipeline subsystems that connect to natural gas production facilities at natural gas fields in Zhanazhol and distribute gas to domestic customers. The Aktobe System may also be used to supplement the CAC pipeline's capacity to transport Turkmenistan gas to Russia and Europe.

#### The Southern Pipeline Network

The Southern Pipeline Network consists of 2,333 km of pipelines and has a throughput capacity of 14.0 bcm per year and includes the Bukhara-Tashkent-Bishkek-Almaty pipeline system and the Gazly-Shymkent pipeline segment. This system supplies gas to end-users in the most populous regions of Kazakhstan, including Almaty.

#### *Gas Pipeline Projects*

##### Asia Gas Pipeline

In August 2007, an agreement was reached between the Government and China on cooperation for the construction and operation of the first two phases of the Asia Gas Pipeline, which extends from Turkmenistan through Uzbekistan to Khorgos in China, passing through Kazakhstan. The purpose of the Asia Gas Pipeline is to expand transit capacity to China and serve the market in southern Kazakhstan, which is otherwise dependent on imported gas from Uzbekistan. The total cost of the first two phases of this project was U.S.\$6.8 billion. The development of the Asia Gas Pipeline is being funded by AGP, a joint venture of the Company (through KTG) and CNPC (acting through Trans-Asia Gas Pipeline Company Limited). In October 2008, AGP entered into a U.S.\$7.5 billion syndicated loan facility with Chinese Development Bank for the purpose of financing the construction of the first two phases of the Asia Gas Pipeline. On 12 December 2009, the first phase of this project, comprising a pipeline with a throughput capacity of 10 bcm per year, was completed. The second phase, comprising a pipeline with a throughput capacity of 30 bcm per year, was completed in December 2012.

Further development of the capacity of the Asia Gas Pipeline to 55 bcm per year is planned through a third phase of construction. In July 2011, an agreement was reached between the Government and China on cooperation for the construction of this third phase, which is expected to have a throughput capacity of 25 bcm per year. In October 2011, the Company entered into an agreement with CNPC on the design, finance, construction and operation of the third phase of the Asia Gas Pipeline. The total cost for this phase of the project is expected to be U.S.\$5.2 billion, and, in December 2012, AGP entered into a loan facility of U.S.\$4.7 billion with Chinese Development Bank for the purpose of financing the construction of the third phase. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*". Construction of the third phase of the Asia Gas Pipeline, began in November 2012 and is expected to be completed in March 2019.

In the year ended 31 December 2017, the Asia Gas Pipeline transported 37.7 bcm of gas. The Company does not expect to receive dividends from AGP until 2022. In 2017, gas was exported to China through the Asia Gas Pipeline for the first time.

##### Beineu-Bozoi-Shymkent Gas Pipeline

In 2008, the Company and CNPC entered into a framework agreement (the "**Beineu-Shymkent Agreement**") under which both parties agreed to construct the Beineu-Bozoi-Shymkent Gas Pipeline. The construction of the Beineu-Bozoi-Shymkent Gas Pipeline has increased, and is expected to continue to increase, the Company's flexibility in the transportation of gas and connect the Company's existing major gas pipelines in the western and southern regions of Kazakhstan. The construction of the Beineu-Bozoi-Shymkent Gas Pipeline is funded by BSGP, the joint venture entered into between KTG and CNPC in January 2011. Following the completion of a feasibility study, the total cost for the project is estimated at U.S.\$3.0 billion. Construction began in September 2011. In December 2013, the first linear section of the pipeline between Bozoi and Shymkent with a length of 1,143 km and a throughput capacity of 2.5 bcm was commissioned. The first stage of the Beineu-Bozoi-Shymkent Gas Pipeline, which comprises all sections of the Bozoi-Shymkent part, was completed in 2015, resulting in a throughput capacity of up to 6 bcm per year. Between 2014 and 2017, over 9.0 bcm of gas was transported via the Beineu-Bozoi-Shymkent gas pipeline, providing southern regions with Kazakhstani gas. In December 2016, a second stage of the Beineu-Bozoi-Shymkent Gas Pipeline project, comprising a linear part of the pipeline with a total length of 311.0 km, was completed. In November 2017, a head compressor station



at Bozoi and a line compressor station at Karaozek were put into operation, which increased the capacity of the Beineu-Bozoi-Shymkent Gas Pipeline to 10 bcm per year. ICA has announced that, by the end of 2019, it expects the construction of repair and maintenance sites, shift camps and the Beineu gas measuring station, as well as the telecommunications and the highway system will be completed.

In October 2017, Kazakhstan began exporting gas deliveries to China pursuant to a contract concluded between KTG and PetroChina for the supply of 5 bcm of natural gas during the period from 15 October 2017 until 14 October 2018. The total estimated consideration under this agreement is U.S.\$889.7 million. The price of gas exported to China pursuant to this agreement is linked to the price of Brent crude oil and determined quarterly.

Negotiations are ongoing with respect to a long-term gas supply agreement between KTG and PetroChina. BSGP and the Company expect the transportation of gas to China to increase in the coming years and, in order to facilitate such transportation, plans to construct three new compressor stations on the Beineu-Bozoi-Shymkent Gas Pipeline between 2018 and 2019 (at an estimated cost of KZT 109.2 billion). See “*Management’s Discussion and Analysis of Results of Operations and Financial Performance—Capital Expenditures*”.

In the year ended 31 December 2017, the Beineu-Bozoi-Shymkent Gas Pipeline transported 3.4 bcm of gas.

In January 2011, the Company entered into a loan agreement with Samruk-Kazyna for a principal amount of KZT 23.3 billion to fund the construction of the Beineu-Bozoi-Shymkent Gas Pipeline. The Company partially repaid this loan in 2012, and the outstanding principal amount of this loan matures in January 2024. See “*Share Capital, Shareholders and Related Party Transactions—Relationships with Certain Related Parties*” and “*Management’s Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*”.

In December 2012, BSGP entered into a U.S.\$1.8 billion syndicated loan facility with, *inter alia*, China Development Bank Corporation for the purpose of financing the development, construction and operation of the portion of the Beineu-Bozoi-Shymkent Gas Pipeline between Bozoi and Shymkent. In February 2014, updated credit agreements were entered into. See “*Management’s Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*”.

#### *Gas Transportation Volumes*

In each of 2017, 2016 and 2015, international transit volumes of natural gas represented the substantial majority of ICA’s total transportation volume.

The following table set forth certain information regarding the natural gas transported through the natural gas transportation system operated by ICA for the periods indicated:

Pipeline	Transit	For the year ended 31 December			% change between the years ended 31 December 2017 and 2016 (%)	% change between the years ended 31 December 2016 and 2015
		2017	2016 (bcm)	2015		
<b>ICA Pipeline System:</b>						
<b>International transit through Kazakhstan territory:</b>						
Soyuz/Orenburg-Novopskov Pipeline of the Uralsk System.....	Russian gas	26.6	25.2	38.9	(5.8)	(35.2)
Bukhara-Ural Pipeline of the Aktobe System .....	Russian gas	14.8	11.8	14.2	(25.3)	(16.9)
CAC Pipeline of the Central Asian System .....	Uzbek gas	5.5	4.1	3.5	(29.1)	17.1
CAC Pipeline of the Central Asian System .....	Turkmen gas	—	0.0	3.1	—	(100.0)
<b>Total</b> .....		<b>46.9</b>	<b>41.1</b>	<b>59.7</b>	<b>(13.8)</b>	<b>(31.2)</b>
<b>Kazakhstan Gas Export</b>						
CAC Pipeline of the Central Asian System .....	TCO gas	—	4.1	3.2	(31.6)	28.1
CAC Pipeline of the Central Asian System .....	Kashagan and other gas	0.4	0.3	0.3	(262.4)	10.9
Soyuz/Orenburg-Noyopskov Pipeline of the Uralsk System.....	Karachaganak gas	—	6.6	6.6	(3.2)	—
Soyuz/Orenburg-Noyopskov Pipeline of the Uralsk System.....	Chinarevskoe gas	1.1	1.0	1.0	—	—
Bukhara-Ural Pipeline of the Aktobe System .....	Zhanazhol gas	6.4	1.0	1.5	(52.0)	(33.3)
Bukhara-Ural Pipeline of the Aktobe System .....	Other gas Amangeldy and Kashagan gas	1.0	0.3	0.2	(136.5)	50.0
BGR-TBA Pipeline.....		1.5	0.2	0.2	(11.7)	—
Kazakhstan-China Gas Pipeline		0.1	—	—	—	—
<b>Total</b> .....		<b>10.5</b>	<b>13.2</b>	<b>12.7</b>	<b>26.1</b>	<b>3.9</b>
<b>Domestic Gas Transportation</b>						
ICA pipeline system		12.9	12.3	11.5	(5.0)	7.0
Kazakhstan-China Gas Pipeline		0.5	1.0	0.7	(53.5)	42.9
Beineu-Bozoi-Shymkent Gas Pipeline		3.4	2.1	1.3	(55.8)	61.5
<b>Total</b> .....		<b>16.8</b>	<b>15.4</b>	<b>13.5</b>	<b>8.2</b>	<b>14.1</b>
<b>Total gas transportation through the ICA pipeline system</b> .....		<b>76.7</b>	<b>66.6</b>	<b>83.9</b>	<b>(14.6)</b>	<b>(20.6)</b>
<b>Joint Ventures:</b>						
<b>International transit through Kazakhstan territory:</b>						
Kazakhstan-China Gas Pipeline (AGP) .....	Turkmen gas	33.6	30.1	27.7	(11.7)	8.7
Kazakhstan-China Gas Pipeline (AGP) .....	Uzbek gas	4.2	4.1	2.9	(1.0)	41.4
<b>Total gas transportation by Joint Ventures</b> .....		<b>37.7</b>	<b>34.2</b>	<b>30.6</b>	<b>(10.4)</b>	<b>11.8</b>
<b>Total</b> .....		<b>118.2</b>	<b>100.8</b>	<b>111.6</b>	<b>(13.4)</b>	<b>(13.4)</b>

ICA's principal customer is Gazprom, which accounted for 28.8%, 43.9% and 57.2% of the gas transportation fees for ICA for 2017, 2016 and 2015, respectively. ICA initially provided gas transportation services to Gazprom pursuant to two principal contracts: a Turkmen/Uzbek gas transit contract (the "Turkmen/Uzbek Gas Transit Contract"), which specified the agreed ship-or-pay volumes for the transport of Turkmen and Uzbek gas to Russia, and a Russian gas transit contract, which specified the agreed volumes for the transport of gas to and from gas fields in western Kazakhstan and the Orenburg gas refinery plant in south-western Russia. These contracts were entered into in January 2011 for a period of five years and replaced the previous contracts that had been in force between the parties since 2005. The

Turkmen/Uzbek Gas Transit Contract was entered into on a ship-or-pay basis, requiring Gazprom to pay for at least 80% of the agreed ship-or-pay volumes regardless of the volumes it actually requires ICA to transport for it.

Since 2017, Gazprom and ICA have entered into contracts for gas transportation services on an annual basis. Pursuant to the contract for 2018, there is no specified ship-or-pay volume and payment is based on the volumes of gas transported. This was also the case for the 2017 contract.

The volume of natural gas from Kazakhstan exported through the natural gas transportation system operated by ICA was 16.7 bcm in 2017, 13.2 bcm in 2016 and 12.7 bcm in 2015.

#### *Compressor Stations, Gas Distribution Stations and Storage Reservoirs*

Natural gas is highly pressurised as it travels through pipelines, and compressor stations are required periodically along the pipe to ensure that the natural gas flows. ICA has 22 linear and four booster compressor stations, each of which is between 200 km and 250 km apart. In some pipelines, the gas flow direction in a pipeline can be reversed by switching the input and output at the compressor stations.

As at 31 December 2017, ICA operated 122 natural gas distribution stations, which are used to reduce pressure, deliver natural gas to consumer pipelines, purify gas, inject odorant and metre natural gas. The majority of these stations were constructed 30 to 35 years ago. ICA has installed additional natural gas metres manufactured in accordance with international specifications in order to improve its collection of revenue, in addition to performing continuous maintenance and general repairs on the stations.

ICA also manages three underground natural gas storage reservoirs in southern and south eastern Kazakhstan with a total active storage capacity of 4.7 bcm.

In order to facilitate the planned increase in the transportation of gas to China through the Beineu-Bozoi-Shymkent Gas Pipeline, three new compressor stations are planned to be constructed on the Beineu-Bozoi-Shymkent Gas Pipeline. See “—*Gas Pipeline Projects—Beineu-Bozoi Shymkent Gas Pipeline*”.

#### *Gas Transportation Tariffs*

Pursuant to the Law on Natural Monopolies (№ 272-I, dated 9 July 1998) and, prior to December 2014, the Concession Agreement, ICA’s tariffs for domestic natural gas transportation are subject to regulation by the Natural Monopolies Committee. Under the Concession Agreement, Kazakhstan had agreed that ICA was entitled to freely negotiate, determine and agree on international transportation tariffs with its international transit contractor counterparties, without regulation by the Natural Monopolies Committee.

On 5 December 2014, the Concession Agreement was terminated and a trust management agreement was signed between the State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan, Samruk-Kazyna and ICA. The trust management agreement does not regulate the tariffs to be charged by ICA, which are to be imposed pursuant to Kazakhstan law requirements.

While Kazakhstan law previously in force provided that both export and domestic gas transportation tariffs required the approval of the Natural Monopolies Committee, in May 2015, a number of amendments were made to the Law on Natural Monopolies. These amendments, among other things, abolished Government regulation of tariffs for export. Accordingly, only domestic gas transportation tariffs are subject to regulation by the Natural Monopolies Committee.

#### International Tariffs

In 2017, 2016 and 2015, international tariffs represented 87.80%, 88.90% and 86.89%, respectively, of ICA’s total revenue.

The methodology followed by ICA to set tariffs for international transit is based on a widely-used model, which provides that tariffs are generally a function of costs plus the average rate of return on fixed assets and expressed as a rate based on the volume of transported gas and the distance the gas is transported. When considering a return on fixed assets and investments, ICA takes into account its ongoing maintenance expenditures in order to ensure that it will be able to maintain the stable transit of all contracted international volumes of natural gas.

ICA generates gas transportation revenue from tariffs it charges to its international customers under long-term contracts for the transportation of natural gas through the pipeline systems it operates. In 2017, 2016 and 2015, the international

transit tariff was U.S.\$2.00 per 1,000 cubic metres, U.S.\$1.70 per 1,000 cubic metres and U.S.\$1.70 per 1,000 m<sup>3</sup>, respectively.

On 9 July 2014, pursuant to the contract between KTG and TCO, the international gas transportation tariff was increased from U.S.\$2.80 per 1,000 cubic metres of natural gas transported over 100 km of pipeline to U.S.\$3.00 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for the export of natural gas produced by TCO. On 20 April 2016, pursuant to the contract between KTG and TCO, the international gas transportation tariff was further increased from U.S.\$3.00 per 1,000 cubic metres of natural gas transported over 100 km of pipeline to U.S.\$5.00 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for the export of natural gas produced by TCO. As at the date of this Base Prospectus, no further changes to the international gas transportation tariff have been made since 20 April 2016.

In 2017, tariffs payable by Gazprom in respect of the transit of gas through Kazakhstan were reduced from U.S.\$2.40 per 1,000 cubic metres in 2016 to U.S.\$1.60 per 1,000 cubic metres in 2017.

### Domestic Tariffs

Tariffs for domestic transportation are subject to regulation and approval by the Natural Monopolies Committee. Once approved, the tariffs remain in effect for the duration of the approval granted, which is typically for one year. ICA then has the right to apply to the Natural Monopolies Committee with a request to review and modify such tariffs. The Natural Monopolies Committee also has the right to initiate a review of the domestic transportation tariffs. ICA's domestic transportation tariffs are significantly impacted by social and political considerations and have historically been kept at artificially low levels. The Natural Monopolies Committee routinely reviews domestic gas tariffs at the request of ICA and, in 2011, significant increases in ICA's tariffs were achieved, however, since 2014, the Natural Monopolies Committee has not modified domestic gas tariffs.

In each of the years ended 31 December 2017, 2016 and 2015, ICA's tariffs for domestic transportation of gas were KZT 1,380 per 1,000 cubic metres of natural gas transported over 100 km of pipeline for utility companies engaged in the generation of thermal energy.

The following tariffs have been approved by the Natural Monopolies Committee and are in effect for the transportation of commercial gas: (i) KZT 2.2 million per 1,000 cubic metres (excluding VAT) in respect of ICA (with effect from 1 January 2017); (ii) KZT 3.5 million per 1,000 cubic metres (excluding VAT) in respect of the Asia Gas Pipeline (with effect from 1 March 2016); and (iii) KZT 18.1 million per 1,000 cubic metres (excluding VAT) in respect of the Beineu-Bozoi-Shymkent Gas Pipeline (with effect from 1 March 2016).

ICA also provides services for the storage of gas in underground storage facilities. The prices for such services are regulated by the Natural Monopolies Committee.

### *Transportation of Crude Oil*

#### *Overview*

Through its subsidiary, KTO, the Company partially owns and solely operates the largest crude oil pipeline network in Kazakhstan in terms of length and throughput capacity. As at 31 December 2017, the total length of the Company's oil pipeline network was 7,585 km, of which KTO owns 5,377 km. The Company (including through its joint ventures) transported 61.0 million tonnes, 56.6 million tonnes and 58.5 million tonnes of crude oil through its pipeline network (including Batumi Marine Export Terminal) in 2017, 2016 and 2015, respectively. In December 2012, Samruk-Kazyna sold approximately 9.99% of KTO to retail investors in Kazakhstan, as part of the Government's programme of "People's IPOs", in order to stimulate the domestic equities market and give the public an opportunity to have a direct stake in Kazakhstan's oil and gas wealth. Trading of the shares of KTO on the KASE began on 25 December 2012. This was the first initial public offering in the "People's IPO" programme.

#### *KTO Pipeline System*

KTO fully owns and solely operates two oil pipeline systems, one in western Kazakhstan (the "**Western Branch**") and another that runs from northeast to southwest Kazakhstan (the "**Eastern Branch**"). In addition, KTO has completed and operates the KC Pipeline, which is comprised of three sections: (i) the Atasu-Alashankou pipeline; (ii) the Kenkiyak-Atyrau pipeline; and (iii) the Kenkiyak-Kumkol pipeline. KTO also owns an interest in and operates the pipeline system, which connects the Kenkiyak-Kumkol pipeline to the Atasu-Alashankou pipeline and forms part of KTO's Eastern Branch. As at 31 December 2017, the KTO pipeline network consisted of 5,377 km of pipe with diameters between 0.5

m and 1.8 m. In the year ended 31 December 2017, the KTO pipeline network transported 46.3 million tonnes of crude oil.

The following tables set forth certain information with respect to volumes of oil transported for the periods indicated:

Transportation asset	For the year ended 31 December		
	2017	2016	2015
	<i>(tonnes in millions)</i>		
<b>KTO Pipelines</b>			
UAS pipeline .....	15.9	15.0	15.7
Other Western Branch pipelines transport to:			
Atyrau Refinery .....	4.6	4.7	4.8
Aktau seaport .....	1.2	2.2	2.9
CPC Pipeline .....	2.9	3.0	2.8
Atasu-Alashankou pipeline .....	12.3	10.1	11.8
Shymkent Refinery .....	4.7	4.5	4.5
Pavlodar Refinery .....	4.7	4.6	4.8
<b>Total</b> .....	<b>46.3</b>	<b>43.8</b>	<b>47.5</b>
<b>Joint Ventures</b>			
<b>KC Pipeline:</b>	8.3	7.1	8.0
<b>MunayTas:</b>			
Kenkiyak-Atyrau pipeline <sup>(1)</sup> .....	1.9	2.3	1.9
<b>Batumi Marine Export Terminal<sup>(2)</sup>:</b> .....	2.1	3.4	3.6
<b>Total</b> .....	<b>12.2</b>	<b>12.8</b>	<b>13.5</b>
<b>Total crude oil transported</b> .....	<b>58.5</b>	<b>56.5</b>	<b>61.0</b>

Notes:

(1) Representing KTO's proportionate supply of the pipeline, which is 51% (as at 31 December 2017) owned by KTO.

(2) As defined below.

The decline in total crude oil transported between 2015 and 2017, was primarily due to a reduction in the volume of oil delivered by ships, which was, in turn, due to the redirection of oil tankers to Makhachkala and Baku.

KTO invested KZT 52.8 billion to upgrade its pipeline system in 2017, KZT 42.9 billion in 2016 and KZT 78.1 billion in 2015. In 2018, KTO expects to invest KZT 47.6 billion.

In addition, KTO invested KZT 2.6 billion in 2016 and KZT 2.5 billion in 2015. These improvements and capacity increases were primarily aimed at supporting existing levels of oil transportation through KTO's pipeline system.

#### Western Branch

As at 31 December 2017, the Western Branch comprised 2,626 km of main oil pipelines, 1,975 km of main water pipelines, 24 oil pumping stations, seven preheating stations, 60 furnaces and tank farms with a total storage capacity of 865,000 cubic metres, including water storage capacity of 161,100 cubic metres.

In 2017, 29.6 million tonnes of crude oil and condensate, or 34.3% of the total crude oil and condensate produced in Kazakhstan, was transported through the Western Branch. The income generated from the tariff for the transportation of this crude oil and condensate totalled KZT 130.4 billion and represented 62.0% of KTO's total revenue for 2017.

The most significant pipeline subsystem in the Western Branch is the Kazakhstan segment of the UAS pipeline. This subsystem runs 1,237 km from Uzen in south-western Kazakhstan north through Atyrau, before crossing into Russia and linking either with Russia's Transneft system at Samara for crude oil export to ports on the Black Sea or through the Druzhba pipeline to ports on the Baltic Sea and Central Europe.

As at 31 December 2017, the Kazakhstan segment of the UAS pipeline had an annual throughput capacity of 3.4 million tonnes of crude oil per year. The UAS pipeline serves as the Company's principal export pipeline and transports oil produced by, among others, KMG EP, MMG, CCEL and KPO.

Other pipeline subsystems in the Western Branch are the Kalamkas-Karazhanbas-Aktau pipeline, the Uzen-Zhetybai-Aktau pipeline and the Zhanazhol-Kenkiyak pipeline.

### Eastern Branch

As at 31 December 2017, the Eastern Branch had a maximum throughput capacity of 37.0 million tonnes of crude oil per year and comprised 2,715 km of main oil pipelines, 12 oil pumping stations, seven furnaces, seven oil heaters and tank farms of total storage capacity of 486,000 cubic metres.

In 2017, 22.0 million tonnes of crude oil and condensate, or 25.5% of the total crude oil and condensate produced in Kazakhstan, was transported through the Eastern Branch. The income generated from the tariff for the transportation of this crude oil and condensate totalled KZT 54.5 billion and represented 26.0% of KTO's total revenue for 2017.

The Eastern Branch is used by the Company to transport crude oil, primarily produced at the Kumkol and Turgai fields, to the Shymkent Refinery and for export to China.

The trunk oil pipeline system of the Eastern Branch includes the Omsk-Pavlodar pipeline, the Pavlodar-Shymkent pipeline, the Kumkol-Karakoin pipeline and the Tuymazy-Omsk-Novosibirsk-2 pipeline.

### KC Pipeline

The KC Pipeline network comprises three systems: (i) the Kenkiyak-Atyrau pipeline, from Kenkiyak in western Kazakhstan to Atyrau on the Caspian Sea; (ii) the Atasu-Alashankou pipeline, from Atasu in eastern Kazakhstan to Alashankou in western China; and (iii) the Kenkiyak-Kumkol pipeline, from Kenkiyak to Kumkol in south Kazakhstan. All three systems are currently operational.

The tariffs applied by the KC Pipeline are regulated by the Natural Monopolies Committee and are set on a cost plus basis. As at the date of this Base Prospectus, the tariff applied by the KC Pipeline was KZT 4,292.4 per tonne of crude oil per 1,000 km in respect of domestic transportation and KZT 6,398.9 per tonne of crude oil per 1,000 km in respect of exports.

### Kenkiyak-Atyrau pipeline

On 3 December 2001, KTO and CNPC E&D established MunayTas, in which KTO holds a 51% interest (as at 31 December 2017) and CNPC E&D holds a 49% interest. MunayTas owns the Kenkiyak-Atyrau pipeline. KTO operates the Kenkiyak-Atyrau pipeline.

In March 2003, the Kenkiyak-Atyrau pipeline became operational. As at 31 December 2017, the Kenkiyak-Atyrau pipeline had a length of 448.9 km of pipe with diameters between 0.5 m and 1.8 m and a throughput capacity of 4.6 million tonnes of crude oil per year. In 2017, the Kenkiyak-Atyrau pipeline transported 1.9 million tonnes of crude oil, as compared to 2.3 million tonnes and 1.9 million tonnes in 2016 and 2015, respectively. The decrease in the volume of crude oil transported in 2017, as compared to 2016, was primarily due to the reduction in production volumes in Aktobe and the related increase in domestic delivery of crude oil, rather than export. Currently, the pipeline flows towards Atyrau from Kenkiyak, providing oil producers from the Aktobe region with access to the CPC, the UAS or other Atyrau pipeline connections. In connection with the completion of the second phase of the Kenkiyak-Atyrau pipeline, which is expected by the end of 2018, it is intended that the flow of the Kenkiyak-Atyrau pipeline will be reversed and that the capacity of the pipeline will be increased to 12 million tonnes of crude oil per year in order to deliver crude oil from the Atyrau and Aktobe regions of Kazakhstan to China.

### Atasu-Alashankou pipeline

In 2004, KTO and CNODC created KCP, in which each hold a 50% interest (as at 31 December 2017). KCP owns and KTO operates the Atasu-Alashankou pipeline.

In July 2006, the Atasu-Alashankou oil pipeline became operational. As at 31 December 2017, the Atasu-Alashankou pipeline had a throughput capacity of 20 million tonnes of crude oil per year. In 2017, the Atasu-Alashankou pipeline transported 12.3 million tonnes of crude oil. As at 31 December 2017, the length of the pipeline was 962 km. The capacity of the Atasu-Alashankou pipeline was increased to 12 million tonnes of crude oil per year in 2011, through the construction and commissioning of an oil pumping station, and was further increased to 20 million tonnes of crude oil per year in December 2013, through the construction and commissioning of two further oil pumping stations.

Fourteen companies supply oil to the Atasu-Alashankou pipeline. In March 2017, KTO announced that 100 million tonnes of crude oil had been transported through the Atasu-Alashankou pipeline since its launch.

#### Kenkiyak-Kumkol pipeline

KCP owns the Kenkiyak-Kumkol pipeline, which is operated by KTO. In October 2009, the Kenkiyak-Kumkol oil pipeline became operational. As at 31 December 2017, the length of the pipeline was 794.0 km and had a throughput capacity of 9.2 million tonnes of crude oil per year. In 2017, 5.2 million tonnes of crude oil were transported through the Kenkiyak-Kumkol pipeline. Pursuant to the agreement between the Company and CNODC described above, the capacity of the Kenkiyak-Kumkol pipeline was increased from 10.0 million tonnes of crude oil per year to 20.0 million tonnes in 2015, which is expected to enable the Company to accommodate the expected increased production at the Tengiz Field, as well as production at the Kashagan Field when commercial production achieves its expected potential.

Ten companies supply oil to the Kenkiyak-Kumkol pipeline.

#### Transportation of Russian Oil to China

On 24 December 2013, the Government and the government of the Russian Federation entered into an intergovernmental agreement in relation to the transportation of Russian oil through Kazakhstan from Omsk in the Russian Federation to Kazakhstan Priirtyshsk and further through Kazakhstan Atasu to Anashankou (the People's Republic of China) using the Atasu-Alashankou pipeline, which was completed in 2013 (the “**2013 Intergovernmental Agreement**”). In January 2014, KTO commenced transportation of Russian oil. KTO transports approximately 7 million tonnes of Russian oil to China per year. On 27 December 2016, KTO and Rosneft OC PJSC agreed to increase the volume of Russian oil transported to China to 10 million tonnes a year.

#### Transportation of Oil from the Kashagan Field

The recommencement of commercial production at the Kashagan Field in November 2016 has contributed to the increase in the levels of oil transported through KTO's pipelines in 2017, as compared to previous years. Initially, KTO transported crude oil from the Kashagan Field through a section of the Atyrau-Samara pipeline for onward shipping through the port of Ust-Luga in Russia. In February 2017, KTO announced the opening of an additional route for the transportation of oil from the Kashagan Field through the Atyrau-Samara pipeline, for its further transportation via the Transneft PJSC system in Russia to the port of Novorossiysk for subsequent export, while retaining the quality of the crude oil through the pipelines (rather being mixed with Urals crude oil).

#### CPC Pipeline

CPC is a joint venture that owns, operates and maintains the CPC Pipeline. In Kazakhstan, CPC operates through JSC Caspian Pipeline Consortium, in which, as at 31 December 2017, the Republic had a 19% ownership interest (which the Company manages on behalf of the Government), and Kazakhstan Pipeline Ventures (a subsidiary of the Company since 2009) had a 1.75% ownership interest. The other participants in JSC Caspian Pipeline Consortium are Transneft (24%), CPC Company (4%) Chevron Caspian Pipeline Consortium Co. (15%), LukArco B.V. (12.5%), Mobil Caspian Pipeline Co. (7.5%), Rosneft - Shell Caspian Ventures Ltd. (7.5%), Agip International (N.A.) N.V. (2%), Oryx Caspian Pipeline LLC (1.75%) and BG Overseas Holdings Ltd. (2%). As at 31 December 2017, the CPC Pipeline was 1,511 km long. In 2017, 55.1 million tonnes of oil and condensate were transported by CPC through the CPC Pipeline, including 49.6 million tonnes of oil produced in Kazakhstan.

Only CPC shareholders have rights to capacity in the CPC Pipeline, which consist of preferential capacity rights to specified amounts of capacity and excess capacity rights to use pipeline capacity not being used by other shareholders. The preferential capacity rights and excess capacity rights in respect of the CPC Pipeline are allocated by the agreement of the CPC shareholders and not necessarily by reference to the proportional ownership interests in the joint venture.

In 2008, the Company and KMG EP entered into a Services Agreement (the “**Services Agreement**”). As part of the Services Agreement, KMG EP acquired the right to all of the capacity in the CPC Pipeline available to the Company and the Government to ensure that KMG EP is able to deliver at least five million tonnes of crude oil per year for so long as the Company owns at least 30% of KMG EP. As at the date of this Base Prospectus, the Services Agreement is no longer in force. See “*Share Capital, Shareholders and Related Party Transactions—Relationships between the Company and KMG EP—Services Agreement*” and “*—Exploration and Production—Significant Production Fields of KMG EP—KMG EP Ownership and Buyback*”.

The expected increase in production from fields being developed by NCP, including the Kashagan Field, which recommenced commercial production in November 2016, are expected to require increased capacity of the transportation infrastructure in Kazakhstan, including the CPC Pipeline.

On 16 December 2009, the MEMR (now the Ministry of Energy), the Russian Ministry of Energy and all other CPC shareholders (except LukArco B.V.) agreed to proceed with the expansion of the CPC Pipeline process and signed an agreement on expansion. The CPC expansion project targeted the increase of the design capacity of the CPC Pipeline from 28.2 million tonnes per year to 67.0 million tonnes per year, of which up to 53.7 million tonnes per year of oil and condensate is expected to come from Kazakhstan. Construction works on the Kazakhstan section of the expansion project began in July 2011, and the third and final phase of these construction works was completed in October 2017. The expansion project included the replacement of an 88 km long section of pipeline, the reconstruction of the Atyrau and Tengiz pump stations, the construction of two new pump stations and the installation of external power supply facilities. The total cost of the CPC expansion project was U.S.\$5.4 billion, of which the Company made no contribution. As a result of the CPC Pipeline expansion, the Company's preferential capacity rights have increased to 14.3 million tonnes of crude oil per year from 5.8 million tonnes.

CPC charges shippers a transportation tariff based on the quantity of CPC blend delivered to the shipper. In October 2007, the tariff for transportation of and delivery to the CPC marine terminal on the Black Sea, inclusive of all charges for terminal facilities, was increased to U.S.\$38 per tonne and has remained unchanged.

#### Other Export Routes for Crude Oil

Alternative transportation routes for the export of oil from Kazakhstan that are available to the Company in the event of any capacity constraints on the KTO or CPC Pipeline systems include: (i) by barge from the Aktau seaport to Baku and then through the BTC pipeline; (ii) by railway from Kazakhstan to Black Sea export terminals in Ukraine; and (iii) by oil tankers from the Aktau seaport to Baku and then by rail to Batumi or by oil tankers to Makhachkala and then by rail to Europe. Since the completion of the early stages of the expansion of the capacity of the CPC Pipeline, volumes of crude oil transported by KTO to the Aktau seaport for export have decreased.

#### Batumi Oil Terminal

In 2007, KTO acquired a 50% ownership interest in Batumi Capital Partners Limited, and, in February 2008, KTO completed the acquisition of a 100% ownership interest in Batumi Industrial Holdings Limited. Batumi Industrial Holdings Limited and Batumi Capital Partners Limited (which has been renamed, following a merger with Batumi Services Limited, as Batumi Terminals Limited) jointly own Batumi Oil Terminal LLC, which operates a marine export terminal facility in Batumi, Georgia (the "**Batumi Marine Export Terminal**"). Following an internal reorganisation by KTO of a number of its subsidiaries in Georgia, it holds exclusive control rights over Batumi Sea Port LLC (as at 31 December 2017), which operates a seaport in Batumi, Georgia (the "**Batumi Port**"), and together with the Batumi Marine Export Terminal, the "**Batumi Port and Oil Terminal Facilities**"). The Company uses the Batumi Port and Oil Terminal Facilities to store and reload crude oil and petroleum products from Kazakhstan, including oil produced by the Company, as well as crude oil and petroleum products produced in Turkmenistan and Azerbaijan, for export. The Company delivers crude oil and petroleum products to the Batumi Port and Oil Terminal Facility by rail.

The Batumi Port comprises 12 operating terminals, including crude oil terminals, with a loading capacity of 25 million tonnes of oil per year. The terminals at the Batumi Marine Export Terminal are comprised of three terminals and one single point buoy mooring, with a total projected loading capacity of 15 million tonnes of oil and petroleum products per year.

In the year ended 31 December 2017, Batumi Oil Terminal transported 12.2 million tonnes of crude oil, as compared to 12.8 million tonnes of crude oil and 13.5 million tonnes of crude oil in 2016 and 2015, respectively. The 0.6 million, or 3.9%, decrease in the volume of crude oil transported by the Batumi Oil Terminal in 2017, as compared to 2016, was



primarily due to the increase in excise tax applied to light oil products imported from Georgia, which came into effect on 1 January 2017, as well as the redirection of certain cargo to the Kulevi port.

#### Aktau Seaport Terminal

The Aktau seaport was constructed in 1963 and is the only seaport in Kazakhstan, with a capacity for the storage and reloading of crude oil and hydrocarbon products. The Aktau seaport comprises 12 operating terminals, including four crude oil terminals. Crude oil terminals are equipped with oil spillage prevention facilities.

The Company uses these terminals to store and reload crude oil and petroleum products from Kazakhstan, including oil produced by the Company, for export.

#### Kazmortransflot National Marine Shipping Company JSC

In the year ended 31 December 2017, Kazmortransflot transported 7.0 million tonnes of crude oil by sea, of which 2.5 million tonnes of crude oil was transported across the Caspian Sea, 3.0 million tonnes of crude oil was transported across the Black Sea and 1.4 million tonnes of crude oil was transported across the Mediterranean Sea. In 2017 there was a 56 thousand tonnes and a 209 thousand tonnes increase in crude oil transported across the Black Sea and the Mediterranean Sea, respectively, in line with the increase in the production of crude oil by the Company.

#### Crude Oil Transportation Tariffs and Minimum Volumes

KTO, which is classified as a natural monopoly in Kazakhstan, charges the Company and other shippers a flat tariff for domestic shipments through the UAS Pipeline and the Omsk-Pavlodar-Shymkent Pipeline. The amount of the tariff is set by the Natural Monopolies Committee based primarily on KTO's costs for maintaining and operating the pipelines for a period of one year, after which KTO may apply to the Natural Monopolies Committee for an increase in the tariff. There is no quality bank adjustment mechanism for shipments through the UAS Pipeline and Omsk-Pavlodar-Shymkent pipeline or the Russian Transneft pipeline system. The Ministry of Energy sets the transportation capacity allocation through the UAS and Omsk-Pavlodar-Shymkent Pipelines.

A contract between KTO and its customers governs general access and terms of payment, and customers, including the subsidiaries, joint ventures and associates of the Company and third party crude oil shippers, are obligated to transport at least the minimum volume approved by the Ministry of Energy.

In June 2014, amendments were made to the Law on Natural Monopolies, according to which an entity with a monopoly, such as KTO, was obliged to provide regulated services at the tariff ceiling levels approved by the relevant authorised body. In December 2014, KTO submitted an application to the authorised body for the revision of tariffs for all regulated services. In May 2015, a number of further amendments were made to the Law on Natural Monopolies, which abolished Government regulation of tariffs for export and transit of crude oil by trunk pipeline. Accordingly, on 26 June 2015, KTO approved the following tariffs for exports of crude oil: (i) KZT 5,817.2 per tonne per 1,000 km (excluding VAT); and (ii) KZT 1,727.1 per tonne per 1,000 km (excluding VAT) for crude oil exported by Tui,azy-Omak-Novosibirsk-2.

On 21 August 2015, the Natural Monopolies Committee approved the following maximum tariffs for domestic transportation of crude oil by KTO: KZT 3,225.04 per tonne per 1,000 km (excluding VAT) from October 2015; KZT 3,547.46 per tonne per 1,000 km (excluding VAT) from January 2016; KZT 3,902.13 per tonne per 1,000 km (excluding VAT) from January 2017; KZT 4,292.40 per tonne per 1,000 km (excluding VAT) from January 2018; and KZT 4,721.72 per tonne per 1,000 km (excluding VAT) from January 2019.

On 1 March 2017, the Minister of Energy, in its capacity of the Competent Authority, and, in accordance with the agreement between Kazakhstan and China, approved the tariff for the transportation of Russian crude oil to China in an amount of U.S.\$11.36 per metric tonne (exclusive of VAT).

#### Transportation and Sale of Crude Oil—KMG EP

KMG EP's oil production is transported by: (i) the UAS pipeline to the Atyrau Refinery; (ii) the UAS pipeline to the Russian Transneft transportation system for further transport to ports on the Black Sea or to the Druzhba pipeline for further transport to ports on the Baltic Sea and eastern and central Europe; and (iii) the CPC Pipeline to the export marine terminal at Yuzhnaya Ozereevka on the Black Sea near the Russian port of Novorossiysk.

KMG EP exported 69.2%, 58.9% and 55.7% of its crude oil production in the years ended 31 December 2017, 2016 and 2015, respectively.

The following table sets forth KMG EP's crude oil sales by export transportation route for the periods indicated:

	<b>For the year ended 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(thousand tonnes)</i>		
<b>CPC Pipeline</b>			
Novorossiysk .....	2,288	2,149	1,850
UAS Pipeline .....	3,412	2,797	2,797
<b>Total export</b> .....	<b>5,700</b>	<b>4,946</b>	<b>4,647</b>

#### Transportation and Sale of Crude Oil - TCO

TCO's oil production is transported (i) by the CPC Pipeline to the export marine terminal at Yuzhnaya Ozereevka on the Black Sea near the Russian port of Novorossiysk; (ii) by rail to Ukrainian export terminals; and (iii) by rail through Aktau seaport to the BTC Pipeline and the Batumi Marine Export Terminal located at the Batumi Port.

TCO shipped 28.8 million tonnes of oil through the CPC Pipeline in the year ended 31 December 2017, 27.3 million tonnes in the year ended 31 December 2016 and 25.7 million tonnes through the CPC Pipeline in the year ended 31 December 2015. The year-on-year increases in 2017, 2016 and 2015 were due to increases in crude oil production at TCO, primarily as a result of the CPC Pipeline expansion. It is expected that the CPC Pipeline will continue to be the primary export route for TCO crude oil. At the end of 2009, an agreement was reached to expand the CPC Pipeline from 33 million tonnes per year to 67 million tonnes per year, including up to 52.5 million tonnes per year of oil and condensate produced in Kazakhstan. Construction works on the expansion of the CPC Pipeline were completed in October 2017. See "Transportation of Crude Oil—KTO Pipeline System—CPC Pipeline".

TCO also ships oil by expanded rail car loading and rail export facilities, which became operational during 2007 and are designed to transport the additional Tengiz production prior to the CPC expansion. Other alternatives are also being considered to increase export capacity.

TCO exports 100% of its crude oil production, which is transported primarily through the CPC Pipeline. The following table summarises TCO's crude oil exports by export transportation route for the periods indicated:

	<b>For the year ended 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(thousand tonnes)</i>		
CPC Pipeline:.....	28,753.0	27,283.0	25,662.0
BTC Pipeline.....	—	—	1,602.0
UAS Pipeline .....	—	—	53.3
Rail transportation to Ukraine and Batumi.....	—	29.0	246.5
<b>Total export</b> .....	<b>28,753.0</b>	<b>27,312.0</b>	<b>27,564.0</b>

In addition, TCO transports: (i) LPG by rail to customers within the CIS region and to LPG export facilities on the Black Sea and in certain European countries for export outside the region; (ii) dry gas through ICA's pipelines in Kazakhstan for domestic use and for export; and (iii) sulphur by rail through or within Kazakhstan and to Russia, China, Ukraine and various Baltic export terminals for onward exports.

#### Transportation and Sale of Crude Oil - PKI

PKI's oil production is transported by: (i) two lateral pipelines to Karakoin, where the pipelines connect with the Eastern Branch operated by KTO, which transport oil to the Shymkent Refinery; (ii) the Kumkol-Dzhusaly Pipeline to a rail loading terminal at Dzhusaly; (iii) rail from Dzhusaly to Aktau seaport and then across the Caspian Sea to Baku, through Azerbaijan and on to the Batumi Port; (iv) rail from Dzhusaly to the Atyrau-Samara segment of the UAS Pipeline and then by pipeline on to western Europe; (v) rail from Atasu and Tekesu to China; (vi) rail from Tekesu to Uzbekistan and Iran; (vii) the Atasu Alashankou Pipeline to China; and (viii) rail from Tekesu through Turkmenistan, across the Caspian Sea to Baku, through Azerbaijan and on to the Batumi Port.

PKI exported 24.9%, 34.8% and 34.7% of its crude oil production in years ended 31 December 2017, 2016 and 2015, respectively. The following table summarises PKI's crude oil exports by region for the periods indicated:

	<b>For the year ended 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
		<i>(thousand tonnes)</i>	
Atasu-Alashankou pipeline .....	775	1,212.0	1,488.3
Rail transportation from Dzhusaly to Aktau .....	0	0	0
Rail transportation from Atasu to CPC Pipeline .....	0	0	0
Uzbekistan .....	35	72.3	0
<b>Total export</b> .....	<b>810</b>	<b>1,284.3</b>	<b>1,488.3</b>

## **Refining, Marketing and Trading**

### ***Gas Sales and Distribution***

The Company sells and markets its natural gas through KTG (and, in turn, KTG Aimak) and KazRosGas, one of the Company's joint ventures.

#### KTG and KTG Aimak

KTG was established in accordance with Government Resolution № 173 dated 5 February 2000. Under the Gas Law, KTG has been appointed as the “national operator” for the transportation of gas. KTG owns the Company's retail distribution network. See “*Risk Factors—Risks Relating to the Company's Business—The Government has appointed KTG as the “national operator” for the transportation of gas*”.

KTG sells gas to KTG Aimak, which, through its gas distribution network, on-sells gas to end users. KTG Aimak is a wholly-owned subsidiary of KTG.

#### KazRosGas

KazRosGas was established on the basis of the treaty between the respective governments of Kazakhstan and Russia “On Cooperation in Gas Sector” dated 28 November 2001. KazRosGas is 50% owned by the Company (as at 31 December 2017) and 50% owned by Gazprom.

KazRosGas is engaged in the purchase and marketing of gas from the Karachaganak Field in western Kazakhstan. Gas from the field is transported mainly to the Russian border and further through Gazprom's transportation system to the EEU and other foreign markets.

KPO is a supplier of gas to KazRosGas. The sale of gas by KPO to KazRosGas is governed by a sale and purchase agreement, which, according to its terms and subject to amendment, shall remain in force until January 2038.

The following table sets forth the sources of KazRosGas's gas supply as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
		<i>(mcm)</i>	
Karachaganak (dry gas).....	7,509.8	7,643.9	7,539.2
KTG .....	—	—	—
Other .....	—	—	—
<b>Total</b> .....	<b>7,509.8</b>	<b>7,643.9</b>	<b>7,539.2</b>

The following table sets forth the gas distribution destinations of KazRosGas as at the dates indicated:

	As at 31 December		
	2017	2016	2015
	<i>(mcm)</i>		
Export .....	6,360.4	6,573.9	6,599.2
<i>of which swap operations</i> .....	4,557.8	4,770.4	4,476.9
Domestic market .....	1,149.4	1,070.0	940.0
<b>Total</b> .....	<b>7,509.8</b>	<b>7,643.9</b>	<b>7,539.2</b>

## Refining

### *KMG RM Merger*

Prior to December 2017, KMG RM was the Company's principal refining, marketing and trading company. On 30 November 2017, a joint decision of the shareholders of the Company and the shareholders of KMG RM approved the merger of KMG RM with the Company, with the aim of increasing efficiency and eliminating the duplication of activities and responsibilities. The merger became effective on 1 December 2017, in accordance with the provisions of the Civil Code of the Republic of Kazakhstan. The joint decision of the shareholders provided for the expansion of the Company's principal operations listed in its charter to include, amongst others, refining crude oil, operating filling station networks and trading the Company's crude oil and oil products. As a result of the merger, the Company holds a significant or controlling interest in all three of Kazakhstan's principal oil refineries, Atyrau Refinery, Pavlodar Refinery and (through Valsera Holdings B.V.) Shymkent Refinery.

### *Sales of Crude Oil*

Since 1 May 2012, KMG EP has exported the crude oil it produces directly. KMG EP sells the majority of its crude oil to KMG International. The Company's main customers are based in China, the Netherlands, Italy and Romania, and its customer base has not changed significantly in recent years.

### *Refining Facilities*

As at 31 December 2017, the Company held a 99.53% ownership interest in the Atyrau Refinery; a 100.0% interest in the Pavlodar Refinery; and, through Valsera Holdings B.V., indirectly holds a 49.72% interest in PetroKazakhstan Oil Products LLP, which, in turn, owns the Shymkent Refinery. As at 31 December 2017, the total actual refining capacity of these refineries was 16.1 million tonnes of crude oil per year.

In recent years, the Company has invested significant capital expenditures to conduct a number of modernisation and upgrade projects at its three refineries in Kazakhstan. The total cost of the modernisation of the Atyrau Refinery, which was completed in December 2017, was U.S.\$2,050.1 million (KZT 589.9 billion). The total cost of the modernisation and reconstruction of the Pavlodar Refinery, which was also completed in December 2017, was U.S.\$895.5 million (KZT 252.1 billion). In addition, the Company's joint venture at the Shymkent Refinery has budgeted a total cost of U.S.\$2,094.3 million (KZT 657.9 billion) in capital expenditures in connection with improvement works at the Shymkent Refinery, which were partially completed in 2017 and are expected to be fully completed in 2018.

The ongoing and recently-completed modernisation and upgrade projects are expected to improve utilisation rates, profitability and the quality of the refined oil products at the refineries, as well as to enable the refineries to produce fuels that meet Euro 4 and Euro 5 standards, and have the strategic aim of reducing the heavy products currently produced at the refineries and increasing the production of lighter products. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Capital Expenditures*", "*—Pavlodar Refinery*", "*—Atyrau Refinery*" and "*—Shymkent Refinery*".

Following the completion of the recent and ongoing modernisation projects, the Company expects capital expenditures at the three refineries to be lower in the future than in recent years, with the majority of such capital expenditures to relate to maintenance rather than modernisation or expansion works.

The Atyrau Refinery, the Pavlodar Refinery and the Shymkent Refinery are included on the list of candidates to be privatised pursuant to the 2016 Complex Privatisation Plan. Following the merger of KMG RM with the Company in December 2017 and the decision of the State Commission on Modernisation of the Economy of the Republic of Kazakhstan dated 2 November 2017, however, the Government issued a resolution dated 10 March 2018, removing the

refineries from the list. Any privatisation of the refineries is expected to be addressed in the context of any initial public offering or privatisation of the Company.

See “*Risk Factors—Risk Factors relating to the Company’s business—The outcome of the implementation of further market based economic reforms is uncertain*”.

### Pavlodar Refinery

In August 2009, KMG RM acquired a 100.0% interest in Refinery Company RT, LLP (“**Refinery Company RT**”), which at that time owned all of the assets of the Pavlodar Refinery, together with a 25.1% interest in Pavlodar Oil Chemistry Refinery JSC, the entity owning the licences to operate the Pavlodar Refinery (with the remaining 74.9% interest in Pavlodar Oil Chemistry Refinery LLP then being held directly by KMG RM). Refinery Company RT leased the assets comprising the Pavlodar Refinery to Pavlodar Oil Chemistry Refinery LLP, which then operated the Pavlodar Refinery. In April 2013, Refinery Company RT and Pavlodar Oil Chemistry Refinery JSC were merged, with Pavlodar Oil Chemistry Refinery LLP emerging as the surviving entity. Following the merger of KMG RM with the Company, as at 31 December 2017, the Company owns 100% of the Pavlodar Oil Chemistry Refinery LLP.

The Pavlodar Refinery, which was built in 1978, is located in the city of Pavlodar in north-east Kazakhstan, Pavlodar Oblast, 100 km from the border with Russia and is linked to the Omsk-Pavlodar-Shymkent Pipeline. The Pavlodar Refinery has a catalyst cracker and sulphur granulation unit. All oil supplied to the refinery originates in the western Siberian oil fields and is transported into the refinery through the Transneft and KTO pipeline systems and stored in the associated tank farms located immediately adjacent to the refinery. In addition to western Siberian crude, recent modernisation has allowed for processing of up to 0.5% of the Pavlodar Refinery’s total capacity of crude oil from other origins. The share of non-Siberian oil is limited by its high sulphur content, which reduces the quality of the refined products.

The Pavlodar Refinery is the largest and most technically advanced of the three principal oil refineries in Kazakhstan and has a designed refining capacity of 20,548 tonnes of crude oil per day and an actual capacity of 5.1 million tonnes of crude oil per year. It refined 4.2 million tonnes of refined oil products in 2017, representing 32.2% of the total oil refined in Kazakhstan in 2017. In addition, the Pavlodar Refinery produced 43.4% of the gasoline, 35.5% of the diesel and 19.7% of the fuel oil produced in Kazakhstan in 2017.

The Pavlodar Refinery tolls oil for a processing fee established by the Natural Monopolies Committee. The Natural Monopolies Committee permitted the Pavlodar Refinery to increase processing fees in 2016 to KZT 14,895.0 per tonne from KZT 8,641.64 per tonne in 2015, and, in 2017, further increase processing fees to KZT 15,428.0 per tonne, which has had, and continues to have, a positive impact on refining revenue.

In June 2017, the Pavlodar Refinery entered into a Hydrogen and Steam Supply and Offtake Agreement with Air Liquide Munay Tach Gases LLP, a joint venture of KMG RM (now the Company) and Air Liquide Eastern Europe *société anonyme*. Pursuant to this agreement, the Pavlodar Refinery has agreed to purchase and offtake produced and recovered hydrogen for a period for fifteen years for a monthly purchase price ranging between KZT 171 million and KZT 595 million.

In 2009, the Company entered into a memorandum of understanding with Eni S.p.A. to conduct a feasibility study in relation to a reconstruction and modernisation project for the Pavlodar Refinery. Since 2009, the Company has conducted a number of feasibility and construction projects with the principal aim of modernising the Pavlodar Refinery, to produce transport fuels that meet Euro 5 standards through the construction of new units, as well as the refurbishment of existing units. The modernisation project was successfully completed in December 2017 and included the development of: (i) an isomerisation unit, which permits production of high-octane components of commercial gasoline from low-octane fractions of crude oil; (ii) a naphtha splitter, which separates light and heavy fractions of naphtha for further isomerisation and reforming; (iii) a sulphur recovery unit and tail gas treatment, for the treatment of sour gas; (iv) a sour water stripper for the treatment of incoming effluents from refinery units; and (v) an amine regeneration unit, for the regeneration of amine from process units. The project has permitted the Pavlodar Refinery to increase its supply of high-quality oil products to the market and to compete with oil companies in CIS and other countries. Following completion of the modernisation project, jet fuel is also expected to recommence production at the Pavlodar Refinery in 2018, following receipt of the appropriate licences. Jet fuel has not been produced at the Pavlodar Refinery since 2015. The total cost of the modernisation project was U.S.\$895.5 million (KZT 252.1 billion). See “*Management’s Discussion and Analysis—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*” for details relating to the financing of the modernisation project.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Pavlodar Refinery for the periods indicated:

	<b>For the year ended 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(thousand tonnes)</i>		
Gasoline .....	1,280.7	1,224.7	1,248.8
Diesel fuel .....	1,413.6	1,524.3	1,457.3
Jet fuel .....	—	—	10.7
Fuel oil .....	599.9	560.1	822.1
Other products.....	927.5	727.0	787.8
<b>Total .....</b>	<b>4,221.7</b>	<b>4,036.1</b>	<b>4,326.8</b>

#### Atyrau Refinery

The Atyrau Refinery is located in the centre of the major hydrocarbon producing region of western Kazakhstan and is linked to the Uzen-Atyrau-Samara Pipeline. Built in 1945, the Atyrau Refinery is the oldest refinery of the three operating refineries in Kazakhstan. Following a modernisation programme, the Atyrau Refinery has a designed and actual refining capacity of 5.0 million tonnes of crude oil per year.

The Atyrau Refinery refined 4.7 million tonnes of crude oil in 2017, representing 31.8% of the total oil refined in Kazakhstan in the year ended 31 December 2017. In addition, the Atyrau Refinery produced 21.8% of the gasoline, 34.1% of the diesel and 49.0% of the fuel oil produced in Kazakhstan in 2017. In 2017, the Atyrau Refinery produced a total of 4.5 million tonnes of refined oil products. The Atyrau Refinery mainly tolls oil that it receives from KMG EP, for which processing fees are established by the Natural Monopolies Committee. The Natural Monopolies Committee permitted the Atyrau Refinery to increase its processing fee from KZT 20,501.0 per tonne to KZT 24,512.0 per tonne from 1 April 2017 and to KZT 31,473.0 per tonne from 1 January 2018. This tariff, which remains in effect as at the date of this Base Prospectus, has had, and is expected to continue to have, a positive impact on refining revenue.

In October 2009, the Atyrau Refinery entered into a contract with Sinopec Engineering for the construction of an aromatics production complex and deeper oil refining at the Atyrau Refinery and to include the construction of a catalytic reforming unit, benzene and paraxylene production units and off-site facilities. Further contracts were entered into for the turnkey construction of the deeper oil refining complex in December 2011. The modernisation project was completed in December 2017. The total cost of such works was U.S.\$2,051.1 million (KZT 589.9 billion). In addition to allowing for production of up to 132,000 tonnes of benzene per year and up to 497,000 tonnes of paraxylene per year, this project has also permitted the production of Euro 4 standard petrol and diesel fuel at the Atyrau Refinery. The deeper oil refining complex has a capacity of up to 2.4 million tonnes, permits a more rational use of the residual heavy oil resource base and is expected to permit increased production of motor fuels, gasoline, diesel and jet fuel. The construction of the deeper oil refining complex has also increased oil refining depth in order to permit the production of gasoline and diesel fuel that complies with Euro 5 standards. It is also expected that the modern machinery and automated processes put in to place at the Atyrau Refinery as part of the modernisation process will reduce emissions and human error going forward.

See “*Management’s Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries*” for details relating to the financing of the modernisation project.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Atyrau Refinery for the periods indicated:

	<b>For the year ended 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(thousand tonnes)</i>		
Gasoline .....	643.5	642.9	604.7
Diesel fuel .....	1,356.3	1,390.9	1,207.3
Jet fuel .....	23.6	19.7	20.6
Fuel oil .....	1,494.7	1,361.7	1,649.7
Other products.....	963.7	1,075.9	1,043.0
<b>Total .....</b>	<b>4,481.8</b>	<b>4,491.2</b>	<b>4,525.4</b>

## Shymkent Refinery

The Shymkent Refinery is located in southern Kazakhstan and was commissioned in 1985. Most product and crude deliveries to the Shymkent Refinery are made by rail in railcars provided by the state-owned railway or third parties. Crude oil production from Kumkol producing fields and from western Siberia are the primary source of crude oil for the Shymkent Refinery.

In July 2007, KMG RM acquired an indirect 49.72% interest in PetroKazakhstan Oil Products LLP (which is held by the Company), which in turn owns the Shymkent Refinery through Valsera Holdings B.V. The remaining interest in PetroKazakhstan Oil Products LLP is held by CNPC. The Shymkent Refinery had a designed refining capacity of 6.0 million tonnes of crude oil per year and an actual refining capacity of 5.2 million tonnes of crude oil per year.

The Shymkent Refinery refined 4.7 million tonnes of crude oil in 2017, representing 31.5% of the total oil refined in Kazakhstan in 2017. Crude oil refined at the Shymkent Refinery is supplied by the Company's joint venture partners. Accordingly, while the Company is entitled to profits from the operation of the Shymkent Refinery, none of the crude oil refined at the Shymkent Refinery is attributable to the Company.

In addition, the Shymkent Refinery produced 34.8% of the gasoline, 30.4% of the diesel and 31.3% of the fuel oil produced in Kazakhstan in the year ended 31 December 2017.

The Shymkent Refinery works on tolling oil for others for a processing fee established by the Natural Monopolies Committee. In August 2012, the Natural Monopolies Committee permitted the Shymkent Refinery to increase its processing fees to KZT 4,975 per tonne from KZT 3,100 per tonne and in July 2014, to increase its processing fees further to KZT 11,454 per tonne.

In October 2010, Shymkent Refinery entered into a contract with Technip S.p.A. (Italy) to prepare a feasibility study in relation to the reconstruction and modernisation works for the Shymkent Refinery. The modernisation project at the Shymkent Refinery had two principal aims: (i) to increase the actual refining capacity to 6.0 million tonnes of crude oil per year; and (ii) to increase processing depth and to meet Euro 4 and Euro 5 standards. In June 2017, a light naphtha isomerisation unit, with a preliminary hydro-treating unit for raw materials, was put into operation at the Shymkent Refinery, and the first certified batch of Euro 4 and Euro 5 gasoline was received. This marked the completion of the first phase of the Shymkent Refinery modernisation project. The second phase of the project (to increase the actual refining capacity of the refinery to 6.0 million tonnes) is expected to be completed in September 2018.

The Company estimates the total cost of the modernisation project at the Shymkent Refinery to be U.S.\$2,094.3 million (KZT 657.9 billion).

See "Management's Discussion and analysis of Results of Operating and Financial performance —Debt Obligations—Principal Debt Obligations of the Company and its Subsidiaries" for details relating to the financing of the modernisation project.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Shymkent Refinery for the periods indicated:

	For the year ended 31 December		
	2017	2016	2015
	<i>(thousand tonnes)</i>		
Gasoline .....	1,027.4	1,032.0	988.0
Diesel fuel .....	1,209.3	1,203.4	1,192.4
Jet fuel .....	279.7	235.9	253.9
Fuel oil .....	955.9	868.7	888.8
Other products .....	915.7	931.8	939.4
<b>Total .....</b>	<b>4,388.0</b>	<b>4,271.9</b>	<b>4,262.5</b>

### *Refined Oil Products Sales and Distribution*

"KMG Retail" LLP (formerly named "Directorate of KMG Enterprises under Construction" LLP) ("**KMG Retail**") was formed on 8 December 2009 and tasked with overseeing the implementation of certain projects in accordance with a memorandum of understanding between the Company and Eni S.p.A. In accordance with KMG Retail's charter, KMG

Retail's activities include the provision of services for the rental of industrial facilities, including gas stations, oil depots and other buildings, structures and related fixed assets.

In 2017, KMG RM transferred its network of gasoline filling stations to the balance sheet of KMG Retail, which on-leased the stations to KMG-Onimderi JSC. As at 31 December 2017, KMG Retail owned 344 gasoline filling stations (as compared to 325 as at 31 December 2016 and 324 as at 31 December 2015) in Astana and Almaty and in west, north and east Kazakhstan, which, according to KMG Retail's estimates, accounted for 7.0% of retail gasoline sales in the domestic market in 2017, 5.6% in 2016 and 13.5% in 2015. KMG Retail is wholly-owned by the Company.

KMG Retail sells domestically a full range of petroleum fuel, including high-quality diesel, gasoline and jet fuel. The trading and marketing of refined oil products in the domestic market is performed by KMG Retail through direct sales primarily through the Atyrau Refinery, as well as from its wholly-owned subsidiary, KMG-Onimderi JSC. Oil products are transported by railway and subject to a tariff that is based on the actual distance travelled.

The following tables set forth the product mixture and corresponding domestic market share of the Company for the periods indicated:

Product	For the year ended 31 December 2017		
	Production	KMG	Market Share
	(thousand tonnes)		%
Gasoline .....	2,951.6	534.9	18.1
Jet fuel.....	303.3	55.0	18.1
Diesel .....	3,979.2	658.8	16.6
Fuel .....	3,050.5	155.0	5.0
<b>Total .....</b>	<b>10,284.6</b>	<b>1,403.7</b>	<b>13.6</b>

Product	For the year ended 31 December 2016		
	Production	KMG RM	Market Share <sup>(1)</sup>
	(thousand tonnes)		%
Gasoline .....	2,899.7	161.8	5.6
Jet fuel.....	255.6	—	0.0
Diesel .....	4,118.7	240.1	5.8
Fuel .....	2,790.5	178.5	6.4
<b>Total .....</b>	<b>10,064.4</b>	<b>519.5</b>	<b>5.8</b>

Note:

(1) Market share decreased in 2016 while production remained stable, due to domestic sales of oil being transferred to KMG EP during the second quarter of 2016.

Product	For the year ended 31 December 2015		
	Production	KMG RM	Market Share
	(thousand tonnes)		%
Gasoline .....	2,841.5	383.7	13.5
Jet fuel.....	285.2	12.2	4.3
Diesel .....	3,857.1	669.0	17.4
Fuel .....	3,360.6	879.5	26.2
<b>Total .....</b>	<b>10,344.4</b>	<b>1,944.4</b>	<b>18.8</b>

### ***KMG International***

In March 2014, the Board of Directors of The Rompetrol Group N.V. changed its corporate name to KazMunayGas International N.V., in accordance with the Company's strategy to promote a single brand across the Group. KazMunayGas International N.V. owns and operates, among other entities, the Petromidia Refinery, which is owned by its 54.6%-owned subsidiary Rompetrol Rafinare (as at 31 December 2017, the remaining 44.7% and 0.7% are owned by the Romanian Government and public shareholders, respectively) and the Vega Refinery, as well as a network of retail stations.

In December 2017, KMG RM was merged with the Company and, accordingly, as at 31 December 2017, the Company was the 100% direct owner of KMG International.



### *Disposal of 51% of the Company's Interest in KMG International*

In December 2016, the Company entered into the CEFC Agreement with CEFC China Energy Company Limited to sell 51% of the shares of capital stock it holds in KMG International to CEFC for a purchase price payable by CEFC to KMG of U.S.\$680 million. The Proposed KMG International/CEFC Sale is consistent with the Group's overall strategy to focus on its operations in Kazakhstan, as well as the Government's 2014 Complex Privatisation Programme and 2016 Complex Privatisation Programme.

Under the CEFC Agreement, the Proposed KMG International/CEFC Sale is subject to the satisfaction of a number of conditions precedent. To this end, in April 2017, the Company, in conjunction with KMG Finance, completed a consent solicitation pursuant to which, *inter alia*, the consent of holders of the then-outstanding Notes under the Programme to the sale of the Company's interest in KMG International was obtained. Consents to the sale from lenders under the Company's debt facilities were also obtained, as necessary.

In July 2017, the Company received the approval from Romania's Supreme Council of National Defence and the Romanian anti-trust regulator to proceed with the Proposed KMG International/CEFC Sale. In December 2017, following public statements by the Prime Minister and the Minister of Energy of Romania indicating their refusal to extend an existing agreement with KMG International regarding the settlement of historical debts (which has since been extended to April 2018, see "*Rompetrol Convertible Note*"), the Company and CEFC signed an agreement to postpone the closing date of the Proposed KMG International/CEFC Sale to 30 June 2018.

The principal conditions precedent for the completion of the Proposed KMG International/CEFC Sale are the redemption of a 26.7% stake in Rompetrol Rafinare from the Romanian Government and the creation of a Kazakh-Romanian investment fund, through which KMG International is expected to make an equity contribution of U.S.\$150 million. See "*Rompetrol Convertible Note*". The Proposed KMG International/CEFC Sale is expected to be completed by the end of June 2018.

Following the Proposed KMG International/CEFC Sale, the Company will continue to hold 49% of KMG International and, although the Company may in the future pursue sales of a further stake in KMG International, in the short- to medium-term, the Company expects to continue to sell a significant portion of its retail products through KMG International, providing the Company with access to, and a presence in, the downstream oil and gas segment in Europe without being required to make additional investments. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Acquisitions, Discontinued Operations and Loss of Control—KMG International*".

### *Rompetrol Convertible Note*

In 2003 (and prior to the Company's ownership of the KMG International Group), Rompetrol Rafinare issued a convertible debt instrument in the amount of €570.3 million (KZT 101.0 billion) to the Romanian government (the "**Rompetrol Convertible Note**"). The Rompetrol Convertible Note provided that Rompetrol Rafinare could repay the principal amount in cash or in shares of Rompetrol Rafinare at the maturity of the Rompetrol Convertible Note on 30 September 2010. In August 2010, Rompetrol Rafinare increased its share capital by the issuance of new shares in an amount equivalent to €78 million at the date of subscription, all of which were fully subscribed by the Company, through Rompetrol, and as a result of which the Company further increased its ownership interest in Rompetrol Rafinare. Subsequently, in August 2010, Rompetrol Rafinare applied a portion of the proceeds from the capital increase to repay €54 million in cash to the Romanian government on the maturity of the Rompetrol Convertible Note. At the maturity of the Rompetrol Convertible Note on 30 September 2010, the remaining balance due was converted into shares of Rompetrol Rafinare, as a result of which the Company's ownership interest in Rompetrol Rafinare was reduced to 54.6%, with 44.7% being owned by the Romanian government and 0.7% being owned by public shareholders.

On 15 February 2013, Rompetrol entered into a memorandum of understanding with the Romanian Government in relation to the settlement of all matters relating to the Rompetrol Convertible Note. Pursuant to this memorandum of understanding, Rompetrol has agreed to purchase shares representing 26.70% of the share capital of Rompetrol Rafinare from the Romanian Government for U.S.\$200 million. The remaining shares, representing 18.0% of the share capital of Rompetrol Rafinare held by the Romanian Government, will be subject to a three-year lock-up arrangement, and Rompetrol will have a right of first refusal over the disposal of such shares.

In addition, the parties have agreed to establish a Kazakh-Romanian investment fund, through which KMG International will make an equity contribution of U.S.\$150 million. Total investment in the fund will be provided over a seven-year period with total investments by KMG International in energy projects related to its core activities estimated to be U.S.\$1 billion. This fund may also seek debt financing in an aggregate amount up to four times its equity. Following its

establishment, the fund will be 80% owned by KMG International and 20% owned by the Romanian Government and is expected to invest in the oil and gas sector in Romania. In the event of a proposed disposal, KMG International has a pre-emption right in respect of the Romanian Government's interest in this investment fund.

The memorandum of understanding provides that the obligations of KMG International and the Romanian Government will terminate in the event that either party or one of its affiliates (in the case of the Romanian Government, any public authority) initiates legal or administrative proceedings against the other party or one of their affiliates.

On 22 January 2014, the memorandum of understanding was approved by Government Decision № 35/2014 pursuant to which the Ministry of Public Finance has been authorised and mandated to pursue all procedural actions required for the withdrawal of the claims and the termination of all litigation. According to the court decision № 294 dated 24 March 2014, the litigation by which the Ministry of Finance challenged the conversion of bonds into Rompetrol Rafinare' shares was closed.

The validity of the memorandum of understanding has been extended to 30 April 2018. See also “—*Litigation—Rompetrol SA Proceedings*”.

#### *Petromidia Refinery*

The Petromidia Refinery was constructed between 1974 and 1979. The Petromidia Refinery has a designed refining capacity of 5.0 million tonnes of crude oil per year and an actual refining capacity of 5.4 million tonnes of crude oil per year. In 2017, KMG International produced 5.7 million tonnes of refined oil products at the Petromidia Refinery, achieving 110% utilisation of designed refining capacity.

The Petromidia Refinery processes a variety of crude oils with high sulphur content and API. Crude oil processed at the Petromidia Refinery is received at Midia port, which is owned by KMG International and can accommodate ships of up to 24,000 tonnes of deadweight, or through the larger Constanta port, which is connected to the Petromidia Refinery by a 40 km pipeline. The Petromidia Refinery has its own marshalling yard, with 40 loading and unloading points and vehicle loading ramps. The Petromidia Refinery produces different types of vehicle fuels (gasoline, diesel and LPG) and Jet A-1 Fuel. Petromidia Refinery products meet applicable European quality standards and environmental protection regulations for such products.

In Romania, Petromidia oil products are sold through the KMG International downstream distribution network and third-party retail and wholesale distribution networks. The Petromidia Refinery exports oil products to Ukraine, Moldova, Bulgaria, Turkey, Georgia, Hungary, Croatia, Bosnia, Serbia and western Europe.

The cost of processing at the Petromidia Refinery has decreased to U.S.\$15.78 per tonne from U.S.\$16.66 per tonne in 2016 and U.S.\$16.68 per tonne in 2015, primarily as a result of cost saving and production optimisation programmes implemented at the Petromidia Refinery.

In October 2012, the Company announced the completion of the installation of all of the industrial projects that formed the Company's modernisation plans for the Petromidia Refinery. As a result of the completion of these projects, the volume of refined oil products produced by the Petromidia Refinery increased from 4.8 million tonnes as at 31 December 2015 to 5.2 million tonnes as at 31 December 2016 and 5.7 million tonnes as at 31 December 2017. These industrial projects included works to upgrade the fluid catalytic cracking unit and claus unit, works to upgrade the amine unit and the refinery's facilities from VGO hydro-treating to diesel hydro-treating, works to increase N2 liquid evaporation capacity and automation and the construction of a new hydrogen production plant, mild hydrocracker unit, flares and sulphur recovery unit.

KMG International's capital expenditures at the Petromidia Refinery were U.S.\$124.5 million in 2015, U.S.\$83.7 million in 2016 and U.S.\$55.0 million in 2017. Investments in 2017 were made primarily to support the current level of production and comply with legislative requirements. KMG International plans to spend U.S.\$57.9 million in capital expenditures in 2018, which are mainly aimed at maintaining production levels. Following the completion of the Proposed KMG International/CEFC Sale, the portion of the capital expenditures attributable to the Company will be reduced *pro rata* to its continuing 49% interest in KMG International.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Petromidia Refinery for the periods indicated:

	<b>For the year ended 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(thousand tonnes)</i>		
Gasoline .....	1,461.9	1,416.3	1,169.1
Diesel fuel .....	2,738.5	2,521.5	2,474.4
Jet fuel .....	250.7	236.8	219.0
Fuel oil .....	140.1	151.7	139.0
Other products.....	938.6	915.9	827.7
<b>Total .....</b>	<b>5,529.9</b>	<b>5,242.1</b>	<b>4,829.3</b>

### *Vega Refinery*

The Vega Refinery, which is owned by KMG International, is located in Ploiesti, a small town near Bucharest, Romania. It was constructed in 1905 and modernised between 1970 and 1980. The Vega Refinery has a designed and actual refining capacity of 0.3 million tonnes per year. For 2017, 2016 and 2015, the Vega Refinery produced a total of 0.4 million tonnes of refined oil products, 0.4 million tonnes of refined oil products and 0.3 million tonnes of refined oil products, respectively.

The Vega Refinery uses by-products of other refineries in the region as raw material and specialises in processing alternative raw materials (naphtha, refined RC, C5 C6 fraction, other oil fractions and fuel oil) and in producing ecological solvents, asphalt for special uses, ecological fuels for heating and other specialised products. The Vega Refinery has installations for both atmospheric and vacuum distillation of crude oil and for processing alternative raw materials.

The range of products produced by the Vega Refinery includes polymerisation solvent-normal hexane, ecological petroleum solvents, other oil products, such as gasoline, naphtha, white spirit and petroleum products (heating oil), light liquid fuel and bitumen.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Vega Refinery for the periods indicated:

	<b>For the year ended 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(thousand tonnes)</i>		
Special Gasoline (Solvents) and other gasoline .....	41.0	40.0	33.7
White spirit and petroleum.....	5.1	5.0	7.2
Gas oil .....	79.5	82.9	70.6
Heavy fuel.....	107.7	95.4	94.4
Fuel oil .....	24.5	28.2	27.1
Bitumen.....	96.4	90.8	80.8
Other products.....	10.4	7.7	9.9
<b>Total .....</b>	<b>364.6</b>	<b>350.1</b>	<b>323.7</b>

### *Retail network*

KMG International sells a full range of petroleum products, including gasoline, diesel fuel, LPG and heating oil both domestically in Romania and in eastern Europe, France and Spain. As at 31 December 2017, KMG International, owned and operated 1,028 distribution points, including 809 points of sale in Romania, 86 in Georgia, 55 in Bulgaria and 80 in Moldova, and was the largest petroleum product supplier in Moldova, with an estimated 48% market share. As at 31 December 2017, KMG International had an approximate 19% and a 16% market share in Georgia and Bulgaria, respectively. The Bulgaria, Moldova and Georgia branches of KMG International sold over 4.2 million tonnes of fuels from 2012 to 2017, with sales by these branches increasing by 9% in 2017, as compared to 2016 sales levels.

The trading and marketing of refined oil products in the Romanian market is performed by various KMG International controlled entities, including Rompetrol Downstream, Rom Oil SA (wholesale and retail sale of gasoline and diesel fuel), Romcalor SA and Rompetrol Gas SRL (wholesale and retail sale of liquefied gas) in Romania, and by Vector Energy AG

in eastern Europe. The fuels obtained from the Petromidia Refinery are mainly traded in Romania by Rompetrol Downstream, which sold 482,000 tonnes of petroleum products in 2017, an increase of more than 60%, as compared to 2012. As at 31 December 2016, it had a distribution network of 215 fuel stations in Romania, Bulgaria and Moldova.

The following tables set forth KMG International's product mixture and percentages sold domestically in Romania and internationally for the periods indicated:

Product	For the year ended 31 December 2017		
	Volume (tonnes)	% volume sold	
		Domestically	Internationally
Gasoline .....	1,344,880	23	77
Diesel fuel .....	2,937,767	58	42
Jet fuel .....	234,679	95	5
LPG .....	380,206	17	83
Other products .....	656,774	21	79
<b>Total sold<sup>(1)</sup></b> .....	<b>5,554,307</b>	<b>44</b>	<b>56</b>

Product	For the year ended 31 December 2016		
	Volume (tonnes)	% volume sold	
		Domestically	Internationally
Gasoline .....	1,163,664	24	76
Diesel fuel .....	2,932,557	54	46
Jet fuel .....	218,497	92	8
LPG .....	237,243	75	25
Other products .....	856,935	45	55
<b>Total sold<sup>(1)</sup></b> .....	<b>5,408,895</b>	<b>49</b>	<b>51</b>

Product	For the year ended 31 December 2015		
	Volume (tonnes)	% volume sold	
		Domestically	Internationally
Gasoline .....	1,243,186	23	77
Diesel fuel .....	4,450,942	30	70
Jet fuel .....	241,615	54	46
LPG .....	246,599	66	34
Other products .....	2,546,734	15	85
<b>Total sold<sup>(1)</sup></b> .....	<b>8,729,076</b>	<b>27</b>	<b>73</b>

Note:

(1) The figures in this table include the total sales of KMG International's subsidiaries, as well as the volumes sold by the Petromidia Refinery directly to third parties.

### Petrochemicals

As at 31 December 2017, the Company held 97.8% of the share capital of AZPM LLP ("AZPM"), with the remaining 2.2% interest in AZPM being held by KMG EP. AZPM owns two petrochemical plants in Kazakhstan: the Atyrau plant, which is currently not operational, and the Aktau plant, which produces small amounts.

In 2010, construction works commenced on the site of the proposed road bitumens production plant at the plastics plant in Aktau. The plant was put into operation in the fourth quarter of 2013. The capacity of the road bitumens production plant is 400.0 thousand tonnes per year. In 2017, the plant produced 234.8 thousand tons of road bitumen, meeting the demands of the market. On 17 June 2016, Caspi Bitum LLP entered into two loan agreements with the Bank of China in an aggregate principal amount of U.S.\$208 million, for the purposes of refinancing a loan entered into in 2010 in connection with the construction of the plant. Such funds have been drawn down and the 2010 loan has been fully repaid. See "Management's Discussion and Analysis of Results of Operations and Financial Performance".

## Competition

### *Exploration and Production*

Kazakhstan's oil and gas sector has been an attractive investment opportunity for leading western, Asian and Russian oil and gas companies. Since Kazakhstan's independence in 1991, a number of major western and other oil companies have invested in the oil and gas sector of Kazakhstan. In recent years, principal competition in the exploration and production sector has been from China, which has enhanced its presence in Kazakhstan's oil and gas industry by acquiring a number of oil producing companies, as well as by entering into several significant joint ventures with the Company. These joint ventures include, among others, (i) PKI, an oil producer which is majority owned by CNPC; (ii) CCEL, a joint venture with CITIC; (iii) KCP, a joint venture of KTO with CNODC formed to construct and operate the KC Pipeline; (iv) AGP, a joint venture of KTG with CNPC (acting through Trans-Asia Gas Pipeline Company Limited) to construct the Turkmenistan-China gas pipeline across Kazakhstan, which transmits gas from the other Central Asian Republics to major population centres in southern Kazakhstan and to China; (v) BSGP, a joint venture between KTG and CNPC to construct and operate the Beineu-Bozoi-Shymkent Gas Pipeline; (vi) MMG, an oil producer owned by MIBV, a 50-50 joint venture with CNPC E&D; and (vii) MunayTas, which operates the Kenkiyak-Atyrau pipeline and in which CNPC E&D owns a 49.0% interest. There are currently approximately 40 oil producers in Kazakhstan, which have a Chinese participation interest and approximately 40% of the crude oil produced in Kazakhstan is produced by companies with a Chinese participant. The last few years have also seen renewed interest, particularly in western Kazakhstan, from numerous smaller companies that have been attracted by development opportunities and the region's existing infrastructure. Companies in this group include, among others, Arawak Energy Limited, BMB Munai Inc., CanArgo Energy Corporation, Caspian Holdings PLC, Emir Oil LLP, Kaspiy Neft, JSC Nostrum Oil & Gas and Victoria Oil & Gas PLC.

The Company does not foresee competition for reserves from regional and international oil and gas companies, since the Company is the beneficiary of the Government's pre-emptive right to acquire interests in Subsoil Use Agreements.

### *Transportation*

Kazakhstan occupies a favourable geographical position as a transit country between major gas producers in Turkmenistan, Uzbekistan and Russia and large gas consumption centres in eastern and western Europe. ICA is the monopoly operator of the gas transportation system in Kazakhstan and, accordingly, does not face competition for this international transit business or for domestic gas transportation. ICA may, however, face some competition from outside Kazakhstan in the future. A potential future competitor is the Trans-Caspian gas pipeline, the gas sources for which have not yet been determined, and the future of which remains uncertain.

The Company's management believes that the likelihood of ICA becoming subject to significant competition remains remote, in the near- to medium-term.

### *Refining, Marketing and Trading*

Following its purchase in August 2009 of MMG's controlling interest in the Pavlodar Refinery, which is the largest and most technically-advanced refinery in Kazakhstan and services north Kazakhstan and the adjacent regions in Russia, the Company now has a significant or controlling interest in all three of Kazakhstan's principal oil refineries. Because of the location of these three refineries, the Company is able to supply the domestic market and, if sufficient quantities of refined products are available, to export to Europe. In addition, through its ownership of KazMunayGas International N.V. (formerly, the Rompetrol Group), the Company indirectly owns 54.6% of the Petromidia Refinery in Romania (as at 31 December 2017). See "*—Refining, Marketing and Trading—KMG International*".

As at 31 December 2017, the Company was the largest company in Kazakhstan in terms of the number of gasoline stations selling refined oil products on a retail basis, with a 7.03% market share. Its main competitor, Helios, was the second largest oil product retailer with a 5.75% market share as at 31 December 2017. As at 31 December 2017, the Company's market share of the retail sale of refined oil products, by sales volume, was 14%.

The following table sets forth certain information relating to the four leading oil product retailers operating in Kazakhstan as at the dates indicated:

**As at 31 December 2017**

	<b>Number of Gasoline Stations</b>	<b>Market Share %</b>
KMG .....	344	7.0
Helios .....	281	5.8
Sinoil .....	161	3.3
Gazpromneft .....	70	1.4

## Employees

The following table sets forth the approximate number of employees of the Company, by type of business, as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Exploration and Production.....	19,647	20,228	21,004
Oil and gas transportation .....	18,661	19,060	19,985
Other (subsidiaries) .....	18,103	19,788	19,272
Refining and marketing.....	6,807	7,098	8,834
KMG (as a holding company).....	497	432	412
<b>Total</b> .....	<b>63,715</b>	<b>66,606</b>	<b>69,508</b>

In April 2014, KMG EP introduced a similarly-aimed standardised salary scale to apply to KMG EP and its subsidiaries in order to eliminate discrepancies among workers of the same scale working at different fields and production units. In addition, following the devaluation of the Tenge, the President of Kazakhstan ordered all state-owned companies, including the Company, to perform an indexation exercise in respect of employee salaries to avoid a negative effect to workers as a result of the devaluation.

The Company's trade union was established in September 2007. In 2014, a new trade union law was introduced in Kazakhstan, which promotes membership of trade unions. Following the introduction of this law, in April 2014, the Chairman of the Company's Management Board entered into a co-operation agreement with the trade unions of the Company's subsidiaries. As at 31 December 2017, the Company's trade union had 32 members, who are employees of the Company. Certain subsidiaries of the Company also have employees that are members of a trade union, including, as at 31 December 2017, KMG EP (21,621 members), KazMunayTeniz (348 members), KTG (8,889 members) and KTO (6,923 members). The Company is contemplating creating a single trade union comprising employees of the Company and its principal subsidiaries.

There is currently a moratorium in place on the hiring of new personnel from outside of the Group, although this is subject to certain exceptions.

Since 1 January 2014, there have not been any material labour disputes or strikes at any of the principal oil production, transportation, refining or distribution owned or operated by the Company or its subsidiaries, joint ventures or associates and no material wage arrears are currently known to exist. Overall, the Company considers employee relations to be good. See "Risk Factors—Risk Factors Relating to the Company's Business—Labour unrest may materially adversely affect the Company's business".

## Litigation

Except as set out under the headings "*—Imposition of Export Customs Duty on TCO's Crude Exports*" "*—Tax Claims against KMG EP*", "*—PKKR Tax Audit*", "*—Romp petrol SA Proceedings*" and "*—KMG International Antimonopoly Proceedings*" below, there are no governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which the Company is aware, during the last 12 months preceding the date of this Base Prospectus, which may have, or have had in the recent past, significant effects on the financial position or profitability of the Company or the Company and its consolidated subsidiaries, joint ventures and associates, taken as a whole.

### ***Imposition of Export Customs Duty on TCO's Crude Exports***

On 7 September 2010, the Ministry of Finance issued its letter № KTK-0-2/13258, which indicates that TCO is on the list of companies required to pay export customs duty on crude oil pursuant to Resolution № 709 dated 13 July 2010.

Although TCO paid such duties, by deduction from royalties, in August and September 2010 in the aggregate amount of U.S.\$146.8 million in order to avoid any disruption of its crude oil exports, TCO has made a formal protest against the imposition of these export customs duties. TCO believes that the imposition of this duty violates TCO's rights under the Project Agreement, which permits TCO to export crude oil without the imposition of any duties. As at the date of this Base Prospectus, TCO pays export customs duty on crude exports.

### ***Tax Claims against KMG EP***

On 12 July 2012, the tax authorities issued a ruling against KMG EP imposing tax liability, administrative fines and late payment interest of KZT 5.8 billion, KZT 7.2 billion and KZT 4.0 billion, respectively, in respect of the tax audit of KMG EP's activities between 2006 and 2008. KMG EP has appealed this ruling to the Ministry of Finance. Following completion of a limited scope tax audit in February 2012, the Tax Committee of the Ministry of Finance released its final notification, which reduced the tax liability, administrative fines and late payment interest imposed to KZT 4.6 billion, KZT 4.7 billion and KZT 2.9 billion, respectively. KMG EP appealed this final notification to the Tax Committee of the Ministry of Finance and appealed all of the tax assessments to the Specialised Interdistrict Economic Court of Astana. On 24 April 2014, the court of first instance of the Specialised Interdistrict Economic Court of Astana dismissed the appeal in full. KMG EP made a further appeal to the Panel of Appeals on 25 July 2014 of the Civil and Administrative Matters Court of Astana, which also upheld the ruling of the court of first instance, which KMG EP appealed. In August 2016, the Supreme Court issued a final decision in respect of KMG EP's 2006-2008 tax audit, pursuant to which, KMG EP's accrued tax liability and penalties were reduced to KZT 3.4 billion and its administrative fine was reduced to KZT 1.1 billion. In December 2016, KMG EP received a notification from the tax authorities to pay KZT 11.5 billion in taxes and fines. KMG EP has appealed this notification to the Tax Committee of the Ministry of Finance.

In 2015, KMG EP received a tax assessment for KZT 38,511 million, including tax liability, administrative fines and late payment interest in respect of the 2009-2012 comprehensive tax audit. KMG EP appealed the assessment to the Committee of State Revenues and the Committee of State Revenues reduced the amount payable in respect of the tax liability and late payment interest to KZT 11,483 million. The Special Interdistrict Administrative Court of Astana reduced the amount of the administrative fines to KZT 2,002 million. KMG EP appealed the remaining fine of KZT 13,486 million to the relevant courts. On 11 December 2017, the final decision of the Supreme Court related to KMG EP's appeal to the tax audit results for the 2009 to 2012 tax years was issued, which reduced the final tax assessment to KZT 6,534 million, including principal, fines and penalties.

### ***PKKR Tax Audit***

In September 2013, regional tax authorities conducted a tax audit of PKKR for the period from 2009 to 2012. As a result of this audit, in January 2014, the Tax Committee of the Ministry of Finance issued a notification for environmental emissions in an amount of KZT 14.1 billion, including related penalties. PKKR was also issued an administrative fine in an amount of KZT 5.3 billion. Following an appeal in December 2014, the total amount of the tax and penalty was reduced to KZT 9.9 billion.

### ***Kazakhoil Aktobe Tax Notice***

On 14 September 2016, Kazakhoil Aktobe was issued with a fine and penalty in the amount of KZT 19.5 billion (U.S.\$60 million) pursuant to tax notice № 394/1. On 15 February 2017, Kazakhoil Aktobe appealed to the Supreme Court of the Republic of Kazakhstan. As at the date of this Base Prospectus, legal proceedings are still in progress.

### ***Rompetrol SA Proceedings***

On 7 September 2006, criminal proceedings before a Romanian court of law were initiated by the Department of Investigation of Organised Crime and Terrorism against Mr. Dinu Patriciu, the then chairman of the board and CEO and former minority shareholder of KMG International (then The Rompetrol Group N.V.), as well as Mr. Alexandru Bucsa, the former CFO of KMG International, and ten others, all of whom are, or were at the relevant time, officials in Romanian state agencies, licenced securities brokers or traders or businessmen. The proceedings before the court involved a number of allegations, including embezzlement, money laundering, insider trading and manipulation of capital markets. A number of other allegations remain subject to formal criminal investigations that are conducted by the Department of Investigation of Organised Crime and Terrorism within the Prosecutors' Office attached to the High Court of Cassation and Justice.

On 27 March, 2007, in accordance with a judicial order, the Romanian Ministry of Public Finance was permitted to intervene as a civil party in the trial and, consequently, Rompetrol SA (a subsidiary of KMG International) was introduced in the criminal proceedings as a party with potential civil, but not criminal, liability, which meant that, should the prosecutors be successful in pressing charges against the criminal defendants, Rompetrol SA could be found jointly and severally liable together with the criminal defendants to compensate the financial loss incurred by the Romanian State budget.

In November 2007, the Company completed the acquisition of KMG International. At the time of the acquisition, the Company was aware that criminal proceedings had been initiated against (among others) Mr. Dinu Patriciu, the then chairman of the board and CEO and former shareholder of KMG International, as well as Mr. Alexandru Busca, the former CFO of Rompetrol SA, and that there were related civil proceedings against Rompetrol SA. Pursuant to the acquisition process, and in the transition period following completion of the transaction, Mr Patriciu remained in place as CEO and a member of the management board of KMG International, which he did until his resignation as CEO in June 2009 and as a member of the management board in February 2010. Between May 2006 and February 2007, and prior to the acquisition of KMG International by the Company, he also served as a managing director of KMG International (then The Rompetrol Group N.V.). Mr. Busca also continued to provide services to Rompetrol SA until his dismissal in 2009 (although his contract was formally terminated in 2011). To mitigate the potential financial risk, as part of the acquisition process the Company obtained an indemnity in relation to possible monetary damages relating to this matter up to an amount of U.S.\$200 million. Notwithstanding Mr. Patriciu's resignations and Mr. Busca's dismissal, Rompetrol SA was not dismissed as a party in the proceedings. See also "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's corporate governance procedures differ significantly from those applicable to comparable companies in other jurisdictions.*"

Following referral to the Romanian Constitutional Court in September 2010, the trial resumed in September 2011 before the Bucharest Tribunal. On 18 July 2012, the Bucharest Tribunal discharged all individuals, including Dinu Patriciu and Alexandru Busca, in respect of all charges. The Bucharest Tribunal also rejected the Romanian Ministry of Public Finance's claim against Rompetrol SA. The prosecutor's office appealed this decision.

On 7 October 2014, the Romanian Court of Appeal issued a judgment convicting all defendants, including Mr. Bucsa, of one or more charges, but excluding Mr. Patriciu, who was then deceased. The judgment also ruled that, in the civil proceedings, Rompetrol SA is jointly liable with Mr. Bucsa and Mr. Grama Petrică and, accordingly, Rompetrol SA has been ordered to pay U.S.\$58.5 million, plus legal interest calculated from January 2001 until the amount due is paid to the Romanian Ministry of Public Finance. In addition, pursuant to the ruling, the court has imposed liens over assets of Rompetrol SA up to the amount due to be paid and Rompetrol SA is liable for certain costs and judicial expenses.

The Group submitted two extraordinary appeals challenging the judgment of the Romanian Court of Appeal, both of which have been rejected by the Romanian courts.

KMG International sought recourse to the European Court of Human Rights but this application failed. KMG International subsequently commenced proceedings for the recovery of damages against DP Holding and the estate of Mr. Patriciu before the Netherlands Institution of Arbitration. In April 2016, the Netherlands Institution of Arbitration tribunal issued a partial award against DP Holding in an amount of U.S.\$200 million. DP Holding has not complied with such order and enforcement proceedings are currently ongoing in Switzerland and the Netherlands. The arbitral proceedings against the estate of Mr. Patriciu were finalised on 28 February 2017 and the tribunal found that Mr. Patriciu's estate was liable to pay KMG International U.S.\$200 million.

On 22 April 2016, the Department of Investigation of Organised Crime and Terrorism ("**DIICOT**") resumed its investigation into 26 suspects under charges of organised crime, of which 14 were employees of KMG International (and one of whom is still an employee of KMG International). The aggregate amount of the claim is equivalent to U.S.\$760 million.

Several civil parties were also added to the case, including KMG International and Rompetrol S.A. as possible defendants. On 6 May 2016, DIICOT applied to the courts to permit the seizure all of KMG International and Rompetrol S.A.'s movable and immovable assets, other than bank accounts, receivables and inventories. Freezing orders were sought in an aggregate amount of U.S.\$760 million. KMG International appealed against the order and at a Supreme Court hearing on 13 June 2016, the Supreme Court rejected the appeal. In June 2017, KMG International and Rompetrol S.A. submitted their statement of claim in response to the DIICOT allegations. On 17 July 2017, DIICOT issued a further order, endorsing the freezing orders, which, in general, maintained the order of 6 May 2016 but permitted the Ministry of Energy and the Ministry of Finance to quantify their alleged damages and to submit any supporting evidence of such damages. KMG International and Rompetrol S.A. challenged the July 2017 order by appeal to the Higher Prosecutor and a filed a statement of defence in respect of the order in December 2017. The DIICOT investigation is ongoing.



On 22 July 2016, the Company and KMG International submitted a notice of investment dispute to the Romanian authorities based on the Agreement between the Government of Romania and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania and the Energy Charter Treaty. The submission of the notice represents the first procedural step that might give rise to an arbitration dispute between an investor and the country where the investment was made. If the Group and Romanian authorities do not reach a settlement, the case is expected to be referred to and settled by the International Centre for Settlement of Investment Disputes or to the Arbitration Institute of the Stockholm Chamber of Commerce.

In October 2016, the Romanian Ministry of Finance replied to the notice of investment dispute rejecting all allegations made by KMG International. In the context of discussions between KMG International and the Romanian State in the context of the extension of the memorandum of understanding signed in February 2013, it has been agreed that KMG International will not submit a request for arbitration for so long as the memorandum of understanding remains in effect and is being fully implemented. See also “—Refining, Marketing and Trading—KMG International—Romp petrol Convertible Note”.

#### ***KMG International Antimonopoly Proceedings***

In December 2011, the Romanian Competition Council imposed a fine of RON 159.6 million (approximately U.S.\$46.8 million) against Rompetrol Downstream SRL in respect of alleged anti-competitive conduct following the withdrawal of a certain type of fuel from the market in 2008. KMG International believes that all charges are without merit and sought an annulment of the fine before the Romanian courts. In September 2013, the Court of Appeal dismissed Rompetrol Downstream SRL’s claim. As at 31 December 2014, RON 82.1 million (approximately U.S.\$22.3 million) of the fine was paid by Rompetrol Downstream SRL.

Romp petrol Downstream SRL appealed the Court of Appeal’s ruling to the Supreme Court and, on 9 July 2015, the Supreme Court issued a decision to reduce the fine to RON 119.5 million (approximately U.S.\$29.4 million).

#### ***KMG Drilling & Services LLP and Ersai Caspian Contractor LLP Consortium***

On 17 January 2017, a consortium of companies including Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP (the “**Consortium**”) issued a claim for breach of contract against KMG D & S (“**KMG D&S**”) in connection with a construction contract at the London Court of International Arbitration. The aggregate amount of the claim is equal to KZT 63.8 billion (U.S.\$192.1 million). A hearing is scheduled to take place in April 2018.

#### **Insurance**

The Company implemented in 2001, and modified in 2007, a unified corporate insurance programme (the “**Insurance Programme**”). The terms of the Insurance Programme are similar to those that are generally accepted in the oil and gas industry and are tailored to address the specific activities of the Company. The Insurance Programme is included in the corporate insurance programme of Samruk-Kazyna and regulated by the Samruk-Kazyna rules coverage policy applying to subsidiaries within the Samruk-Kazyna group.

The Insurance Programme covers third party environmental liability, third party liability coverage (including employer’s liability insurance and hazardous object insurance) and directors’ and officers’ liability insurance. As it is not a common insurance product in Kazakhstan, insurance for production interruption risks is maintained in respect of only certain of the Company’s subsidiaries. The Insurance Programme does not mandate and the Company does not carry insurance against environmental damage caused by its own operations, sabotage or terrorist attacks.

As at 31 December 2017, KMG EP, KTO, ICA, the Atyrau Refinery, the Pavlodar Oil Chemistry Refinery LLP, the Shymkent Refinery and KazMunayTeniz, participated in the Insurance Programme. The Company’s captive insurance company, Kazakhstan Energy Reinsurance Company Ltd (“**KERC**”), is responsible for the implementation of the Insurance Programme, as well as addressing other insurance needs of the Company. KERC prepares reports on the implementation of the Insurance Programme for supervisory authorities in Kazakhstan and for the Company and monitors the reinsurance agreements it enters into.

In addition to the Insurance Programme, the Company also maintains liability insurance to cover certain assets with respect to fire, lightning, explosion and earthquake and medical insurance for its employees with JSC Kazakhinstrakh insurance company.

See “*Risk Factors—Risk Factors Relating to the Company’s Business—The Company’s insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions*”.

## **Information Technology**

The Information Technology (“IT”) management of the Company is undertaken by the IT department, which performs the following functions: development and implementation of the IT programme, development of technical requirements for IT projects, control of implementation and use of information systems and maintenance of uninterrupted performance of the information and telecommunication infrastructure of the Company. As part of the Company’s corporate reorganisation, the Company is in the process of integrating the IT systems of all of the Company’s subsidiaries into one centralised IT framework, which will service the entire Company. In 2011, the Company completed the first phase of this integration project involved the integration of the financial reporting system and management information system. In addition, the transfer of the management and maintenance of IT systems in respect of the Company, the Company’s research institute and certain other functions, has been completed, and the project is ongoing.

The Company is currently developing a plan to further integrate its IT systems and incorporate operational data from its subsidiaries. Such plans include the implementation of a single enterprise resource planning software system and the automation of certain corporate functions and business processes. The implementation of a new model of IT and data management is also planned. The Company spent KZT 1,228 million on maintaining and upgrading its IT systems in 2016 and KZT 499 million on maintaining and upgrading its IT systems in 2017.

The Company does not currently have a separate disaster recovery centre or an off-site server located outside of the Company’s main administrative premises. As part of the Company’s ongoing transformation projects, the Company leases computer infrastructure, including a virtual data service to permit the storage of data offsite.

The Company's information security management systems have been certified to ISO 27001 standards. In line with the Company’s transformation projects, efforts have been made to increase IT and information management security and to encourage centralisation. In this respect, a cyber security department has been established at the Company tasked with implementing efforts to prevent cyber crime.

## ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

The operations of the Company are subject to environmental, health and safety legislation, laws and other requirements of Kazakhstan applicable to oil and gas companies (“**Environmental Legislation**”). The Subsoil Use Agreements entered into by the Company require that its subsoil operations be carried out in conformity with Environmental Legislation. See “*Business—Exploration and Production—Subsoil Use Agreements*”.

Under Articles 68 and 69 of the Environmental Code of Kazakhstan (the “**Environmental Code**”), the Company is also obligated to apply for an environmental permit, which sets out certain levels of permitted environmental pollution. The Company is subject to limitations as to air emissions, water use and disposal, waste management, impact on wildlife and land use and reclamation.

Government authorities conduct inspections on a regular basis. With respect to any findings resulting from such inspections, the Company is required to remedy violations of Environmental Legislation.

The Company has conducted scientific and technological studies to create base standards and implement new engineering mechanisms in its upstream operations that are designed to minimise environmental, health and safety hazards. The Company utilises systems based upon the best practices of environmental protection and certified under the requirements of environmental international standards (“**ISO 14001**”) and the occupational health and safety management systems (“**OHSAS 18001**”). In 2009, the Company also obtained ISO 14001 and OHSAS 18001 certifications for its occupational health and safety management systems. An independent ecological audit of the Company in 2012 found that its industrial and ecological safety systems conformed to the requirements of ISO 14001.

In accordance with Article 81 of the Environmental Code, an environmental audit may be conducted on a mandatory or a voluntary basis. To date, the Company’s subsidiaries and affiliates have conducted environmental audits on a voluntary basis and there were no significant cases of violations, environmental incidents or judicial or administrative proceedings during the 2017 environmental audit.

In addition to complying with Kazakhstan legislation, the Company has introduced health and safety performance metrics based on best practice industry standards in order to monitor its performance, as well as a number of initiatives to increase health and safety transparency and awareness.

### *Environmental Capital Expenditures*

Between 2006 and 2015, the Company implemented a comprehensive ecological compliance programme based on Environmental Legislation, which was approved by the Company’s Management Board on 7 November 2006 (the “**Ecological Programme**”). The objectives of the Ecological Programme included the following:

- ensuring emissions levels are at or below the permitted levels established by Kazakhstan’s environmental laws;
- reduce water contamination;
- ensuring the volume of contaminated substances in sewage waters are at or below permitted levels;
- disposing of industrial waste as permitted by Environmental Legislation;
- remediating or recultivating areas impacted by hydrocarbons contamination and well abandonment;
- mitigating oil storage pits; and
- preventing and responding to oil and oil products spillages.

Since 2015, the Company has continued to focus on such objectives, as well as to introduce certain industry best practices in the management of its environmental compliance.

The table below sets forth the expenditures of certain material subsidiaries, joint ventures and associates of the Company for environmental purposes and improvement as at the dates indicated:

	<b>For the year ended 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(KZT millions)</i>		
KMG EP .....	1,769	6,230	5,670
TCO .....	2,735	4,901	16,726

### **Environmental Impact From Operations**

The Company's material environmental liability arises from the requirement to remediate historically contaminated land. These liabilities include approximately three million tonnes of legacy waste associated with historically contaminated land. In this respect the Company has entered into a Memorandum of Understanding with local state authorities to reduce and rehabilitate such legacy waste by 2021, which the Company is in the process of implementing.

### ***Air Emissions***

The Company, including KMP EP and TCO, is required under Environmental Legislation to submit to the Ministry of Energy an application for an environmental permit that certifies the right to emit regulated substances into the environment up to certain permitted levels based on a specific fee. Such permit, which is applied for on an annual basis, specifies maximum levels of air emissions, waste water disposal and municipal and industrial waste permitted to be discharged or disposed of by a Company. In the event that the established limits of discharged contaminants and disposed waste exceed permitted levels, penalties for such environmental contamination are assessed. Total fees paid by the Company, including penalties, were KZT 13.1 billion for the year ended 31 December 2016. For the year ended 31 December 2015, certain fines and penalties previously incurred by the Company were reversed, resulting in the recognition of a receipt of funds of KZT 30.3 billion. Rates for environmental fines and penalties have been increased in the past, and the Company expects that penalty and emission fees may continue to be assessed against the Company in the future.

The flaring of gas refers to the burning of gas as a means of disposal. The flaring of natural gas, associated gas and shale gas; as well as non-hydrocarbons gases contained in such gases, is prohibited, except in certain situations, including: (a) if there is a threat of an emergency situation, which involves a threat to human life or to the environment; (b) in the process of testing a well facility or performing a test operation in respect of a deposit; and (c) where flaring is technologically inevitable as a result of the commissioning, operation, maintenance or repair of processing equipment. Despite the prohibition on flaring, the MEP has suspended future sanctions for gas flaring violations by companies for subsoil users operating under Subsoil Use Agreements signed before December 2004 and whose programme for the utilisation of gas was approved by (x) a State authority before 1 December 2004 or (y) the Competent Authority and the MEP. The sanctions are still suspended, and the following subsidiaries and joint ventures of the Company have programmes for the reduction and elimination of the volumes of gas flaring in place: KMG EP, TCO, PKI, Kazgermunai, MMG, KPO, KazakTurkMunai LLP and Kazakhoil Aktobe.

As part of the Company's efforts to reduce its air emissions, the Company is implementing a programme to review gas utilisation at its fields, with the aim of converting gas from oil production to gas to be used for power generation. As at 31 December 2017, the Company's gas utilisation rate was approximately 85%, which it plans to increase to more than 95% by the end of 2018. As at 31 December 2016, the Company's gas utilisation rate was approximately 86%.

### ***Municipal and Industrial Wastewater Treatment and Disposal***

Municipal wastewater is handled in accordance with accepted international practices, which involves utilising basic treatment and discharge to different unlined evaporation ponds. Industrial wastewaters are discharged only to a lined evaporation pond or injected into a wastewater disposal well. Preliminary wastewater injection permission has been received from most Kazakhstan government agencies. Further, after receiving final approval from the MEP, certain entities of the Company, such as TCO, started to include wastewater injection in environmental use permits.

### ***Municipal and Industrial Solid Waste Management***

A number of the Company's subsidiaries, joint ventures and associates, such as KMG EP, have significant quantities of contaminated soils currently stored in various areas. There are also a number of pits and storage areas that have yet to receive environmental permits remaining from periods before current environmental legislation took effect. As a result

of KMG EP's ongoing efforts, the number of pits and storage areas has decreased from 164 in 1997 to two in 2008, which remain.

### ***Sulphur Storage***

TCO's fields contain high amounts of hydrogen sulphide. See "*Risk Factors—Risk Factors Relating to the Company's Business—Oil at several of the Company's fields has a high sulphur content and produces a high level of sulphur by-product that must be managed carefully*". The production of oil and gas with high hydrogen sulphide content requires additional processing to convert the hydrogen sulphide into elemental sulphur, a useful product. Elemental sulphur is stored in block form until it can be sold. TCO strives to store block sulphur according to internationally-accepted practices, and has included the storage of sulphur in its environmental use permits and pays fees accordingly. The potential environmental and health impacts from the open storage of sulphur have been studied by various institutes selected by an interdepartmental coordination council made up of the MEP, MEMR (now the Ministry of Energy), the Ministry of Health and the Ministry of Emergency Situations. The results of these studies were presented in a public hearing in Atyrau and have been expertised by the MEP. The conclusions confirmed that the impact from the open storage of sulphur beyond the immediate area of the blocks is insignificant. In 2008, TCO began selling sulphur to third parties in order to decrease the amount of sulphur that it is required to store and thereby reduce the risk of incurring fines connected to sulphur storage in the future. TCO sold 2.5 million tonnes of sulphur to third parties in 2017, 2.3 million tonnes in 2016 and 2.7 million tonnes in 2015.

Pursuant to amendments to the Environmental Code dated 13 December 2011, permitted amounts of sulphur storage are specified in environmental permits granted by the environmental authorities. Since 1 January 2013, subsoil users whose operations result in the storage of sulphur have also been obliged to submit a programme to reduce the amounts of accumulated sulphur with their applications for environmental permits.

### ***Land Use and Reclamation, Including Oil Storage Pits and Oil Lakes***

Crude oil contaminated earth is carried to sludge collectors that have a waste water drain system, fencing and waterproof membrane. Crude oil contaminated earth itself is treated with the Company's special equipment, as well as the advanced equipment of third party contractors. Additional projects have been launched to rehabilitate the dams at a number of operations and to develop a programme for removing oil storage pits and oil contaminated areas, including by means of various biological treatment methods.

In some instances, the MEP has agreed not to sanction KMG EP with respect to contamination occurring prior to KMG EP's incorporation in March 2004. In a 2012 court decision, it was determined that certain of KMG EP's open reservoirs were orphaned from KMG EP's fields and the open reservoirs were transferred to the Government in 2015. Management of these sites is carried out by the Ministry of Energy's "Zhasyl Damu" division.

Under the oil production technology prevailing during the time of the Soviet Union, open reservoirs were formed in natural ground folds or specifically designed on the land surface to store accumulations of water oil fractions for emergency purposes or for the disposal of oil and water oil mixtures. The Company no longer uses open reservoirs for these purposes, and is in the process of gradually remediating these with the assistance of external contractors.

### ***Oil and Chemical Spills***

Equipment reliability procedures are in place with the Company's subsidiaries, joint ventures and associates, which are intended to evaluate and correct deficiencies and prevent oil and chemical spills. As a result, spill volumes relating to operations, on a per tonne of production basis, have steadily declined. At the same time, as a precaution, the Company's subsidiaries, joint ventures and associates have prepared emergency response plans and routinely conduct drills and training of key response personnel.

## Health and Safety Initiatives

Since 2014, the Company has introduced a number of health and safety initiatives to improve its health and safety performance, transparency and awareness, which, in addition to ensuring compliance with Kazakhstan law, introduced a number of industry best practices. These initiatives include:

- introducing a new health and safety reporting system and adopting international metrics to monitor health and safety performance (see “—*Health and Safety Metrics*”), both of which are implemented at the Group, business unit and subsidiary levels and allow the Company to monitor its performance against industry peers;
- adopting a Group-wide incident investigation standard;
- adopting health and safety standards for vehicles and installing seatbelts in all vehicles;
- introducing a “chronic unease” programme to highlight health and safety matters among Company employees;
- introducing a transparency reporting programme for health and safety matters;
- embedding health and safety key performance indicators in business unit targets; and
- nominating “leaders” across the Company to promote health and safety matters.

## Health and Safety Metrics

The following table sets forth certain key health and safety metrics of the Company for the periods indicated:

	For the year ended 31 December		
	2017	2016	2015
Hours worked ( <i>millions</i> ) .....	170.0	175.0	181.2
Kilometres driven ( <i>millions</i> ) .....	178.3	157.6	149.9
Work related fatalities .....	5	7	4
Work related fatalities per 100 million man hours....	2.9	4.0	2.2
Non-work related fatalities.....	26	40	19
Lost time injuries .....	71	87	99
Lost time injuries per one million man hours.....	0.4	0.5	0.5
Motor vehicle accidents .....	89	71	66
Motor vehicle accidents per one million kilometres driven .....	0.5	0.4	0.4

In August 2016, an explosion and fire during repair works at the Petromidia Refinery resulted in one fatality and three injuries. This incident was investigated in accordance with the Company’s health and safety policies and was determined to be a result of human error at several levels and non-compliance with applicable health and safety guidelines. Actions have been taken at the Petromidia Refinery to reduce the likelihood of the recurrence of similar incidents in the future.

## MANAGEMENT

The Company's management structure consists of its shareholders, Samruk-Kazyna and NBK, its Board of Directors, its Management Board and the Chairman of the Management Board, the last two of which are responsible for the day-to-day management of the Company.

In February 2014, Samruk-Kazyna expanded its "Business Transformation Programme", which was aimed at increasing the financial and operating efficiency of companies within the Samruk-Kazyna group, including the Company, implementing international standards of best practice and promoting diversification of the economy and social responsibility in Kazakhstan, all with a view to increasing the value of companies within the Samruk-Kazyna group. In September 2016, the Board of Directors approved a new organisational structure for the Company in line with the "Business Transformation Programme" and international best practice for vertically-integrated oil companies, which altered the composition of the Management Board.

As part of the Company's strategy and in line with Samruk-Kazyna's "Business Transformation Programme", the Company is in the process of implementing a number of transformation projects aimed at, *inter alia*, improving and centralising organisational functions and methodologies (including accounting, treasury and supply-chain functions), increasing operational efficiency and promoting the automisation of functions. See "*Business—Strategy*". In line with the Company's strategy, the ultimate aim of these transformation projects is to encourage rationalisation and simplification of the Company's processes and Group structure.

In June 2017, Mr. Walton was appointed as Chairman of the Board of Directors.

### Shareholders

On 7 August 2015, NBK purchased 58,420,748 ordinary shares of the Company, or 10% plus one share, from Samruk-Kazyna. Since August 2015, NBK's ownership interest has been diluted (as a result of subsequent issuances of shares) to approximately 9.9% of the ordinary shares of the Company. NBK has entered into a trust management agreement with Samruk-Kazyna in respect of its shares in the Company. NBK's shares are voting shares.

The shareholders perform the functions of the general shareholders' meeting as set forth in the JSC Law, the Law "On the Sovereign Wealth Fund" (№ 550-IV, dated 13 February 2012, as amended) (the "**Sovereign Wealth Fund Law**"), the Company's charter (the latest edition was approved by a decision of shareholders on 22 April 2016, as amended on 1 August 2016 and 4 November 2016) and the presidential edicts and resolutions of the Government on the establishment of Samruk-Kazyna and its role and functions in Kazakhstan's economy. See "*Share Capital, Shareholders and Related Party Transactions—Samruk-Kazyna*".

Such functions include, among others, the following:

- appointing the Company's external auditors;
- approving any increase in the Company's share capital;
- appointing the members of the Board of Directors;
- approving the Company's annual financial statements;
- approving the appointment of the Chairman of the Management Board;
- approving the payment of dividends by the Company; and
- approving purchases by the Company of shares in other legal entities (whether upon the establishment of such entities or otherwise) and participation by the Company in joint ventures where the amount of consideration paid by the Company in cash or in-kind for such acquisition or participation exceeds 25% of the balance sheet value of the Company's assets.

## Board of Directors

The Board of Directors is responsible for the general management of the Company's activities, directs the Company's strategy and policy and has authority to make decisions on all aspects of the Company's activities, except those matters expressly reserved to the shareholders pursuant to the JSC Law and the Company's charter (as outlined above). In particular, the powers of the Board of Directors include, among others, the following:

- approving the Company's strategy;
- approving the Company's accounting and taxation policies;
- appointing the members of the Management Board;
- adopting decisions on major transactions (which are defined by the JSC Law as transactions involving amounts greater than or equal to 25% of the balance sheet value of a company's assets) and interested party transactions (unless the counterparty to an interested party transaction is within the Samruk-Kazyna group, in which case, the Management Board may adopt decisions relating to such transactions); and
- approving purchases by the Company of 10% or more of the shares in other legal entities.

Members of the Board of Directors are appointed by a resolution of the shareholders for a term of three years and shall not serve on the Board of Directors for more than nine consecutive years (although this limit is subject to certain exceptions). As at the date of this Base Prospectus, the Board of Directors consists of seven members, three of whom, Messrs. Baimuratov, Walton and Whyte are considered to be independent directors.

In accordance with the provisions of the Company's Corporate Governance Code, which sets a recommended maximum term of office for the Chairman of the Board of Directors, in June 2017, it was announced that Frank Kuijaars was stepping down as Chairman of the Board of Directors. In June 2017, Christopher Walton, who has been a member of the Company's Board of Directors since 2014, was appointed as Chairman of the Board of Directors. The new composition of the Board of Directors, which, in line with international best practices, included two new Independent Directors, was announced following a meeting of the management board of Samruk-Kazyna held on 29 June 2017.

See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company, which is indirectly controlled by the Government, is exposed to the risk of Government intervention*".

The Company's Board of Directors consists of the following members:

Name	Age	First Appointed	Term expires	Current Position
Christopher Walton.....	60	2014	June 2020	Chairman of the Board of Directors of the Company, Independent Director
Suat Mynbayev.....	55	2012	June 2020	Chairman of the Management Board of the Company, Member of the Board of Directors of the Company
Stephen Whyte.....	52	2017	June 2020	Independent Director, Member of the Board of Directors of the Company
Yerlan Baimuratov.....	58	2014	June 2020	Member of the Board of Directors of the Company, Independent Director
Adamas Ilkevicius.....	42	2017	June 2020	Member of the Board of Directors of the Company, Managing Director for Asset Transformation and Optimisation of Samruk-Kazyna
Baljeet Grewal .....	41	2016	June 2020	Member of the Board of Directors of the Company, Managing Director for Strategy and Portfolio Investment of Samruk-Kazyna
Uzakbay Karabalin.....	70	2016	June 2020	Member of the Board of Directors of the Company.

**Christopher Walton.** Mr. Walton was born in 1957 and graduated from the University of Western Australia with a Bachelor of Arts in Political Science and with a Master's in Business Administration (MBA). He is a Fellow of the



Institute of Directors and a Fellow of the Royal Aeronautical Society. In addition to being the Chairman of the Company, Mr. Walton is also the Audit Chair of the UK Institute of Directors, Audit Chair of the UK's Submarine Delivery Agency and a non-executive member of the Royal Navy's Naval Shipbuilding Strategy Board. He was Finance Director of EasyJet Plc and held senior financial and commercial posts at Qantas, Air New Zealand, Australia Post and Australian Airlines. Mr. Walton also served in the Australian Army Reserve. He served as Chairman of Lothian Buses plc, Asia Resource Minerals Plc. and Goldenport Holdings. Mr. Walton is also the Chair of the Audit Committee of JSC Kazakhstan Temir Zholy and a Non-Executive member of the Audit and Risk Committee of the UK Department for Culture, Media and Sport. Mr. Walton was first appointed to the Board of Directors of the Company in 2014 and was appointed as Chairman of the Board of Directors of the Company in June 2017.

**Sauat Mynbayev.** Mr. Mynbayev was born in 1962 and graduated from Lomonosov Moscow State University in 1985 with a PhD in Cybernetic Engineering. From November 1985 to November 1988, he was a postgraduate student at Lomonosov Moscow State University. Mr. Mynbayev began his career in 1989 as a teacher at the Astana Institute of National Economy and became the Acting Associate Professor of the Department of Planning and National Economy at the Institute of National Economy in 1990. From 1991 to 1992, he worked as President of the Republican Construction Exchange of Kazakhstan. From 1992 to 1995, Mr. Mynbayev was the First Deputy Chairman of the Management Board of JSC Kazkommertsbank. From 1995 to 1997, he worked as the Deputy Minister of Finance of the Republic of Kazakhstan and the Head of Treasury at the Ministry of Finance of the Republic of Kazakhstan. From 1997 to 1998, Mr. Mynbayev was the First Deputy Minister of Finance of the Republic of Kazakhstan. From 1998 to 1999, he was the Minister of Finance of the Republic of Kazakhstan. In 1999, Mr. Mynbayev was appointed as Deputy Head of the Executive Office of the President of the Republic of Kazakhstan. From 1999 to 2001, he was the Minister of Agriculture of the Republic of Kazakhstan. From 2001 to 2002, Mr. Mynbayev served as President of the Development Bank of Kazakhstan CJSC. From 2002 to 2003, he was the General Director of Caspian Industrial Financial Group LLP. From 2003 to 2006, Mr. Mynbayev was the Deputy Prime Minister of the Republic of Kazakhstan and from 2004 to 2006, he was the Minister of Industry and Trade of the Republic of Kazakhstan. From 2006 to 2007, Mr. Mynbayev was the Chairman of the Management Board of JSC Kazakhstan Holding for Management of State Assets "Samruk". In 2007, he became the Minister of Energy and Mineral Resources for the Republic of Kazakhstan and, following the renaming of the Ministry in 2010, was the Minister of Oil and Gas for the Republic of Kazakhstan between 2010 and July 2013. Mr. Mynbayev became Chairman of the Management Board of the Company in July 2013. Mr. Mynbayev was first appointed to the Board of Directors of the Company in 2012.

**Stephen Whyte.** Mr. Whyte was born in 1966 and graduated from the University of Edinburgh in 1988 and the Lester Pearson College of the Pacific in 1984. He began his career in 1988 as a Well Site Petroleum Engineer at Shell and then served in various capacities, including as Geoscientist and Subsoil Team Leader, from 1988 to 1996. From 1996 to 2002, Mr. Whyte held positions, including Commercial Director, Exploration Manager and Non-Operated Asset Manager and Business Development Manager for Clyde Petroleum BV. He held positions, including Development Manager, Central North Sea Vice President for Exploration and Production and Joint Venture and Infrastructure Manager at Shell from 2002 until 2009 and was subsequently appointed Senior Vice President of the BG Group in 2009. From 2012 to 2014, Mr. Whyte served as Head of Exploration and Production and Chief Operating Officer and Group Executive Director of GALP Energia. From 2015 – 2016, he served as Chief Operating Officer of Petroatlantic Energy. Mr. Whyte was appointed to the Board of Directors on 29 June 2017. He also serves as Independent Director on the board of directors of Soundenergy plc, Echo Energy plc and Genel Energy plc.

**Yerlan Baimuratov.** Mr. Baimuratov was born in 1959 and graduated from the Almaty Institute of National Economy in 1981 as an Engineer-Economist and in 1988 with a PhD in Economic Sciences. From 1981 to 1991, he worked in the research institutes of the State Planning Committee of the Kazakh SSR, holding a number of posts, including Engineer and Academic Secretary. From 1991 to 2004, Mr. Baimuratov worked in the banking sector, including as Head of Department to the Deputy Chairman of Turan Bank, Chairman of the Management Board of Alem Bank, Chairman of the Management Board of Almaty Commercial Bank and as First Deputy Chairman of the People's Bank. He currently serves as Chairman of the Board of Directors of Bayan Sulu JSC and as a member of the Supervisory Board of Samruk-Kazyna Invest LLP. Mr. Baimuratov was first appointed to the Board of Directors of the Company in 2014.

**Adamas Ilkevicius.** Mr. Ilkevicius was born in 1975. He obtained an MBA in Business Management, Computer Science and Visual Communications from HEC Paris School of Management and studied at the Copenhagen Business School and Louvain School of Management. Mr. Ilkevicius began his career in 1996 at Digital Equipment Corporation. From 2001 to 2008, he held executive positions at Hi-Tech market - HP, Siemens and IBM and advised private and international companies, as well as public sector organizations. From 2008 to 2013, Mr. Ilkevicius served as the General Director of the specialised Division of Eurasian Natural Resources Corporation PLC, ENRC BTS. In October 2013, he was appointed as Managing Director for Business Transformation of Samruk-Kazyna and in October 2017, he was appointed as Managing Director for Asset Optimisation of Samruk-Kazyna. Mr. Ilkevicius was appointed to the Board of Directors of the Company on 4 October 2017.

**Baljeet Kaur Grewal.** Ms. Grewal was born in 1976 and graduated from the University of Hertfordshire in 1999 with a Bachelor of International Economics and from the University of Cambridge with an Executive Masters in Business Administration (EMBA). She has more than fifteen years of experience in senior management positions in banking and financial companies, including as Senior Advisor of the National Fund Development Agenda at the Asian Development Bank, Managing Director and Vice Chairman at Kuwait Finance House investment research subsidiary of Kuwait Investment Authority, Vice President & Head, Investment Banking Research at Maybank Malaysia, Associate Director at ABN AMRO Bank and Deutsche Bank. In January 2016, Ms. Grewal was appointed Managing director on Strategy and Portfolio Investments of Samruk-Kazyna and to the Board of Directors of the Company in April 2016. She received the Sheikh Rashid al Makhtoum award for contribution to finance in Asia, and is also The Asset Young Female Leaders in Finance award recipient.

**Uzakbay Karabalin.** Mr. Karabalin was born in 1947 and graduated from the Moscow Institute of Petrochemical and Gas Industry in 1970. He received a PhD from the Ufa Oil Institute in 1985. Mr. Karabalin has over 20 years of experience in the oil and gas sector and also holds a number of academic positions. He was Head of the Laboratories of Drilling Technology and Drilling Liquids of Kazakh Scientific Research and Exploration Oil Institute from 1974 until 1981, before becoming the Deputy Director for Science and Research of the Kazakh Scientific Research and Exploration Oil Institute between 1981 and 1988, Head of the Department for the Development of Technical Progress and Deep Drilling of the Main Territorial Administration of Prikaspiyegeologiya between 1988 and 1990 and the Chair of the Guryev Branch of Kazakh Polytechnical Institute between 1988 and 1990. Mr. Karabalin was the Senior Officer of Industry Division of the Presidential Executive Office of the Republic of Kazakhstan and the Cabinet of Ministers of the Republic of Kazakhstan between 1991 and 1992. He then held the position of Head of the Main Department of Oil and Gas of the Ministry of Energy and Fuel Resources of the Republic of Kazakhstan between 1992 and 1994 and Vice-Minister of Energy and Fuel Resources of the Republic of Kazakhstan and Vice-Minister of Oil and Gas Industry of the Republic of Kazakhstan between 1994 and 1995. Mr. Karabalin was Vice-President for Corporate Development, Director of Perspective Development and for Perspective Development, and the First Vice-President of National Oil and Gas Company KazakhOil between 1997 and 2000. He served as Acting President of the Company in 1999 and as President of KTG between 2000 and 2001, before acting as the Vice Minister of Energy and Mineral Resources of the Republic of Kazakhstan between 2001 and 2003. Mr. Karabalin, was President of the Company between 2003 and 2008. He also served as the Chairman of the Board of Directors of KTO, JSC NC Transport of Oil and Gas, CJSC NC KazMunayGas and KMG EP between 2006 and 2008 and as a Member of the Council of National Investors under the President of the Republic of Kazakhstan between 2007 and 2008. Mr. Karabalin was Acting General Director of JSC “Mangistaumunaigas” in 2008 and General Director of JSC Kazakhstan Institute of Oil and Gas between 2010 and 2013. He served as the Minister of Oil and Gas of the Republic of Kazakhstan between 2013 and 2014. Mr. Karabalin was the First Deputy Minister of Energy of the Republic of Kazakhstan between 2014 and 2016 and currently serves as deputy chairman of KazEnergy and as a member of the Board of Directors of JSC KIOG. He was appointed to the Board of Directors of the Company on 18 February 2016.

The Company’s Board of Directors includes the Audit Committee, the Nomination and Remuneration Committee, the Finance Committee and the Innovation and Strategy Committee.

***Audit Committee***

The Audit Committee is an advisory body of the Board of Directors that makes recommendations to the Board of Directors on the efficiency of the internal control and risk management systems of the Company, its corporate governance and compliance with applicable auditing requirements under Kazakhstan law (including recommendations on the appointment of external auditors). The Audit Committee consists of three members, all of which are independent directors.

As at the date of this Base Prospectus, the Audit Committee consists of the following members:

<b>Name</b>	<b>Position</b>
Christopher Walton.....	Chairman of the Board of Directors, Independent Director of the Company
Yerlan Baimuratov.....	Independent Director of the Company
Stephen Whyte.....	Independent Director of the Company

***Nomination and Remuneration Committee***

The Nomination and Remuneration Committee is an advisory body of the Board of Directors that makes recommendations to the Board of Directors in respect of the required qualifications of candidates to fill the posts of independent directors, the Head of the Internal Audit Service and the Corporate Secretary of the Company, the policy and structure of

remuneration of the top management of the Company, as well as recommendations in respect of the level of remuneration of the top management of the Company on an annual basis. In addition, the Nomination and Remuneration Committee reviews the remuneration of the members of the Boards of Directors and the Management Boards of the subsidiaries, joint ventures and associates of the Company and provides its recommendations thereon. The Nomination and Remuneration Committee also provides its recommendations to the Board of Directors in respect of other matters on an *ad hoc* basis. The Nomination and Remuneration Committee consists of four members, of which at least three members are independent directors.

As at the date of this Base Prospectus, the Nomination and Remuneration Committee consists of the following members:

<b>Name</b>	<b>Position</b>
Yerlan Baimuratov.....	Chairman of the Nomination and Remuneration Committee, Independent Director of the Company
Christopher Walton.....	Chairman of the Board of Directors, Independent Director of the Company
Uzakbay Karabalin.....	Member of the Board of Directors, a representative of “Samruk-Kazyna” JSC
Stephen Whyte.....	Independent Director of the Company

### ***Finance Committee***

The Finance Committee is an advisory body of the Board of Directors that makes recommendations to the Board of Directors in respect of the effective implementation of the Company’s financial condition and performance and the Company’s financial strategy. The Finance Committee consists of four members, of which at least three members are independent directors.

As at the date of this Base Prospectus, the Finance Committee consists of the following members:

<b>Name</b>	<b>Position</b>
Christopher Walton.....	Chairman of the Finance Committee, Chairman of the Board of Directors, Independent Director of the Company
Erlan Baimuratov.....	Independent Director of the Company
Stephen Whyte.....	Independent Director of the Company
Baljeet Grewal.....	Member of the Board of Directors, a representative of JSC “Samruk-Kazyna”

### ***Strategy and Innovations Committee***

The Strategy and Innovations Committee is an advisory body of the Board of Directors that makes recommendations to the Board of Directors in respect of the Company’s strategy, development plan and innovations. The Strategy and Innovations Committee consists of five members, of which at least one member is an independent director.

As at the date of this Base Prospectus, the Strategy and Innovations Committee consists of the following members:

<b>Name</b>	<b>Position</b>
Stephen Whyte.....	Chairman of the Innovation and Strategy Committee, Independent Director of the Company
Christopher Walton.....	Chairman of the Board of Directors, Independent Director of the Company
Yerlan Baimuratov.....	Independent Director of the Company
Uzakbay Karabalin.....	Member of the Board of Directors, a representative of Samruk-Kazyna
Baljeet Grewal.....	Member of the Board of Directors, a representative of Samruk-Kazyna
Adamas Ilkevicius.....	Member of the Board of Directors, a representative of Samruk-Kazyna

The business address of each of the members of the Board of Directors and of the members of the Board’s committees is the registered office of the Company at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

## Management Board

In November 2013, the Board of Directors of the Company approved a new organisational structure of the Company pursuant to which executives of each of the Company's key subsidiaries (KTO, KTG and KMG RM) were appointed as members of the Company's Management Board. This reorganisation was intended to centralise the Group's management functions and eliminate duplicative functions carried out at the subsidiary and Group level. As part of this new organisational structure, the Board of Directors of the Company resolved to reduce the size of the Management Board to seven members, each serving a term of up to three years. In September 2016, the Company introduced additional changes to its organisational structure, pursuant to which the Chairman of the Board of Directors is responsible for overseeing the activities of the following executives: Executive Vice President for Oil Exploration, Production and Oilfield Services; Executive Vice President for Transportation, Refining and Marketing; Executive Vice President for Transportation and Marketing; Executive Vice President for Finance, Chief Financial Officer; Senior Vice President for Transformation; Vice President for Legal Support; Vice President for Human Resources; Vice President for Health, Safety and Environment; and Vice President for Strategy, Investment and Risk Management Structural Subdivision and Security Service Structural Subdivision.

The Management Board is responsible for the day-to-day management and administration of the Company, subject to the supervision of the Board of Directors and the shareholders. The Management Board's responsibilities include the following:

- approving purchases by the Company of up to 10% of the shares in other legal entities;
- implementing the Company's strategic development plan;
- implementing and monitoring the implementation of resolutions of the Board of Directors, the shareholders and recommendations of the Company's external auditors and Internal Audit Service;
- adopting decisions relating to interested party transactions concluded with Samruk-Kazyna group companies;
- approving the Company's budget; and
- dealing with all other matters not reserved to the Board of Directors or the shareholders.

As at the date of this Base Prospectus, the Company's Management Board consists of seven members. The Board of Directors appoints the members of the Management Board. The current members of the Management Board were appointed in 2016, with the exception of Oleg Karpushin and Ardak Mukushov, who were appointed in 2017, Gleb Luxembourg, who was appointed in 2015, and the Chairman of the Board of Directors, who was appointed in 2013 (and was reappointed in 2017). The Board of Directors may at any time terminate the authority of any Management Board members, other than the Chairman of the Management Board, who is appointed by the shareholders.

As at the date of this Base Prospectus, the Company's Management Board consists of the following members:

Name	Age	Position with the Company
Suat Mynbayev.....	55	Chairman of the Management Board, Member of the Board of Directors
Oleg Karpushin .....	49	Executive Vice President for Production, Exploration and Oil Field Services
Kairat Sharipbayev.....	54	Executive Vice President for Transportation and Marketing
Dauren Karabayev.....	39	Executive Vice President, Chief Financial Officer
Serik S. Abdenov .....	41	Vice President for Human Resources
Gleb Luxembourg .....	49	Vice President for Transformation
Ardak Z. Mukushov .....	40	Vice President for Legal Support

**Suat Mynbayev.** See "*—Board of Directors*".

**Oleg Karpushin.** Mr. Karpushin was born in 1968. He graduated from the Gubkin Russian State University of Oil and Gas in 1993 and he obtained a Master's degree from Duke University in 2013. Mr. Karpushin began his career as a Field

Engineer at Schlumberger Oil and Gas Services Company in Russia. From 1997 to 1998, he worked as a Technical Instructor at Dowell Schlumberger Training Centre and, between 1999 and 2002, he supervised the Hydraulic Fracturing Department. In 2002, Mr. Karpushin worked as a Business Development Manager for Central Asian countries and Azerbaijan at Schlumberger Oil and Gas Services Company before holding various other positions at Schlumberger Oil and Gas Services Company until 2004. From 2004 to 2010, Mr. Karpushin was responsible for oil and gas extraction, offshore platforms and pipelines operation at Sakhalin Energy Investment Company Ltd. In 2010, he was appointed as a Managing Director for Oil and Gas Extraction Assets of the West Division of Shell Petroleum Development Company in Nigeria. Mr. Karpushin held the position of Director General of Salym Petroleum Development N.V between 2013 and 2015. In 2015, he was appointed as a Senior Advisor at Shell Exploration and Production B.V. headquarters in The Hague. Mr. Karpushin was appointed as Executive Vice-President for Production, Exploration and Oil Field Services at the Company in June 2017.

**Kairat Sharipbayev.** Mr. Sharipbayev was born in 1963. He graduated from the Kazakh Agricultural Institute in 1985 and subsequently began his career as an Agrotechnician in the agricultural industry. Between 1991 and 1999, Mr. Sharipbayev held a variety of executive positions at Koktem LLP, Shyn-Assyl JSC and Zhetisu LLP. He graduated from Almaty Public University with a degree in Political Sciences in 1999 and served as Deputy to the Akim of Taraz between 1999 and 2000 before becoming Senior Vice President of Daur CJSC in 2000. Mr. Sharipbayev was CEO of Kitap Publishing House between 2001 and 2002. He served as the Director of the Gas Transportation and Marketing Department and Deputy General Director for Marketing and Commerce of Intergas Central Asia CJSC from 2001 until 2003. Mr. Sharipbayev became an advisor to the deputy General Director for Marketing of KTG in 2003 and he served as Advisor to the Senior Vice President and the Managing Director for Commerce of JSC NC Kazakhstan Temir Zholy between 2005 and 2006. He was the Chairman of the Board of Directors of Danko JSC between 2006 and 2009. Mr. Sharipbayev was a General Director and Chairman of Management Board of KTG Aimak from January 2009 until October 2014. In October 2014 he became a General Director and Chairman of Management Board of KTG and Deputy Chairman of the Management Board for KMG EP. He has served as the Chairman of the Board of Directors of KTG since 11 December 2015 and Executive Vice President for Gas Transportation and Marketing of the Company since August 2016.

**Dauren Karabayev.** Mr. Karabayev was born in 1978 and graduated from the Kazakh State Academy of Management in 1999 with a degree in International Economic Relations. In 2001, he graduated from Texas A & M University with a masters in Finance. He began his career working as a Credit Analyst at ABN AMRO Bank Kazakhstan JSC in 2001 and became the Head of Credit Management in 2003. In 2004, Mr. Karabayev was appointed as the Managing Director of JSC Halyk Bank. He was the Deputy Chairman of the Board of JSC Halyk Bank from 2007 until June 2016. Mr. Karabayev was a Project Supervisor at McKinsey & Company Inc from June 2016 until September 2016 before being appointed Executive Vice President - Chief Financial Officer of the Company in October 2016.

**Serik S. Abdenov.** Mr. Abdenov was born in 1977. He graduated with a law degree from the Kazakh Institute of Legal Studies and International Relations in 1998. In 2004, Mr. Abdenov graduated in Economics at the Karaganda Economic University of Kazpotreboysuz, and, in 2013, he obtained an MBA degree from the Russian Academy of the National Economy. Mr. Abdenov served as Chief Specialist of the Regulatory Act Registration Administration from 1998 before being appointed Chief Specialist of the Legal Expert Review and Law Drafting Administration and Head of the Subordinate Legislation Expert Review Department of the Ministry of Justice of the Republic of Kazakhstan. Between 2000 and 2003 he worked in the Ministry of Foreign Affairs as Head of the Legal Expert Review Section of the International Legal Department, Head of the Control and Document Workflow Administration and Deputy Chief of Staff. Between 2004 and 2009, he worked in the Ministry of Labour and Social Protection of Population, holding the positions of Deputy Director, Director of the Department of Employment of Population and Public Control over Compliance with the Labour and Occupational Safety and Health Laws, Director of the Labour and Employment Department, Vice Minister of Labour and Social Protection of Population of the Republic of Kazakhstan. Mr. Abdenov was appointed Deputy Akim, and later Senior Deputy Akim of the East-Kazakhstan Province in 2009. Between 2012 and 2013, he served as Minister of Labour and Social Protection of Population of the Republic of Kazakhstan. Mr. Abdenov acted as an Advisor to the Chairman of Management Board of the Company and was appointed Managing Director for Human Resources and Labour Remuneration of the Company in 2013. Mr. Abdanov has served Vice President for Human Resources of the Company since August 2016.

**Gleb Luxembourg.** Mr. Luxembourg was born in 1968. He graduated from Ivano-Frankovsk Institute of Oil and Gas in 1992 with a Mining Engineer qualification and began his career working as an assistant driller in Mamontovskoye EOR and WO of Yuganskneftegas PC. Mr. Luxembourg worked at UKOS NC OJSC, where he held a variety of different positions including Director General of YUKSAR LLC, in 1997. He was the financial director of Resourceenergo LLP between 2000 and 2002. In 2002, Mr. Luxembourg began working for the TNK-BP JSC group (originally called Tyumen oil company CJSC) and served as Director General of the Regional Service Centre – Nyagan CJSC between 2002 and 2005. He graduated from the Moscow Academy of State and Municipal Administration of the State Service Academy in 2003. Between 2005 and 2007, Mr. Luxembourg worked as Director General of RCSU-Nizhnevartovsk CJSC and was responsible for the management oil service companies in the Nyagan, Nizhnevartovsk, Novosibirsk, Raduzhniy regions.

He was the Director General of Tagulskoye LLP from 2007 until 2009 and Deputy Director General of Rospan International between 2009 and 2010. Mr. Luxembourg was Vice-Minister for Health, Safety and Environment at TNK-BP JSC between 2010 and 2011. He was Director General of Yamal SPG between 2011 and 2014 and he received an MBA from the Moscow International School of Business in 2012. Mr. Luxembourg became the Deputy Chairman of the Company's Management Board in June 2015.

**Ardak Z. Mukushov.** Mr Mukushov was born on 4 March 1978. He graduated from L.N. Gumilyov Eurasian National University with a degree in law and legal education methods in 1998. In 2007, Mr Mukushov graduated from Ryskulov Kazakh University of Economics. From 2000 to 2003, he worked in the Ministry of internal affairs, Astana and, from 2003 to 2010, he worked in the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan as Senior Specialist, Head of Department, Head of Office and then Deputy Director of the Legal Service Department. From 2010 to 2013, Mr Mukushov acted as Director of the Legal Service Department at the Ministry of Oil and Gas of the Republic of Kazakhstan. Between January and August 2014, he was an advisor to the Chairman of the Company's Management Board before his appointment as Director of the Company's International Contracts Department. Mr Mukushov was appointed Vice President for Legal Support of the Company in January 2017.

The business address of each of the members of the Management Board is the registered office of the Company at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

### ***Chairman of the Management Board***

The Chairman of the Management Board is the Company's chief executive officer. The current Chairman of the Management Board, Sauat Mynbayev, was re-appointed by a resolution of the Board of Directors in August 2017, having been previously appointed as Chairman of the Management Board in July 2013.

The business address of the Chairman of the Management Board is the registered office of the Company at 19, Kabanbay Batyr Avenue, Astana 010000, Kazakhstan.

### ***Internal Audit Service***

The Internal Audit Service is a permanent collective body of the Company that performs internal audits of the Company, appraisals of reliability and efficiency of the Company's internal risk management and internal controls and monitors the Company's operations and its compliance with the laws of Kazakhstan and internal policies and procedures of the Company. The Internal Audit Service monitors and supervises the internal audit services of the Company's subsidiaries, joint ventures and associates and provides such internal audit services with guidance on the organisation of internal control and internal audit systems. The Internal Audit Service of the Company may, upon instructions of the Board of Directors of the Company, perform an audit of any subsidiary, joint venture or associate of the Company. Members of the Internal Audit Service of the Company are appointed by the Board of Directors for a term determined by the Board of Directors.

Members of the Internal Audit Service report to the Board of Directors and can be removed at any time. The Internal Audit Service has the right to convene an extraordinary meeting of the Board of Directors of the Company.

### **Management Remuneration**

In accordance with the Company's charter, the remuneration of the members of the Board of Directors is determined by the shareholders, while remuneration of the Chairman of the Management Board, the members of the Management Board and the Internal Audit Service is determined by the Board of Directors based on the policy of the shareholders.

Total compensation to the key management personnel of the Company amounted to KZT 9,022.1 million for the year ended 31 December 2017, KZT 9,797.4 million for the year ended 31 December 2016 and KZT 9,017.16 million for the year ended 31 December 2015. Compensation to key management personnel consists of salary and a performance bonus based on operating results.

### **Employment Contracts with Senior Executive Officers**

In general, the Company enters into employment contracts of indefinite duration with its senior executive officers. Under these contracts, the senior executive officers of the Company are entitled, in addition to their regular salary, to annual bonuses based on the Company's annual performance.

**Conflicts of Interest**

There are no potential conflicts of interest between any duties owed to the Company by members of the Board of Directors, the Management Board, the Chairman of the Management Board and the Internal Audit Service and their private interests or other duties.

## SHARE CAPITAL, SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Share Capital

The Company was formed in February 2002 with an initial share capital of KZT 47,874.0 million, which was contributed by the transfer to the Company of 14,561,629 common shares of Kazakhoil with a nominal value of KZT 1,000 per share and 333,119,985 common shares of CJSC NC of Oil and Gas Transport with a nominal value of KZT 100 per share. On 7 August 2002, the Company registered its share capital in the amount of KZT 48,874.0 million including a further contribution of KZT 1.0 million in cash, comprising of 95,747,255 common shares with a nominal value of KZT 500 per share.

In 2004, 2005 and 2006, the share capital of the Company was increased as a result of the issue of new shares to the Government in consideration for cash contributions, which was partially offset by certain sums owed to the Government and expenses incurred by the Government and by the transfer of shares of certain Government owned entities to the Company. On 28 January 2006, the Government shares in the Company were transferred to Samruk-Kazyna. Samruk-Kazyna is the majority shareholder of the Company and is, in turn, wholly-owned by the Government. On 7 August 2015, NBK purchased 58,420,748 of ordinary shares of the Company, amounting to a 10% plus one share interest in the Company, from Samruk-Kazyna. Since August 2015, NBK's ownership interest has been diluted to approximately 9.9% of the ordinary shares of the Company. As at 31 December 2017, the Company's share capital was KZT 696,376.6 million. All of the Company's shares are issued and outstanding.

In 2013, Samruk-Kazyna adopted a new dividend policy, which provides for a differentiated approach to the payment of dividends by entities within the Samruk-Kazyna group depending on their profitability and level of investments required to be used in their operations and expansion plans. According to this policy, all entities in which Samruk-Kazyna holds a controlling interest, including the Company, must pay a dividend of no less than 30% of their net profit per year, subject to reductions for the costs of social and investment projects.

In 2017, the Company declared dividends in respect of 2016 profits at KZT 11.32 per common share in a total amount of KZT 6.7 billion and dividends in respect of 2013 profits that had not been previously distributed at KZT 66.52 per common share in a total amount of KZT 39.2 billion. See Note 18 to the 2017 Financial Statements.

### Samruk-Kazyna

Samruk-Kazyna is wholly-owned by the Government and is the national managing holding company for substantially all state enterprises. Samruk-Kazyna was created in 2008 pursuant to the Presidential Edict № 669, dated 13 October 2008, and the Resolution of the Government № 962, dated 17 October 2008, by way of the merger of JSC "Kazakhstan Holding for Management of State Assets", "Samruk" and JSC "Sustainable Development Fund" "Kazyna". Samruk-Kazyna is a joint stock company whose shares are held by the Ministry of Finance's Committee of State Property and Privatisation on behalf of Kazakhstan. At the end of 2008, 100% of the Company's shares were transferred to Samruk-Kazyna. In August 2015, Samruk-Kazyna sold 10% plus one share of its interest in the Company to NBK. Since August 2015, NBK's ownership interest has been diluted to approximately 9.9% of the ordinary shares of the Company.

Samruk-Kazyna's primary objective is to manage shares (participatory interests) of legal entities it owns with a goal of maximising long-term value and increasing competitiveness of such legal entities in world markets. Another goal of Samruk-Kazyna is to achieve transparency in operations within its group, including through procurement procedures, which extend to the operations of the Company. See "*Regulation in Kazakhstan—S-K Rules*".

While statements have appeared, from time-to-time, in the press with respect to a potential initial public offering by Samruk-Kazyna of a minority stake in the Company and the Company is included in the list of companies that are candidates for partial privatisation in the 2016 Complex Privatisation Plan, the terms and timing of any such sale have not been finalised. The Company continues to believe that it has the strong support of the Government, which has historically assisted the Company by providing financing and strategic support and otherwise played an important role in the expansion of the Company's operations, reserves, production levels and transportation and refining networks.

The governance of Samruk-Kazyna's activities is subject to general corporate governance applicable to all joint stock companies in Kazakhstan. Accordingly, the corporate governance structure of Samruk-Kazyna is as follows: the Government, as the shareholders constitutes the supreme governing body, the board of directors constitutes the managing body, and the management board constitutes the executive body.



Members of Samruk-Kazyna's board of directors are appointed by the Government, and its members are, among others, the Minister of Finance, the Minister of Economy and Budget Planning, independent directors and the chairman of the management board of Samruk-Kazyna. In addition, the board of directors is chaired by the Prime Minister of Kazakhstan.

## **NBK**

NBK is the central bank of Kazakhstan. It was formed on 13 April 1993 as a result of the reorganisation of the Kazakh Republican bank. It is accountable to the President of the Republic of Kazakhstan, but within the limits of authority granted by its enabling legislation, is independent in its activities.

## **Relationships between the Company and KMG EP**

Set out below is a summary of the material agreements and transactions that have been entered into by the Company with its significant subsidiaries.

### ***Relationship Agreement with KMG EP and Further Offer to Buyback Shares***

The relationship agreement regulating the degree of control that the Company may exercise over the management of KMG EP was entered into between the Company and KMG EP dated 8 September 2006 (the "**Relationship Agreement**"). The principal purposes of the Relationship Agreement are to ensure that:

- KMG EP can effectively access the international capital markets;
- KMG EP (i) is capable of carrying on its business as an independent and free standing business apart from the Company and of any of its affiliates and (ii) operates in the best interests of all shareholders;
- the Company shall use its reasonable endeavours to ensure that no member of the Company shall act in any way which shall prejudice the ability of KMG EP to carry on its business independently of the Company (or render it unsuitable for continued listing on any recognised stock exchange);
- subject to the JSC Law and to the terms of the Services Agreement (as defined below), the Company will not exercise its voting rights in KMG EP, whether as a shareholder or through its representation on KMG EP's Board of Directors, in respect of any resolution which relates to a transaction between KMG EP and the Company and, with respect to KMG EP's Board of Directors, on matters in which the Company's representatives may have an interest as a result of being a director or officer of the Company or any entities of the Company;
- the Company will not require KMG EP to increase the amount of financial contribution to assist in implementing social projects in the regions and cities in which members of KMG EP operate, except as required by social programmes that predate the Relationship Agreement, the terms of exploration or production licences and contracts held by members of KMG EP from time-to-time, Kazakhstan law or as otherwise approved by KMG EP's board in accordance with its Charter; and
- both the Company and KMG EP shall (and shall ensure that their respective subsidiaries shall), subject to all applicable laws and the terms of existing agreements between the Company and KMG EP (or their respective affiliates), conduct any transactions and relationships (whether contractual or otherwise) between any member of the Company, on the one hand, and any member of KMG EP, on the other, on arm's length terms and on a normal commercial basis.

The Relationship Agreement remains valid until the earlier of (i) the GDRs issued by KMG EP ceasing to be listed on any stock exchange to which KMG EP's securities have been admitted (other than the KASE), or (ii) the Company (or any of its affiliates) ceasing to be a "controlling shareholder" in KMG EP. For these purposes, a controlling shareholder is any person (or persons acting jointly by agreement whether formal or otherwise) who is entitled to exercise or to control the exercise of 30% or more of the rights to vote at KMG EP's general meetings or is able to control the appointment of directors who are able to exercise a majority of votes at KMG EP's board meetings.

In June 2016, the Company proposed certain changes be made to KMG EP's charter and to the Relationship Agreement aimed at alleviating KMG EP's deteriorating financial results, which had been negatively affected by difficult trading conditions and a challenging external environment. The Company also made an offer to purchase shares and GDRs in KMG EP to the shareholders of KMG EP wishing to exit in response to this proposal, at a price of U.S.\$7.88 per GDR; U.S.\$47.28 per common share and U.S.\$27.62 per preferred share. In July 2016, the Company published a revised circular: (i) increasing the offer price to purchase shares and GDRs in KMG EP to U.S.\$9.00 per GDR, U.S.\$54.00 per

common share and U.S.\$31.55 per preferred share; and (ii) removing from the proposal that the Company retain veto rights in respect of future nominations of KMG EP Independent Directors by the Nominations Committee. The offer was rejected by KMG EP's shareholders in August 2016.

On 8 December 2017, KMG EP launched the KMG EP Tender Offer to holders of its outstanding GDRs to purchase GDRs at a price of U.S.\$14.00 per GDR. On 23 January 2018, KMG EP announced that it had received valid acceptances in respect of approximately 87% of all outstanding GDRs (excluding GDRs held by KMG EP) and, accordingly, the KMG EP Tender Offer had become unconditional. On 23 January 2018, KMG EP launched the KMG EP Share Offer, an offer to repurchase on the KASE (at a price of U.S.\$84.00 per common share, payable in Tenge) all of its outstanding common shares. The first settlement date for the KMG EP Tender Offer and the KMG EP Share Offer was 19 February 2018. On 20 February 2018, KMG EP announced that the first settlement date had been effected and, as a result, KMG EP had repurchased a total of: (i) 134,070,054 GDRs, which, as at 31 January 2018, represented approximately 97.7% of the outstanding GDRs of KMG EP (excluding GDRs owned by the Company) and representing approximately 31.8% of the total outstanding common shares of KMG EP; and (ii) 320,688 common shares, which, as at 31 January 2018, amounted to approximately 0.5% of the total outstanding common shares of KMG EP. The repurchase was funded by KMG EP's own funds. The common shares repurchased by KMG EP will be held in treasury, and the GDRs will be held by KMG EP, subject to surrendering such GDRs for common shares in due course. On 20 February 2018, KMG EP announced that, following the first settlement date of the KMG EP Tender Offer and the KMG EP Share Offer, the Company and KMG EP together held a total of 47,194,539 common shares and 134,781,116 GDRs of KMG EP, which represented approximately 99.2% of the total common shares of KMG EP. On 13 March 2018, KMG EP announced that, in accordance with their respective terms and conditions, the KMG EP Tender Offer closed on 8 March 2018 and the KMG EP Share Offer closed on 12 March 2018. As at 8 March 2018, KMG EP had acquired or received valid acceptances pursuant to the KMG EP Tender Offer in respect of a total of 135,328,231 GDRs, which, as at 18 February 2018, represented approximately 98.6% of the outstanding GDRs. As at 21 February 2018, 54 million GDRs had been converted into common shares. At the close of trade on the KASE on 12 March 2018, KMG EP had acquired or received bids for sale pursuant to the KMG EP Share Offer in respect of a total of 331,677 outstanding common shares, which, as at 18 March 2018, represented approximately 0.5% of the outstanding common shares (including common shares represented by GDRs). The final settlement date of the KMG EP Tender Offer and the KMG EP Share Offer is expected to be 5 April 2018.

On 12 March 2018, KMG EP held an extraordinary general meeting at which resolutions were passed to approve: (i) the LSE delisting; (ii) the KASE delisting; and (iii) certain amendments to KMG EP's charter, including: (a) changing the requisite majority to pass shareholder resolutions on certain matters including the delisting of KMG EP's securities, from a qualified majority to a simple majority of votes; (b) changing the requirement for resolutions of the Board of Directors on certain matters specified in the charter to be adopted by a majority vote of the directors to a simple majority of those directors present at a meeting; (c) removing the express right of independent executive directors to engage professional consultants to advise them at the expense of KMG EP; (d) changing the requirement that the agenda of all board meetings to be approved by a majority of the independent non-executive directors present at the relevant meeting to a simple majority of all directors; (e) changing the quorum for a board meeting from two-thirds of the directors to half of the directors; and (f) removing the requirement that two-thirds of independent non-executive directors must be present for a board meeting to be quorate. KMG EP has announced its intention, subject to the expiry of the KMG EP Share Offer, to apply for the LSE delisting and the KASE delisting, which are expected to occur on 9 May 2018. Upon the LSE delisting, the Relationship Agreement will be terminated immediately. On 13 March 2018, KMG EP announced that, in accordance with the JSC Law, holders of common shares or preferred shares in KMG EP that did not attend the extraordinary general meeting or that voted against the resolutions passed at the meeting have the right to demand KMG EP to acquire their respective shares by serving a demand within 30 days.

As a result of KMG EP Tender Offer and the KMG EP Share Offer, the percentage of ordinary voting shares of KMG EP owned by the Company is expected to increase. The Company is in the process of considering its options in respect of the re-integration of KMG EP into the Company in the context of its other transformation programmes.

See "*Business—Strategy*" and "*Business—Exploration and Production—Significant Production Fields of KMG EP*".

### ***Services Agreement***

KMG EP and the Company enter into the Services Agreement on an annual basis whereby the Company grants certain rights and renders certain services to KMG EP and refrains from undertaking certain business activities in Kazakhstan. Accordingly, the Services Agreement is renewed on an annual basis if KMG EP determines that entry into the Services Agreement is beneficial to KMG EP. The Services Agreement was last renewed in April 2014. In 2016 and 2017, KMG EP did not request any services from KMG under the Services Agreement.

Under the Services Agreement:

- The Company undertakes that it will not (and will procure that each member of the Company will not) carry on, be engaged in or otherwise interested economically in onshore exploration, development or production of oil at predominantly oil hydrocarbon deposits in Kazakhstan, except:
  - (i) where such operations are carried on by a member of the Company or by an entity in which a member of the Company has an ownership or participatory interest at the date of the Services Agreement and/or pursuant to resolutions of the Government and/or international obligations of Kazakhstan;
  - (ii) in connection with the acquisition or holding of any Existing Onshore Oil Asset or New Onshore Oil Asset (each as defined below) as required in order to perform its obligations under the Services Agreement;
  - (iii) where the Company has acquired any Existing Onshore Oil Asset or New Onshore Oil Asset and KMG EP has notified the Company that it does not want to acquire such existing onshore oil asset or new onshore oil interest; or
  - (iv) as otherwise agreed in writing by KMG EP provided that KMG EP undertakes that it shall only be entitled to grant such consent if approved at a meeting of the Board of Directors of KMG EP at which a majority of Independent Non Executive Directors are present at such meeting and approve such consent.
- If the State elects to sell or transfer its controlling interest in any subsoil use project in respect of hydrocarbon deposits in Kazakhstan, or any unlicensed exploration areas, fields or blocks in connection with the exploration and production owned or controlled by the Government or the Ministry of Energy (a “**New Onshore Oil Interest**”), the Company will, if requested by KMG EP, make a proposal to the Ministry of Energy that the Company wishes to acquire such New Onshore Oil Interest without undertaking a tender in respect of such New Onshore Oil Interest. If the Company has acquired a New Onshore Oil Interest without undertaking a tender in respect of such interest or the Company decides to sell or transfer a controlling interest in any New Onshore Oil Interest already held by the Company, the Company will first grant KMG EP a right of first refusal to acquire such New Onshore Oil Interest at fair market value. If the Company and KMG EP are unable to agree on the terms of such acquisition, the Company must offer such New Onshore Oil Interest for sale by way of auction to interested parties, in which event KMG EP will be entitled to match the winning bid for such interest and acquire up to 50% of such offered new onshore oil interest.
- If the Government elects to exercise its pre-emptive right (pursuant to Article 12 of the 2010 Subsoil Law, see “*Regulation in Kazakhstan—Regulation of Mineral Rights in Kazakhstan—2010 Subsoil Law—The State’s Pre-Emptive Right*”) to acquire an interest in any subsoil use right or asset in respect of oil onshore hydrocarbon deposits in Kazakhstan or an ownership or other participatory interest in any entity (whether incorporated in Kazakhstan or elsewhere) owning (wholly or primarily) such a subsoil use right, or asset (other than a New Onshore Oil Interest) (an “**Existing Onshore Oil Asset**”) in which KMG EP has declared an interest to acquire, the Company must use its reasonable endeavours to procure that the Government exercises such pre-emptive right on behalf of KMG EP and KMG EP will acquire such Existing Onshore Oil Asset. If the Company elects to dispose of a controlling interest in any other Existing Onshore Oil Asset held by the Company and in which KMG EP has declared an interest to acquire, the Company must first grant KMG EP a right of first refusal to acquire such Existing Onshore Oil Asset at fair market value. If the Company and KMG EP are unable to agree on the terms of such acquisition, the Company must offer such Existing Onshore Oil Asset (but not less than any part thereof that was offered to KMG EP) by way of auction to interested parties, in which event KMG EP will be entitled to match the winning bid for such interest and acquire 50% of such offered Existing Onshore Oil Asset. If the Company has failed to sell a controlling interest in any Existing Onshore Oil Asset (whether pursuant to the exercise of KMG EP’s right of first refusal or by way of auction or otherwise) and subsequently KMG EP requests that the Company sell such Existing Onshore Oil Asset, the Company must consider such request in good faith (but will not be obliged to sell such Existing Onshore Oil Asset to KMG EP).
- The Company will use all reasonable endeavours to ensure that KMG EP continues to benefit on materially the same terms from transportation infrastructure used by members of the Company for so long as the Services Agreement continues. In particular, the Company must procure, in respect of itself, and must use all reasonable endeavours to procure, in respect of any act required of any third party, the following:

- (i) KTO will continue to provide the Company with oil transportation facilities for export and for the domestic market using its system of pipelines as provided in the agreement between KMG EP and KTO dated 10 September 2004, as amended on 26 April 2006 and, which expired in 2013 (the “**KTO Transportation Agreement**”) and KMG EP shall provide the volume of crude oil for transportation and make payments as provided in the KTO Transportation Agreement;
  - (ii) after the expiration of the KTO Transportation Agreement, KTO shall allocate to KMG EP at the relevant time oil transportation capacity on terms no less favourable than those offered to other users provided that KTO may give a preferential right of first refusal to users which are in compliance with their contractual obligations to KTO; and
  - (iii) KTO shall allocate to KMG EP additional residual oil transportation capacities (or new transportation routes) on commercial terms on a take-or-pay basis.
- The Company will use all reasonable endeavours within the rights of the shareholder from Kazakhstan under the CPC shareholder agreement (See “*Business—Transportation—Transportation of Crude Oil—CPC Pipeline*”) to ensure that:
    - (i) KMG EP (or any specified member of KMG EP) is nominated “affiliated shipper” of the Company (including all rights and obligations pursuant to which the Company has access to the CPC Pipeline) for the purposes of access to the CPC Pipeline in respect of any volume of crude oil proposed in writing by KMG EP to be delivered through the CPC Pipeline;
    - (ii) the Company is entitled to deliver into the CPC Pipeline any volume of crude oil proposed in writing by KMG EP to be delivered through the CPC Pipeline in accordance with the quota allocated to the shareholder from Kazakhstan; and
    - (iii) the CPC consortium allocates any increased capacity (as notified in writing from time-to-time by KMG EP to the Company) in the CPC Pipeline to KMG EP as the “affiliated shipper” of the Company (where commercially practicable).

In consideration for the grant of such rights and the provision of such services and for the Company agreeing to restrict its business, KMG EP has agreed to pay to the Company the sum of KZT 10.0 billion (including VAT) per year. To the extent that the Company successfully participates in the annual tender for the provision of services set out in the Services Agreement, the annual fee for such services shall be as specified in the tender, but the Company anticipates that it will increase in line with the consumer price index of Kazakhstan as provided in the Relationship Agreement (see “—*Relationship Agreement with KMG EP and Further Offer to Buyback Shares*”).

#### **Other Relationships between the Company and Subsidiaries, Joint Ventures and Associates of the Company**

The Company’s subsidiaries, joint ventures and associates enter into transactions with each other from time-to-time. Set out below is a summary of the material agreements and transactions that have been entered into among the Company’s subsidiaries, joint ventures and associates other than in the ordinary course of business.

##### ***Atyrau Refinery Supply Arrangements***

Pursuant to the Relationship Agreement, KMG EP undertook to participate in the annual crude oil procurement tenders until April 2016.

KMG EP and the Company agreed that such participation by KMG EP would be on the following terms:

- For the years 2006 to 2010, as stipulated in the Relationship Agreement, KMG EP was obligated to sell up to 1.9 million tonnes of crude oil per year, if so requested by Atyrau Refinery. For 2011 to 2015, the amount which KMG EP is obligated to provide under the Relationship Agreement is determined on an annual basis; and
- the price of any crude oil supplied by KMG EP shall be equal to the cost of such crude oil plus a margin of 3%, where cost is calculated as the production cost of one tonne of crude oil for KMG EP plus the transportation cost incurred by KMG EP, where:
  - (i) the production cost of one tonne of crude oil is the ratio of (A) the total crude oil production costs and all administrative and non-production costs (including general administration costs) under the

procurement tender plan for the relevant calendar year to (B) the total volume of crude oil production at all production branches of KMG EP under the procurement tender plan for the relevant calendar year; and

- (ii) the transportation cost of one tonne of crude oil is the ratio of (A) the total costs of crude oil transportation from all the branches of KMG EP to the Atyrau Refinery under the procurement tender plan for the relevant calendar year to (B) the total volume of crude oil supplies to the Atyrau Refinery from all production branches of KMG EP under the procurement tender plan for the relevant calendar year.

KMG EP has not participated in any procurement tenders since April 2016 and the Company is not required to do so in respect of the supply of crude oil to be processed by the Atyrau Refinery. Prior to April 2016, KMG EP sold a portion of the crude oil it produced to KMG RM in order to meet its domestic supply obligation. KMG RM further processed this crude oil and sold refined products. With effect from April 2016, KMG EP has instead provided volumes of crude oil for processing at the Atyrau Refinery and Pavlodar Refinery (and paid the corresponding processing fee) and then sold refined oil products for its own account, using KMG RM as a sales agent. On 1 January 2017, KMG EP ceased using KMG RM as its sales agent and has started marketing refined products for its own account.

### ***Relationships between the Company and TCO***

Several material agreements have been entered into among TCO and its partner, including the Company and the Government. These agreements set out a number of important rights, including TCO taxation and royalty arrangements with the Government, economic stabilisation provisions relating to changes in taxes or other levies and TCO right to export its products and to receive and retain revenue in hard currency in offshore accounts.

#### *Formation Agreement*

The formation agreement establishing TCO was entered into on 2 April 1993 (the “**Formation Agreement**”) and was last amended on 13 October 2004, by the Company, Chevron Overseas, LukArco and ExxonMobil Kazakhstan Ventures Inc. The Formation Agreement provides that TCO’s objectives are to develop hydrocarbon resources and explore, produce, process, store, transport, export and sell hydrocarbons, hydrocarbon products, and sulphur. The term of the Formation Agreement is 40 years.

The Formation Agreement may terminate prior to the expiration of its term under the following circumstances: (a) mutual agreement of its partners; (b) insolvency of the partnership or withdrawal of one of the partners in accordance with the Formation Agreement; (c) bankruptcy, liquidation or similar events affecting one of its partners; (d) breach by one of the partners of a material obligation under the Formation Agreement, subject to a cure period; (e) a change of control, merger, amalgamation or reconstruction of one of the partners or any person who has control of a partner, except that (i) no change of control will be considered to occur in the event the Company, or any Kazakhstan legal entity which has control of the Company is privatised, restructured, merged, amalgamated, reconstructed or incorporated in such a way that no person other than the Government holds, directly or indirectly, more than a 10% interest in the Company or such Kazakhstan legal entity and (ii) such provision does not apply to Chevron Corporation, Mobil Corporation, LUKOIL or Atlantic Richfield Company; or (f) the elapse of six months after a merger or change of control of Chevron Corporation, Mobil Corporation, LUKOIL or Atlantic Richfield Company if the Government has reasonable grounds to disapprove of such merger or change of control after having discussed the matter in good faith with Chevron Corporation, Mobil Corporation, LUKOIL or Atlantic Richfield Company or their new controller.

The Formation Agreement provides that each of TCO’s partners has an undivided interest in TCO equal to its participatory interest. Parent companies of TCO’s partners have entered into guarantees whereby they guarantee to the Government, to TCO and to TCO’s partners, their affiliate’s cash call obligations under the Formation Agreement. The Company’s obligations are guaranteed by the Government.

The Formation Agreement provides that TCO’s highest governing body is the general meetings of its partners conducted in the form of (a) Partnership Council meetings or (b) meetings of its partners to accomplish matters reserved to them at law. The Partnership Council consists of eight members: three appointed by Chevron Overseas, two appointed by the Government (failing whom, the Company); two appointed by ExxonMobil Kazakhstan Ventures Inc. and one appointed by LukArco. TCO’s General Director and Deputy General Director are unofficial members of the Partnership Council. Unless otherwise agreed, the Government (failing whom, the Company) nominates the Chair of the Partnership Council (subject to a vote) but the Chair has no authority to represent TCO.

The Formation Agreement provides that Partnership Council meetings are held at TCO offices at least quarterly, unless decided otherwise by Partnership Council. A quorum of at least 81% of TCO's Participatory Interests is required for any Partnership Council meetings. Each partner has one vote weighted in accordance with its participatory interest. All Partnership Council decisions require the affirmative vote of at least 81% of participatory interests in TCO, except for the following six fundamental issues that must be decided unanimously:

- termination, liquidation or wind up of TCO's operations, appointment of a receiver or liquidator, or entering into any arrangement with creditors;
- commencement of any new businesses, trading under any name other than "Tengizchevroil" or discontinuing any of TCO's business;
- any sale, transfer, lease, licence, right to use or disposal of all or a substantial part of TCO's business, undertaking or assets;
- any consolidation, merger, acquisition or disposal of any interest in any other entity or becoming a partner in any other partnership;
- applying for or surrendering any exploration or production licence or relinquishing any area covered by a licence; and
- entering into or amending any loan agreement with a partner or affiliate of a partner, unless such agreements or amendments are made on identical terms to all partners.

Under the Formation Agreement, Chevron Overseas provides management and administrative expertise to TCO, including nomination of all of department heads of TCO except the heads of the Governmental Relations, Human Resources and Legal Departments, which are jointly nominated by the Company, ExxonMobil Kazakhstan Ventures Inc. and Chevron Overseas or, failing a joint nomination, Kazakhstan. The Formation Agreement requires that all nominees must be qualified to perform their jobs.

#### Financial Arrangements under Formation Agreement

The Formation Agreement, to the extent TCO does not have sufficient cash available, establishes its right to require its partners, in proportion to their participatory interests, to make up cash deficiencies required to conduct partnership activities in accordance with approved work programmes and budgets. These cash calls are to be advanced in U.S. Dollars and accounted for as loans between TCO and its partners. Defaults on cash calls are to be made up by non-defaulting partners of TCO and are compensated with interest and a prior right to defaulting partner's share of any of revenue of TCO upon distribution until repaid.

Where such a default lasts for 90 days, non-defaulting partners of TCO may within 60 days thereafter elect to buy the defaulting partner's interest or liquidate TCO. If a price cannot be agreed, non-defaulting partners have a right of first offer with respect to the sale of any of assets of TCO. Under the Formation Agreement, the right to cash calls by TCO partners exists only between TCO and its partners and may be enforced only by TCO and its partners. Nothing in the Formation Agreement confers any rights or remedies on any person other than the parties to it, their respective successors and assigns and TCO, and no provision gives any third person any right of subrogation or action over and against any other party.

The Formation Agreement provides that TCO distributes the maximum amounts of cash available, subject to its reasonable cash requirements. Under this Agreement, each of TCO's partners has the right to receive, keep and use cash advances from TCO outside of Kazakhstan and the CIS in proportion to their interests in TCO. The Formation Agreement provides that TCO is responsible for withholding the applicable taxes on profit and interest distributions it makes.

The Formation Agreement provides that all sales proceeds of TCO in freely convertible currencies will be deposited into London bank accounts of TCO, non-convertible currency proceeds may be deposited as decided by the Partnership Council, freely convertible currency obligations will be paid directly from London accounts of TCO and non-convertible obligations from non-convertible accounts of TCO.

#### *TCO Advanced Oil Sale Transaction*

In March 2016, KMG Finance, as seller, and KMG, as guarantor, entered into an advanced sale of oil transaction, which was extended in 2017. See "*Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—TCO—TCO Advanced Oil Sale Transaction*".

## **Transfer and Assignment of Interest**

The Formation Agreement provides that each of TCO's partners has the right to transfer all or part of its interest in TCO to any person capable of performing its obligations, subject to the consent (not to be unreasonably withheld) of the other partners. If any such transfer is to a non-affiliate, the transferring partner shall first offer to sell or transfer all or part of such participatory interest to the non-transferring partners, but where TCO partners cannot agree on terms within 45 days, the transferring partner has 180 days thereafter to sell its interest to qualified third parties (subject to the consent of non-transferring partners of TCO, which shall not be unreasonably withheld) on terms no more favourable than those offered to non-transferring partners of TCO. Under the Formation Agreement TCO's partners may withdraw from the partnership at any time after giving 180 days advance notice. Other partners have 45 days from receipt of such notice to accept the withdrawing partner's interest (subject to assumption of all future obligations related thereto) or join in withdrawal. Withdrawal does not excuse a partner from its financial obligations existing or accrued up to the date of the withdrawal notice.

## **Project Agreement**

A project agreement was entered into on 2 April 1993 and was last amended on 13 October 2004 by the Government, the Company, Chevron Overseas, CTOPI, ExxonMobil Kazakhstan Ventures Inc. and LukArco (the "**Project Agreement**") and sets forth the parties' obligations with respect to payments, taxes, royalty and other matters associated with the activities of TCO. Pursuant to the Project Agreement, TCO has exclusive rights until 6 April 2033 to develop and produce all hydrocarbons, hydrocarbon products and sulphur from its concession area, as set out in its production licence. The Government is obligated to ensure that TCO operations are not adversely affected by the actions and operations of other operators in the area with respect to emissions and the use of natural resources and the infrastructure.

The Project Agreement provides that agreements between TCO and Kazakhstan with respect to (a) taxes and other governmental exactions, (b) royalty, (c) exchange, transportation, export and marketing and (d) currency matters are effective until 6 April 2033, shall govern in case of any inconsistency with existing or future Kazakhstan law and may not be changed without the express written consent of the Government, Chevron Corporation, Mobil Corporation, OJSC Oil Company LUKOIL and Atlantic Richfield Company (now a subsidiary of BP plc ("**BP**")). The Project Agreement provides that the Government shall take such action as may be required to give such provisions the force of law. The Project Agreement provides that the aggregate amount of taxes and other forms of levies and royalty applicable to TCO with respect to the Tengiz project, the Company with respect to payments of interest and profit distributions received from TCO, CTOPI with respect to payments from TCO and the Government, and Chevron Overseas, ExxonMobil Kazakhstan Ventures Inc. and LUKARCO, each with respect to its participatory interest in TCO and otherwise in connection with the Tengiz project, are fixed as described below until 6 April 2033.

TCO pays the Government a base royalty of 25% of the dollar value equivalent of crude oil, gas, propane, sulphur and other products valued at the wellhead. Under the terms of the Project Agreement, TCO pays the base royalty quarterly. Each quarterly payment is due within 30 days of the end of the applicable quarter and consists of 90% of the base royalty estimated to be due for such quarter plus the difference between the prior quarter's estimated payment and the amount of the base royalty actually due for the prior quarter. The Government may elect to receive the base royalty in the form of crude oil and other products if sufficient production is available.

The Project Agreement provides that TCO will not make any claim for refund from the Government in respect of any Net VAT (defined below) or claim depreciation in respect of any amount representing an increase in Non-Offsettable VAT (defined below). The Project Agreement provides that the base royalty will be reduced by an amount equal to (a) the amount of any refund in respect of Net VAT referable solely to the Tengiz project that would be due to TCO but for the provision of the Project Agreement described in the preceding sentence plus (b) any increase in the amount of Non-Offsettable VAT paid by TCO over the amount of Non-Offsettable VAT that would have been payable had the applicable goods or services been purchased on the date of the Project Agreement. "**Net VAT**" means the difference between (i) those amounts of value added tax imposed by any republic in the CIS paid by TCO on goods and services supplied to TCO in relation to the Tengiz project, and (ii) those amounts of value added tax imposed by Kazakhstan which are received by TCO on goods and services supplied by TCO in relation to the Tengiz project. "**Non-Offsettable VAT**" means value added tax imposed by any republic in the CIS on goods and services which under Kazakhstan law from time-to-time is not to be included in determining Net VAT.

The Project Agreement establishes a profits tax at the rate of 30% until such time as a lower tax rate on profits is made available to at least two other similar joint venture projects.

If the total amount of (a) taxes and levies paid pursuant to the Project Agreement for any tax year less VAT, (b) taxes assessed which were not applicable to TCO at the time of the formation ("**non-applicable taxes**"), and (c) employment

taxes, exceeds or falls short of the amount that would be payable at the following rates then the amount of royalty payable to Kazakhstan is to be adjusted. The adjustment is made to ensure that the aggregate amount received by Kazakhstan in taxes and royalty (excluding VAT, non-applicable taxes and employment taxes) equals the amount which would be payable under the following rates: 30% on TCO profit, 20% withholding tax on interest paid by TCO, 15% withholding tax on profit distributions made by TCO and the aggregate relevant indexed amount (U.S.\$7 million indexed to 1997 prices), as defined in the Project Agreement, with respect to additional taxes. The profit tax and withholding tax rates must be adjusted if a lower tax rate is made available to at least two other similar joint ventures.

Where reductions in royalty payable to the Government exceed royalty due to the Government, such excess will be offset against any taxes and other non-discriminatory government exactions owed to the Government. If TCO is prevented from receiving the world market price (which is defined as the freely negotiated arm's length export price at the time) for the full value of any of TCO's crude oil sold or any part of the proceeds of crude sales is prevented from being deposited in freely-convertible currency in London, then base royalty payments are reduced by an amount equal to the amount of such loss.

### ***Kashagan Advanced Oil Sale Transaction***

In November 2016, KMG Kashagan B.V. entered into a prepayment transaction in relation to the advanced sale of the crude oil produced at the Kashagan Field. See "*Business—Significant Production Fields of Other Joint Ventures and Associates—Kashagan Advanced Oil Sale Transaction.*"

### **LLP "PSA"**

In June 2010, the Company established LLP "PSA", a 100%-owned subsidiary (as at 31 December 2017) with charter capital of KZT 4,077.0 million. LLP "PSA" is responsible for the PSAs covering the North Caspian Project (Kashagan Field), Karachaganak Field and Dunga Field, respectively. Although LLP "PSA" is legally owned by the Company, as at the date of this Base Prospectus, 100% of the participatory interests in LLP "PSA" were transferred to the MOG and are held by the Ministry of Energy under a trust management agreement with the Company.

LLP "PSA" is responsible for the PSAs covering the North Caspian Project (Kashagan Field), Karachaganak Field and Dunga Field, respectively. The primary objective of LLP "PSA" is to monitor and protect the interests of the Government through ensuring compliance of all parties with their respective obligations under certain PSAs. According to the decisions of the Intergovernmental Committee for Development of Oil, Gas and Energy Sectors, certain functions and authorities of the Ministry of Energy (as the successor to the MOG) as the "authorised body" under the PSAs are delegated to LLP "PSA". At the time of the relevant decisions, such delegation was considered to be temporary and the Company understands that the Government has since considered transferring the interests in LLP "PSA" from the Company to the Ministry of Energy. As at the date of this Base Prospectus, however, there has been no change in the ownership or trust management arrangements of LLP "PSA", and the delegation remains in force. The Ministry of Energy, the Company and LLP "PSA" are still engaged in ongoing discussions regarding the most appropriate structure to optimise and protect the interests of all parties. As at the date of this Base Prospectus, no immediate decision or action is expected.

Neither the creation of the MOG in 2010, the subsequent establishment of LLP "PSA" and the delegation to it of the functions of the "authorised body" under the PSAs, nor the recent re-organisation of the Government and creation of the Ministry of Energy have to date, nor are expected to, adversely affect the Company's status as the designated beneficiary of the Government's pre-emptive rights to acquire interests in Subsoil Use Agreements or the Company's reserves or other commercial interests.

### **Relationships with Certain Related Parties**

The Company also enters into transactions with related parties other than those described above. See Note 32 to the 2017 Financial Statements and Note 33 to the 2016 Financial Statements. The Company identifies related party transactions as transactions between its subsidiaries, joint ventures and associates and:

- the key management personnel of the Company;
- enterprises in which a substantial interest in the voting shares is owned, directly or indirectly, by the Company's key management personnel; or
- Samruk-Kazyna entities and other entities controlled by the Government.



Related party transactions are made in accordance with Kazakhstan law, including the JSC Law, as well as Samruk-Kazyna internal regulations, on terms agreed between the parties. Such terms may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following tables provide the total amount of transactions, which have been entered into with related parties for the periods and as at the dates indicated:

Related party	For the period ended	Sales to related parties	Purchases from related parties	Interest earned from related parties	Interest incurred to related parties
		(KZT millions)			
Samruk-Kazyna entities <sup>(1)</sup> .....	31 December 2017	66,161.2	29,897.0	28,364.6	—
	31 December 2016	64,283.5	28,166.8	14,325.5	4,089.5
	31 December 2015	52,538.7	25,971.5	4,731.5	561.7
Associates .....	31 December 2017	9,597.9	38,647.8	10,413.9	—
	31 December 2016	25,429.1	61,467.3	13,417.3	4,379.0
	31 December 2015	112,705.1	22,378.4	9,383.5	2,885.3
Joint ventures in which the Company is a partner .....	31 December 2017	318,154.5	1,000,163.8	25,869.0	10,769.1
	31 December 2016	303,010.9	624,153.4	26,462.2	4,917.7
	31 December 2015	278,198.2	125,179.9	15,983.0	—
Other related parties .....	31 December 2017	—	2,942.3	—	25,694.3
	31 December 2016	—	4,764.4	—	25,424.7
	31 December 2015	—	68,406.3	717.0	13,236.9

Related party	As at	Due from related parties	Due to related parties	Cash and deposits placed with related parties	Borrowings payable to related parties
		(KZT millions)			
Samruk-Kazyna entities <sup>(1)</sup> .....	31 December 2017	289,084.3	1,703.1	54.0	—
	31 December 2016	250,189.2	1,755.2	227.3	—
	31 December 2015	86,673.9	28,779.7	38.3	7,527.7
Associates .....	31 December 2017	154,953.6	3,747.6	—	—
	31 December 2016	196,364.7	6,519.2	—	—
	31 December 2015	238,975.8	2,740.2	—	—
Joint ventures in which the Company is a partner .....	31 December 2017	556,563.8	194,182.3	—	—
	31 December 2016	426,310.1	148,065.7	—	—
	31 December 2015	386,156.4	71,317.4	—	—
Other related parties .....	31 December 2017	—	8,752.6	2,675.6	489,948.7
	31 December 2016	—	8,783.3	308.7	539,518.3
	31 December 2015	—	12,943.1	274.3	622,971.8

Note:

(1) Includes primarily transactions of the Company with Samruk-Kazyna, JSC National Company Kazakhstan Temir Zholy, JSC Kazakhtelecom, JSC Kazatomprom, JSC KEGOK, JSC Kazpost, JSC Samruk-Energo and other entities.

Transactions with Samruk-Kazyna and other state controlled entities are mainly represented by transactions of the Company with NC Kazakhstan Temir Zholy JSC, NC Kazakhtelecom JSC, NAC Kazatomprom JSC, KEGOC JSC, Kazpost JSC and Samruk-Energo JSC and other entities.

Companies in the Samruk-Kazyna group of companies are subject to the S-K Rules, which require them to conduct a public tender for certain purchases of goods, works or services aimed at ensuring that Samruk-Kazyna group companies enter transactions only on market terms and conditions.

In 2014, KTG provided an interest-free loan to BSGP in two tranches in amounts of KZT 10.2 billion and KZT 15.8 billion. In 2015 and 2016, KTG provided additional interest-free loans to BSGP in amounts of KZT 36.8 billion and KZT 11.4 billion, respectively. In October 2015, Coöperatieve KazMunaiGaz U.A sold 50% of its shares in KMG Kashagan B.V. to Samruk-Kazyna for an amount of U.S.\$4.7 billion, with a call option to buy back all or part of the shares effective from 1 January 2018 to 31 December 2020 (subject to extension by mutual agreement). In January 2018, the exercise period for the call option was extended to between 1 January 2020 and 31 December 2022. Samruk-Kazyna subsequently transferred these shares back to the Group to be held in trust management for Samruk-Kazyna, and the Group continues to control the daily operations of KMG Kashagan B.V. In January 2018, the Amsterdam District Court issued a judgment in which it upheld an earlier *ex parte* attachment granted to the Stati Parties with respect to the Republic of Kazakhstan's 8.44% shareholding in KMG Kashagan B.V. held through Samruk-Kazyna. The attachment does not effect the day-to-day management of Samruk-Kazyna's stake in KMG Kashagan B.V., save for payment of dividends to Samruk-Kazyna. See "*Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—TCO*".

In 2015, the Company issued 55.7 million common shares and, as consideration for such share issuance, the Company received cash amounting to KZT 12.7 billion and the right to claim payments under the loan agreement dated 16 May 1997 between the Government and CPC (the "**Kazakhstan Note**"). See Note 19 to the 2016 Financial Statements.

In 2015, the Company recognised additional paid-in capital in the amount of KZT 13.4 billion, which represented the fair value of gas pipelines contributed by Samruk-Kazyna on trust management terms until transfer of the legal title to the pipelines operated by ICA to ICA is completed. See "*Business—Transportation—Transportation and Storage of Gas*".

In 2016, the Company provided an interest free loan to Samruk-Kazyna in an amount of KZT 203.9 billion. In 2017, the Company provided an additional interest free loan to Samruk-Kazyna in an amount of KZT 47.0 billion.

In 2016, the Company issued 5,272 common shares and, as consideration for such share issuance, the Company received a building in Kyzylorda worth an amount of KZT 13.2 million and cash of KZT 1,000.

In February 2017, the Company issued 5.2 million common shares to Samruk-Kazyna and, as consideration for such share issuance, the Company received high, medium and low pressure gas pipelines and associated facilities in the amount of KZT 13.0 billion and cash of KZT 1,000.

In February 2017, KMG received property, plant and equipment valued at KZT 11.2 billion from the Government, pursuant to a trust management agreement. On 17 February 2017, KTG placed 1,296,788 of its ordinary shares, which were acquired by the Company in exchange for ownership of certain gas pipelines located in west Kazakhstan and the Aktobe, Kostanay, Almaty and Atyrau regions, together with their ancillary structures.

In 2017, the Company increased additional paid-in capital in the amount of KZT 13.2 billion, which represented the fair value of gas pipelines contributed by the Government on trust management terms, which serves as a short-term mechanism until the legal title for such pipelines have been transferred to the Company.

In 2017, distributions to Samruk-Kazyna included: (i) the accrual of provisions for the construction of the "Palace of Martial Arts" in Astana in the amount of KZT 5.5 billion (KZT 14.3 billion in 2016); (ii) the results of operations of the Company's subsidiary, PSA LLP, in the total amount of KZT 5.8 billion (KZT 5.9 billion in 2016); and (iii) the adjustment of the fair value cost of gas pipelines received as payment for issued common shares in the total amount of KZT 514,000.

Pursuant to the Government's 2016 Complex Privatisation Plan, the Company has disposed of certain non-core assets, including 100% of the shares of Eurasia Air, which was completed in November 2017, and plans to dispose of certain other assets, including 51% of KMG International, which is expected to be completed by the end of June 2018, subject to certain conditions precedent which have yet to be fulfilled. Other assets which the Company is expected to dispose of pursuant to the Government's 2016 Complex Privatisation Plan include 51% of the shares of Kazmortransflot, 100% of the Company's interest in Kazakh-British Technical University (each of which is expected to take place by the end of 2019) and 100% of the shares of each of Rominserve Valves IAIFO, Global Security System SA and Palplast SA, each of which are subsidiaries of KMG International. The mandatory disposal of such non-core assets is intended to promote the Company's ability to focus on its core businesses.

## FORM OF FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.*

**[MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** - Solely for the purposes of [the/each] manufacturer's product approval process, the targeted market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Defined in Directive 2014/65/EU (as amended "MiFID II"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]<sup>1</sup>

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC ("IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) № 1286/2014 (the "PRIIPs Regulation" for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.)<sup>2</sup>

**Final Terms dated [•]**

**JSC NC "KAZMUNAYGAS"**

**KAZMUNAIGAZ FINANCE SUB B.V.**

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]

***U.S.\$10,500,000,000 Global Medium Term Note Programme***

### **PART A – CONTRACTUAL TERMS**

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 3 April 2018 [and the supplemental Base Prospectus dated [•]] which [together] constitute[s] a Base Prospectus (the "**Base Prospectus**") for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein prepared for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus. Full information on the relevant Issuer and, if the relevant Issuer is KMG Finance, KMG and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. [The Base Prospectus has been published [on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>], copies are available for viewing during normal business hours at [*address*] and copies may be obtained from [*address*].]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated • [and the supplemental Base Prospectus dated •]. This document constitutes the Final Terms of the Notes described herein prepared for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated 3 April 2018 [and the supplemental Base Prospectus dated •], which [together] constitute[s] a Base Prospectus for the purposes of

<sup>1</sup> Legend to be included following completion of the target market assessment in respect of the Notes, taking into account the five categories referred to in item 18 of the Guidelines published by ESMA on 2 June 2017.

<sup>2</sup> Legend to be included if the Final Terms in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Applicable".

the Prospectus Directive (the “**Base Prospectus**”), save in respect of the Conditions which are extracted from the Base Prospectus dated • [and the supplemental Base Prospectus dated •] and are attached hereto. Full information on the relevant Issuer and, if the relevant Issuer is KMG Finance, KMG and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 3 April 2018 and • [and the supplemental Base Prospectuses dated • and •]. [The Base Prospectuses [and the supplemental Base Prospectuses] have been published [on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>], copies are available for viewing during normal business hours at [address] and copies may be obtained from [address].]

[The following language applies if the Notes are issued pursuant to Rule 144A]

[THE NOTES REFERRED TO HEREIN THAT ARE REPRESENTED BY A RULE 144A GLOBAL NOTE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN SECTION 2(A)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER THAT IS ALSO A QUALIFIED PURCHASER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF NOTES REPRESENTED BY A RULE 144A GLOBAL NOTE.]

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK, SEE THE SECTION ENTITLED “RISK FACTORS” SET OUT IN THE BASE PROSPECTUS.]

- |    |  |  |
|----|--|--|
| 1. | (i) Issuer:  | [KMG Finance] [KMG]  |
|    | (ii) Guarantor:  | KMG]   |
| 2. | (i) Series Number:   | [•]  |
|    | (ii) Tranche Number:   | [•]  |
|    | (iii) Date on which the Notes will be consolidated and form a single Series: | The Notes will be consolidated and form a single Series with [•] on [[•]/[Not Applicable]] |
| 3. | Specified Currency or Currencies:  | [•]  |
| 4. | Aggregate Nominal Amount of Notes:   | [•]  |
|    | (i) Series:  | [•]  |
|    | (ii) Tranche:  | [•]  |
| 5. | Issue Price:   | [•]% of the Aggregate Nominal Amount [plus accrued interest from [•]]                      |
| 6. | (i) Specified Denominations:   | [•]  |
|    | (ii) Calculation Amount:   | [•]  |
| 7. | (i) Issue Date:  | [•]  |

- (ii) Interest Commencement Date [•]
8. Maturity Date: [•]
9. Interest Basis: [[•]% Fixed Rate]  
 [[•]+/- [•]% Floating Rate]  
 [Zero Coupon]  
 (See paragraph [13/14/15] below)
10. Redemption/Payment Basis: [Redemption at par]
11. Put/Call Options: [Investor Put]  
 [Issuer Call]  
 [(further particulars specified below at paragraphs 16-17)]
12. [Date [Board] approval for issuance of Notes [•]  
 [and Guarantee] obtained:

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

13. **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [•]% per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [•] in each year [adjusted in accordance with Business Day Convention/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]
- (v) Day Count Fraction: [30/360 / Actual/ Actual (ICMA/ISDA)]
- (vi) Determination Dates: [[•] in each year/Not Applicable *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where day Count Fraction is Actual/Actual(ICMA))*]
14. **Floating Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Interest Period(s): [[•] , subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]
- (ii) Specified Interest Payment Dates: [[•] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]
- (iii) Interest Period Date: [Not Applicable]/ [[•] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention] [Not Applicable]
- (v) Business Centre(s): [•]
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
- (vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): [•]
- (viii) Screen Rate Determination:
- Reference Rate: [[•] month LIBOR/EURIBOR]
  - Interest Determination Date(s): [•]
  - Relevant Screen Page: [•]
- (ix) ISDA Determination:
- Floating Rate Option: [•]
  - Designated Maturity: [•]
  - Reset Date: [•]
  - ISDA Definitions: 2006
- (x) Margin(s): [+/-][•]% per annum
- (xi) Minimum Rate of Interest: [•]% per annum
- (xii) Maximum Rate of Interest: [•]% per annum
- (xiii) Day Count Fraction: [•]
15. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
- (i) [Amortisation/Accrual] Yield: [•]% per annum
  - (ii) Reference Price: [•]



- (iii) Day Count Fraction in relation to Early Redemption Amounts: [30/360][Actual/360][Actual/365]

## PROVISIONS RELATING TO REDEMPTION

16. **Call Option** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note: [•] per Calculation Amount
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [•] per Calculation Amount
- (b) Maximum Redemption Amount: [•] per Calculation Amount
17. **Put Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note: [•] per Calculation Amount
18. **Final Redemption Amount of each Note** [•] per Calculation Amount
19. **Early Redemption Amount**
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption: [•] per Calculation Amount / [Par]

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

20. **Form of Notes:** [Registered Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Registered Global Note]
21. **Financial Centre(s):** [Not Applicable/[•]]

## THIRD PARTY INFORMATION

*[(Relevant third party information) has been extracted from [Not Applicable/[•]]. [Each of KMG Finance and KMG confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [Not Applicable/[•]], no facts have been omitted which would render the reproduced information inaccurate or misleading.]*

[Signed on behalf of KMG Finance:

By: .....  
Duly authorised]

Signed on behalf of KMG:

By: .....  
Duly authorised

## FINAL TERMS

### PART B – OTHER INFORMATION

#### 1. LISTING

- (i) Listing: London Stock Exchange plc [and Kazakhstan Stock Exchange]
- (ii) Admission to trading: Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market with effect from [•].
- [Application has also been made by the Issuer (or on its behalf) for the Notes to be admitted to the "bonds" category of the "debt securities" sector of the "main" platform of the official list of the Kazakhstan Stock Exchange with effect from [•].]
- (iii) Estimate of total expenses related to admission to trading: [•]

#### 2. RATINGS

- Ratings: [[The Notes to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]]:
- [S & P: [•]]
- [Moody's: [•]]
- [Fitch: [•]]
- [Other: [•]]
- [Not Applicable]

#### 3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer [and the Guarantor] and banking transactions with, and may perform other services for, the Issuer [and the Guarantor] and [its/their] affiliates in the ordinary course of business. (*Amend as appropriate if there are other interests*)]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

#### 4. [Fixed Rate Notes only - YIELD

- Indication of yield: [•]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. ]

5. **DISTRIBUTION**

Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]

6. **OPERATIONAL INFORMATION**

ISIN: [•]

Common Code: [•]

CUSIP: [•]

Any clearing system(s) other than [DTC,] Euroclear Bank SA/NV and Clearstream Banking, S.A. and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [•]

## TERMS AND CONDITIONS OF THE NOTES

This Note is one of a duly authorised issue of notes (the “**Notes**”), issued either by JSC NC “KazMunayGas” (“**KMG**”) or KazMunaiGaz Finance Sub B.V. (“**KMG Finance**”) under a U.S.\$10,500,000,000 Global Medium Term Note Programme (the “**Programme**”) established by KMG Finance and KMG. Where KMG Finance acts as the Issuer of Notes, the payment of all amounts owing by KMG Finance in respect of such Notes will be unconditionally and irrevocably guaranteed by KMG pursuant to the guarantee (the “**Guarantee**”) contained in the Trust Deed (as defined below).

The Notes are constituted by an amended and restated Trust Deed (as amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”), the “**Trust Deed**”) dated 3 April 2018 between KMG Finance, KMG and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include all Persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes referred to below. An amended and restated Agency Agreement (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) dated 3 April 2018 has been entered into in relation to the Notes among KMG Finance, KMG, the Trustee, Citibank, N.A., London Branch as calculation agent (the “**Calculation Agent**”), principal paying agent (the “**Principal Paying Agent**” and a “**Paying Agent**”) and a transfer agent (a “**Transfer Agent**”), Citigroup Global Markets Deutschland AG as registrar (the “**Registrar**”), and Citigroup Global Markets Deutschland AG (in its capacity as paying agent, a “**Paying Agent**”, and in its capacity as transfer agent, a “**Transfer Agent**”). Copies of the Trust Deed, the Agency Agreement and any Final Terms are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

All subsequent references in these Conditions to “Notes” are to the Notes which are the subject of the relevant Final Terms. All Capitalised terms that are not defined in these conditions will have the meanings given to them in the Trust Deed and the relevant Final Terms.

As used in these Conditions, “**Tranche**” means Notes which are identical in all respects except for the Issue Date, Interest Commencement Date and the amount of the first interest payment.

### 1. Form, Denomination and Title

The Notes are issued in registered form in the Specified Denomination(s) shown in the relevant Final Terms or integral multiples thereof, without interest coupons, provided that (i) the Specified Denomination(s) shall not be less than €100,000 or its equivalent in other currencies and (ii) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$200,000 or its equivalent in other currencies.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the relevant Final Terms.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no Person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the Person in whose name a Note is registered, “**holder**” shall be read accordingly and capitalised terms have the meanings given to them in the relevant Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

### 2. Transfers of Notes

(a) **Transfer of Notes:** One or more Notes may be transferred, in whole or in part in the authorised denominations set out in the applicable Final Terms and subject to minimum transfer amounts specified therein, upon the surrender (at the specified office of the Registrar or any Transfer Agent)

of the relevant Note or Notes, together with the form of transfer endorsed on such Note or Notes (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of a Note, a new Note shall be issued to the transferee in respect of the part transferred and a further new Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer or, if the Issuer is KMG Finance, KMG, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

- (b) **Exercise of Options or Partial Redemption in Respect of Notes:** In the case of an exercise of the Issuer's, KMG's or Noteholders' options in respect of, or a partial redemption of, a holding of Notes, a new Note shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Notes shall be issued in respect of those Notes of that holding that have the same terms. New Notes shall only be issued against surrender of the existing Notes to the Registrar or any Transfer Agent. In the case of a transfer of Notes to a Person who is already a holder of Notes, a new Note representing the enlarged holding shall only be issued against surrender of the Note representing the existing holding.
- (c) **Delivery of New Notes:** Each new Note to be issued pursuant to Conditions 2(a) or (b) shall be available for delivery within five business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 12(h)) and surrender of the Note for exchange. Delivery of the new Note(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (d) **Transfer Free of Charge:** Transfer of Notes on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (e) **Closed Periods:** No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of, any Interest Amount in respect of, that Note, or (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Conditions 12(e), (f), (g) or (i) or (iii) after any such Note has been called for redemption.
- (f) **Restrictions on Transfer:** If at any time, the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a QIB and a QP is not a QIB and a QP, the Issuer may (i) require such beneficial owner to sell its Notes, or may sell such Notes on behalf of such beneficial owner, to a non-U.S. person who purchases in an offshore transaction pursuant to Regulation S or to a person who is a QIB who is also a QP and who is otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act or (ii) require the beneficial owner to sell such Notes, or may sell such Notes on behalf of such beneficial owner, to the Issuer or an affiliate thereof at a price equal to the lesser of (x) the purchase price paid by the beneficial owner for such Notes, (y) 100% of the principal amount thereof and (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of interests in the Rule 144A Global Note or of Rule 144A Definitive Notes to a U.S. person who is not a QIB and a QP.

### 3. Guarantee and Status

- (a) **Status of the Notes:** The Notes constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Issuer which rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law.
- (b) **Status of the Guarantee:** Where KMG Finance is the Issuer of the Notes, KMG has, in accordance with the Guarantee, unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by KMG Finance in respect of the Notes and the Trust Deed. The obligations of KMG under the Guarantee constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of KMG which rank and will rank at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of KMG, save only for such obligations as may be preferred by mandatory provisions of applicable law.

### 4. Negative Pledge

- (a) So long as any of the Notes remains outstanding (as defined in the Trust Deed), KMG shall not, and shall not permit any Material Subsidiary to, create, incur, assume or suffer to exist any Security Interest, other than a Permitted Security Interest (as defined below) upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (as defined below):
- (i) payment of any sum due in respect of any such Relevant Indebtedness;
  - (ii) any payment under any guarantee of any such Relevant Indebtedness; or
  - (iii) payment under any indemnity or other like obligation relating to any such Relevant Indebtedness,

without in any such case at the same time or prior thereto procuring that the Notes (x) are secured equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured or (y) have the benefit of such other guarantee, indemnity or other like obligations or such other security (in each case) as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or (z) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

- (b) For purposes of this Condition 4:

**“Domestic Relevant Indebtedness”** means any Relevant Indebtedness which is denominated and payable in Tenge, which on issue was not quoted, listed or purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market outside the Republic of Kazakhstan and which on issue was placed only with investors within the Republic of Kazakhstan;

**“Non-recourse Acquisition Financing”** means any financing of all or part of the costs of the acquisition, construction or development of any assets or properties, provided that: (i) any Security Interest given by KMG or any of its Material Subsidiaries in connection therewith is limited solely to such assets or properties; (ii) the Persons providing such financing expressly agree to limit their recourse to the assets or properties whose acquisition, construction or development is financed and any revenues derived from such assets or properties as the principal source of repayment for the moneys advanced; and (iii) there is no other recourse to KMG or any of its Material Subsidiaries in respect of any default by any Person under the financing;

**“Permitted Security Interest”** means, without duplication:

- (i) any Security Interest existing on the Issue Date; or
- (ii) any Security Interest comprising the Guarantee of Notes issued by KMG Finance under the Programme; or

- (iii) any Security Interest created or existing in respect of Domestic Relevant Indebtedness; or
- (iv) any Security Interest existing on any property, income or assets of any company at the time such company becomes a Material Subsidiary of KMG or such property, income or assets are acquired (whether as a result of an acquisition, merger, consolidation or otherwise) by KMG or any Material Subsidiary provided that such Security Interest was not created in contemplation of such event and that no such Security Interest shall extend to other property, income or assets of such company or the Group; or
- (v) any Security Interest granted to secure a Non-recourse Acquisition Financing; or
- (vi) any Security Interest created or existing in respect of Relevant Indebtedness the principal amount of which (when aggregated with the principal amount of any other Relevant Indebtedness which has the benefit of a Security Interest or Security Interests) does not exceed 20% of the consolidated total assets, as determined by reference to the most recently available consolidated financial statements prepared in accordance with IFRS of KMG; or
- (vii) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by a Security Interest permitted by any of the above exceptions, provided that, unless otherwise permitted under sub-paragraphs (i) to (vi) above, the Relevant Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Relevant Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest; or
- (viii) for the avoidance of doubt, any Security Interest created or existing in respect of any Indebtedness that is not Relevant Indebtedness;

“**Relevant Indebtedness**” means any present or future Indebtedness in the form of, or represented by, notes, debentures, bonds or other similar capital market instruments and which is ordinarily quoted, listed or purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market; and

“**Security Interest**” means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof).

## 5. Limitation on Payments of Dividends

So long as any amount remains outstanding under the Notes:

- (a) KMG will not pay any dividends, in cash or otherwise, or make any other distribution of any sort (whether by way of redemption, acquisition or otherwise) in respect of its share capital or by way of management or other similar fees payable to its direct or indirect shareholders:
  - (i) at any time when there exists an Event of Default (as defined in Condition 16) or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default; or
  - (ii) at any time when no such Event of Default or event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default, exists, in any fiscal year in an aggregate amount exceeding 50% of KMG’s consolidated profit for the year (after tax), as set forth in KMG’s audited consolidated financial statements prepared in accordance with IFRS for the relevant year.
- (b) In the event that KMG pays dividends in any fiscal year in an aggregate amount less than 50% of KMG’s consolidated profit for the year (after tax), as set forth in KMG’s audited consolidated financial statements for the relevant year prepared in accordance with IFRS, KMG may carry forward its ability to pay such dividends (up to a maximum amount of 50% of KMG’s consolidated profit for the year (after tax), as set out in KMG’s audited consolidated financial statements for such



relevant year prepared in accordance with IFRS) in future years in addition to any dividends permitted to be paid in such future years.

- (c) The limitation in Condition 5(a) shall not apply to the payment of (i) any dividends in respect of any Preferred Stock of KMG, which may be issued by KMG from time to time and (ii) any dividends in respect of any cash proceeds, net of lawyers' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions, and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof, of the substantially concurrent sale of, or by issuance of, Preferred Stock or Capital Stock of KMG or a substantially concurrent cash capital contribution received by KMG from its shareholders.

## 6. Limitation on Sales of Assets

So long as any amount remains outstanding under the Notes:

- (a) KMG will not, and will not permit any Material Subsidiary to, either in a single transaction or in a series of transactions (whether related or not), sell, lease, transfer or otherwise dispose of all or any of its respective assets or properties (including shares of Capital Stock) to any Person, except as follows:
  - (i) disposals of assets or properties for which KMG or such Material Subsidiary (as the case may be) receives consideration at the time of such disposal at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of assets subject to such disposal; or
  - (ii) disposals of assets or properties in the ordinary course of business by KMG or the relevant Material Subsidiary; or
  - (iii) disposals of assets or properties between or among KMG and any Material Subsidiaries; or
  - (iv) disposals of assets or properties, which are obsolete, surplus, redundant or not necessary for the operation of KMG's or the relevant Material Subsidiary's business or are otherwise non-core assets; or
  - (v) disposals of any shares of Capital Stock in, or any assets or properties of, KazMunayGas International N.V.; or
  - (vi) disposals of any assets or properties (including any present or future assets or revenues) of KMG or any Material Subsidiary, or any part thereof, which are the subject of any securitisation, any receivables, asset-backed financing or similar financing structure or any product delivery contracts, forward sale or prepayment agreements or other similar arrangements, whereby, in any such case, all payment obligations are to be discharged solely from such assets or revenues; or
  - (vii) disposals of assets or properties having an aggregate net book value (calculated on a consistent basis as applied in the preparation of KMG's consolidated financial statements for the relevant year) not exceeding U.S.\$100 million in any one calendar year.
- (b) Notwithstanding the foregoing, KMG shall only be permitted to dispose of shares of Capital Stock of a Material Subsidiary if, after giving effect to such disposal, KMG will continue to own and control (directly or indirectly) at least 50% plus one share of Capital Stock of such Material Subsidiary.
- (c) For purposes of this Condition 6:

**"Fair Market Value"** means, with respect to any asset of KMG or a Material Subsidiary, the price which could be negotiated in an arm's-length, market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined in good faith by the Board of Directors of KMG or the relevant Material Subsidiary, whose determination will be conclusive or, in the case of any disposal for a value exceeding U.S.\$200 million, by an Independent Appraiser; and

“**Independent Appraiser**” means any of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP, Ernst & Young LLP or such reputable investment banking, accountancy or appraisal firm of international standing selected by the competent management body of KMG or relevant Material Subsidiary; *provided* it is not an Affiliate of KMG or any Material Subsidiary.

## 7. Provision of Financial Information

So long as any amount remains outstanding under the Notes:

- (a) KMG shall deliver to the Trustee as soon as they become available, but in any event within five months after the end of each of its financial years, copies of KMG’s consolidated financial statements for such financial year, audited by an internationally recognised firm of accountants as may be nominated by KMG, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period.
- (b) KMG shall as soon as the same become available, but in any event within 90 days following the end of each first half year of each of its financial years, deliver to the Trustee KMG’s unaudited consolidated financial statements for such period.
- (c) KMG hereby undertakes that it will deliver to the Trustee, without undue delay, such additional information regarding the financial position or the business of KMG, any Material Subsidiary as the Trustee may reasonably request, including providing certification according to the Trust Deed.

## 8. Limitations on Dividends from Material Subsidiaries

So long as any amount remains outstanding under the Notes:

- (a) KMG shall procure that none of the Material Subsidiaries will create, assume or otherwise permit to subsist or become effective any restriction on the ability of such Material Subsidiaries to:
  - (i) pay any dividends or make any other payment or distribution on or in respect of its shares;
  - (ii) make payments in respect of any Indebtedness owed to KMG or any other Material Subsidiary; or
  - (iii) make loans or advances to KMG or any other Material Subsidiary or guarantee indebtedness of KMG or any other Material Subsidiary.
- (b) The provisions of Condition 8(a) will not prohibit:
  - (i) solely with respect to Condition 8(a)(i), any restriction pursuant to an agreement relating to the Incurrence of Indebtedness; *provided, however* that any such restriction shall be limited such that the payment of dividends or other payments or distributions in any period in an amount up to 50% of the relevant Material Subsidiary’s consolidated profit for the year (after tax), as set forth in its most recent audited consolidated financial statements prepared in accordance with IFRS, for such period shall be permitted; or
  - (ii) any restrictions pursuant to an agreement (including any shareholder or joint venture or similar agreement) in the form in effect at or entered into on the Issue Date the terms of which were disclosed in the Base Prospectus; or
  - (iii) any restriction with respect to an entity that becomes a Material Subsidiary after the Issue Date pursuant to an agreement relating to any Indebtedness Incurred prior to the date on which such Subsidiary becomes a Material Subsidiary (to the extent such restriction was not put in place in anticipation of such entity becoming a Material Subsidiary) and outstanding on such date; or
  - (iv) any restriction pursuant to an agreement effecting a refinancing of Indebtedness Incurred pursuant to an agreement referred to in Condition 8(b)(ii) above or Condition 8(b)(iii) above or Condition 8(b)(v) below or contained in any amendment, modification, restatement, renewal, increase, supplement, refunding or replacement of an agreement

referred to in Condition 8(b)(ii) above or Condition 8(b)(iii) above or Condition 8(b)(v) below; *provided, however*, that the encumbrances and restrictions with respect to such Material Subsidiary contained in any such refinancing agreement or amendment, modification, restatement, renewal, increase, supplement, refunding or replacement agreements are no more restrictive in any material respect than those encumbrances and restrictions, taken as a whole, with respect to such Material Subsidiary contained in such predecessor agreements; or

- (v) any restriction that is as a result of applicable law or regulation.
- (c) Notwithstanding any restriction in this Condition 8, KMG will not permit any Material Subsidiary to make any dividends or other distributions in respect of any series of Capital Stock of such Material Subsidiary unless such dividends or distributions are made on a *pro rata* basis to holders of such series of Capital Stock or such dividends or distributions are made on a basis that results in KMG or a Material Subsidiary receiving dividends or other distributions of greater value than would result on a *pro rata* basis.

## 9. Limitations on Mergers and Consolidations

So long as any amount remains outstanding under the Notes:

- (a) KMG will not, directly or indirectly, in a single transaction or a series of related transactions, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable legislation or otherwise), participate in any other type of corporate reconstruction, or sell, lease, transfer, convey or otherwise dispose of all or substantially all of the assets of KMG or KMG and the Material Subsidiaries (taken as a whole) (in each case, a “**Reorganisation**”) unless:
  - (i) either (X) KMG will be the surviving or continuing Person; or (Y) the surviving or continuing Person (if other than KMG) will assume the performance and observation of all of the obligations and conditions of these Conditions and the Trust Deed, as may be amended from time to time, to be performed by KMG; and
  - (ii) immediately prior to and immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing.
- (b) For purposes of the foregoing, the transfer (by lease, assignment, sale, conveyance or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Material Subsidiaries (on a consolidated basis taken as a whole), the Capital Stock of which constitute all or substantially all of the properties and assets of KMG (on a consolidated basis taken as a whole), will be deemed to be the transfer of all or substantially all of the properties and assets of KMG.
- (c) For the avoidance of doubt, and subject to the provisions of Condition 12(d), any Material Subsidiary may consolidate with, merge with or otherwise enter into any transaction comprising a Reorganisation with KMG or another Subsidiary of KMG.

## 10. No Change of Business

So long as any amount remains outstanding under the Notes, KMG shall not, and shall ensure that no Material Subsidiary will engage in any business other than: (a) oil and gas exploration, production, transportation, refining and processing, (b) electricity generation; (c) chemicals; (d) any wholesale or retail marketing relating to any of the foregoing; and (e) any business reasonably related, ancillary or complementary thereto; provided, however, that nothing in this Condition 10 shall prevent any member of the Group from undertaking any activities or operations so long as such activities or operations do not cause a material change in the nature of the Group’s overall business.

## 11. Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed

as a percentage) equal to the Rate(s) of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 11(f).

If a Fixed Coupon Amount or a Broken Amount is specified in the Final Terms, the amount of interest payable per Calculation Amount on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the Final Terms.

(b) **Interest on Floating Rate Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding principal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 11(f). Such Interest Payment Date(s) is/are either shown in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the Final Terms

(y) the Designated Maturity is a period specified in the Final Terms and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Final Terms.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and

“**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(x) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:

(I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

(II) the arithmetic mean of the Relevant Rates of the Persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

(y) if the Primary Source for the Floating Rate is Reference Banks or if subparagraph (x)(I) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if subparagraph (x)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe (the “**Principal Financial Centre**”) are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(C) For purposes of this Condition 11(b)(iii):

“**Effective Date**” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the Final Terms or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates;

“**ISDA Definitions**” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the Final Terms;

“**Page**” means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 (“**Reuters**”) and Telerate (“**Telerate**”)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the Person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate;

“**Relevant Rate**” means either LIBOR or EURIBOR (as specified in the relevant Final Terms) for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date;

“**Representative Amount**” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the Final Terms or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time; and

“**Specified Duration**” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the Final Terms or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 11(b)(ii).

- (c) **Zero Coupon Notes:** Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the due date for payment, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 12(b)(i)).
- (d) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 11 to the Relevant Date (as defined in Condition 14).
- (e) **Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding:**
- (i) If any Margin is specified in the Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 11(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified in the Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “**unit**” means the

lowest amount of such currency that is available as legal tender in the country or countries (as applicable) of such currency.

- (f) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the relevant Final Terms and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable for such Interest Accrual Period, in which case the amount of interest payable in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:** As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Trustee, the Issuer and, if the Issuer is KMG Finance, KMG, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 11(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 16, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

## 12. Redemption, Purchase and Options

- (a) **Final Redemption:**
- Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 12(d), 12(e), 12(f), 12(g), 12(h), 12(i) or 12 (j), each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount (which, unless otherwise provided in the Final Terms, is its principal amount).
- (b) **Early Redemption:**
- (i) *Zero Coupon Notes:*
- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, upon redemption of such Note pursuant to Condition 12(c) or upon it becoming due and payable as provided in Condition 16 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the Final Terms.

(B) Subject to the provisions of sub-paragraph (C) below, the “**Amortised Face Amount**” of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 12(c) or upon it becoming due and payable as provided in Condition 16 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 11(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Final Terms.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 12(c) or upon it becoming due and payable as provided in Condition 16, shall be the Final Redemption Amount unless otherwise specified in the Final Terms.



- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified in the Final Terms, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 12(b) above) (together with interest accrued to the date fixed for redemption), if, immediately before giving such notice, the Issuer satisfies the Trustee that (a) (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 14 as a result of any change in, or amendment to, the laws or regulations of the Netherlands (in the case of KMG Finance) or Kazakhstan (in the case of KMG) or any political subdivision or any authority thereof having power to tax therein, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue of the first Tranche of the Notes and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (b) (i) in respect of Notes issued by KMG Finance, KMG has or (if a demand was made under the Guarantee) would become obliged to pay additional amounts as provided or referred to in Condition 14 or the Guarantee, as the case may be, or KMG has or will become obliged to make any such withholding or deduction of the type referred to in Condition 14 or in the Guarantee, as the case may be, from any amount paid by it to KMG Finance in order to enable KMG Finance to make a payment of principal or interest in respect of the Notes, in either case to any greater extent than would have been required had such a payment been required to be made before the date on which agreement is reached to issue the first Tranche of the Notes as a result of any change in, or amendment to, the laws or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by KMG (or KMG Finance, as the case may be) taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, if the Issuer is KMG Finance, KMG would be obliged to pay such additional amounts or KMG would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due, or (as the case may be) a demand under the Guarantee (if applicable) were then made or (also as the case may be) KMG would be obliged to make a payment to KMG Finance to enable it to make a payment of principal or interest in respect of the Notes if any such payment on the Notes were then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (1) a certificate signed by two directors of the Issuer (or KMG, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers in form and substance satisfactory to the Trustee of recognised standing to the effect that the Issuer or (as the case may be) KMG has or will become obliged to pay such additional amounts and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (a)(ii) and/or (b)(ii) above in which event it shall be conclusive and binding on Noteholders.
- (d) **Redemption at the Option of Noteholders upon a Change of Status or Ratings Downgrade upon Reorganisation:** If at any time while any Note remains outstanding a Change of Status or a Ratings Downgrade upon Reorganisation occurs, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer redeem such Note on the Optional Redemption Date(s) at 100% of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Change of Status or Ratings Downgrade upon Reorganisation Put Date (as defined below).

Such option (the “**Change of Status or Ratings Downgrade upon Reorganisation Put Option**”) shall operate as set out below.

If a Change of Status or a Ratings Downgrade upon Reorganisation occurs then, within 30 days of the occurrence of the Change of Status or the Ratings Downgrade upon Reorganisation, the Issuer shall, and upon the Trustee becoming so aware (the Issuer having failed to do so) the Trustee may, and, if so requested by the holders of at least one-fifth in principal amount of the Notes then outstanding, shall, give notice (a “**Change of Status or Ratings Downgrade upon Reorganisation Notice**”) to the Noteholders in accordance with Condition 22 specifying the nature of the Change

of Status or the Ratings Downgrade upon Reorganisation and the procedure for exercising the Change of Status or Ratings Downgrade upon Reorganisation Put Option.

To exercise the Change of Status or Ratings Downgrade upon Reorganisation Put Option, a holder of Notes must deliver at the specified office of any Paying Agent on any Business Day falling within the period commencing on the occurrence of a Change of Status or a Ratings Downgrade upon Reorganisation and ending 90 days after such occurrence or, if later, 90 days after the date on which the Change of Status or Ratings Downgrade upon Reorganisation Notice is given to Noteholders as required by this Condition 12(d) (the “**Change of Status or Ratings Downgrade upon Reorganisation Put Period**”), a duly signed and completed notice of exercise in the form (for the time being current and which may, if the certificate for such Notes is held in a clearing system, be any form acceptable to the clearing system delivered in any manner acceptable to the clearing system) obtainable from any specified office of any Paying Agent (a “**Change of Status or Ratings Downgrade upon Reorganisation Put Option Notice**”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this paragraph accompanied by the certificate for such Notes or evidence satisfactory to the Paying Agent concerned that the certificate for such Notes will, following the delivery of the Change of Status or Ratings Downgrade upon Reorganisation Put Option Notice, be held to its order or under its control.

The Issuer shall at its option redeem or purchase (or procure the purchase of) the Notes the subject of each Change of Status or Ratings Downgrade upon Reorganisation Put Option Notice on the date (the “**Change of Status or Ratings Downgrade upon Reorganisation Put Date**”) seven days after the expiration of the Change of Status or Ratings Downgrade upon Reorganisation Put Period unless previously redeemed or purchased and cancelled. A Change of Status or Ratings Downgrade upon Reorganisation Put Option Notice given by a holder of any Note shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Status or Ratings Downgrade upon Reorganisation Put Option Notice.

For the purposes of this Condition 12(d):

A “**Ratings Downgrade upon Reorganisation**” shall be deemed to have occurred if any rating of a Rated Security or any corporate credit rating of KMG is downgraded by at least one notch by at least two Rating Agencies (or by one Rating Agency in the event that, at the relevant time, only one Rating Agency maintains any rating of a Rated Security or any corporate credit rating of KMG) or withdrawn by at least two Rating Agencies (or by one Rating Agency in the event that, at the relevant time, only one Rating Agency maintains any rating of a Rated Security or any corporate credit rating of KMG) during the period commencing upon the announcement or (in the absence of such announcement) the occurrence of any Reorganisation of KMG or a Material Subsidiary and ending upon the date being three months immediately following the occurrence of such Reorganisation by reason of such Reorganisation;

A “**Change of Status**” will be deemed to have occurred upon the occurrence of any of the following:

- (i) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that the Republic of Kazakhstan and/or any other state agencies appropriately authorised to hold the shares of KMG (or any surviving entity of a Reorganisation permitted by Condition 9(a)) ceases to own and control (directly or indirectly) at least 50% plus one share of the issued and outstanding voting share capital of KMG (or any surviving entity of a Reorganisation permitted by Condition 9(a)); or
- (ii) KMG (or any surviving entity of a Reorganisation permitted by Condition 9(a)) ceasing to be a National Company; or
- (iii) any change to such laws the result of which is that KMG (or any surviving entity of a Reorganisation permitted by Condition 9(a)) ceases to act as the government of Kazakhstan’s agent in relation to domestic production sharing agreements, or ceases to benefit from the Republic of Kazakhstan’s first right of refusal to acquire the participation and operating rights in any hydrocarbon deposits in Kazakhstan of strategic importance being alienated as provided by Articles 12.2 and 13 of the Subsoil Law and, with effect from 29 June 2018, as provided by Articles 43 and 46 of the Subsoil Code (or any successor

provision), or ceases to benefit from its right of having at least 50% participatory interest in all new off-shore contracts (as provided by Article 93.3 of the Subsoil Law and, with effect from 29 June 2018, as provided by Article 154.6 of the Subsoil Code (or any successor provision));

“**Rated Security**” means the Notes;

“**Rating Agency**” means Standard & Poors Rating Services, a division of the McGraw Hill Companies, Inc. (“**S&P**”), Moody’s Investors Service Limited (“**Moody’s**”) or Fitch Ratings or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by KMG, from time to time, with the prior written approval of the Trustee; and

“**Reorganisation**” has the meaning given in Condition 9(a).

- (e) **Redemption at the Option of the Issuer and Exercise of Issuer’s Options:** If Call Option is specified in the Final Terms, the Issuer may, on giving not less than 15 nor more than 30 days’ irrevocable notice to the Noteholders (or such other notice period as may be specified in the Final Terms) redeem, or exercise any option of the Issuer (as may be described in the Final Terms) in relation to, all or, if so provided, some of the Notes on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a principal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer’s option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer’s option, the notice to Noteholders shall be given in accordance with Condition 22 and specify the principal amount of Notes drawn and the holder(s) of such Notes, to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (f) **Make Whole Redemption at the Option of the Issuer:** At any time prior to the Maturity Date, the Issuer may, at its option, on giving not less than 15 nor more than 30 days’ irrevocable notice to the Noteholders (the “**Call Option Notice**”) in accordance with Condition 22 and to the Trustee and the Agents redeem the Notes in whole, but not in part, at the following price:
- (i) the aggregate principal amount of the outstanding Notes plus;
  - (ii) interest and other amounts that may be due pursuant to these Conditions (if any) accrued but unpaid to, excluding, the Call Settlement Date (as defined below); plus
  - (iii) the Make Whole Premium.

The Call Option Notice shall specify the date fixed for redemption (the “**Call Settlement Date**”).

For the Purposes of this Condition 12(f):

“**Make Whole Premium**” means, with respect to a Note any time, the excess of (a) the present value of the Notes at the Call Settlement Date, being the outstanding aggregate principal amount of the Notes plus any required interest payments that would otherwise accrue and be payable on such Notes from and after the Call Settlement Date through to the Maturity Date (but excluding any interest accrued and unpaid to, but excluding the Call Settlement Date) calculated using the discount rate equal to the Treasury Rate at the Call Settlement Date plus 50 basis points, over (b) the outstanding aggregate principal amount of the Notes on and as at the Call Settlement Date, provided that if the value of the Make Whole Premium at any time would otherwise be less than zero, then in such circumstances, the value of the Make Whole Premium will be equal to zero. The Issuer shall notify

the Noteholders in accordance with Condition 22 and the Trustee and the Agents of the Make Whole Premium not less than two Business Days prior to the Call Settlement Date.

“**Treasury Rate**” means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity most nearly equal to the period from the Call Settlement Date to the Maturity Date. The Issuer will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) (or any successor thereto), which has become publicly available at least three Business Days (but not more than five Business Days) prior to the Call Settlement Date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith); provided, however, that if the period from the Call Settlement Date to the Maturity Date is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of U.S. Treasury securities for which such yields are given, except that if the period from the Call Settlement Date to the Maturity Date is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year shall be used.

- (g) **Optional Redemption at Par:** The Issuer may, at any time, on or after the date that is three months prior to the Maturity Date of the Notes, on giving not less than 15 nor more than 30 days’ irrevocable notice to the Noteholders (which notice shall specify the date fixed for redemption) ( the “**Par Optional Redemption Date**”) in accordance with Condition 22 and to the Trustee and Agents, redeem the Notes in whole or in part, at 100% of the principal amount thereof, together with accrued interest and unpaid and Additional Amounts (if any) to but excluding the Par Optional Redemption Date. In the case of a partial redemption, the Notes shall be selected for redemption either: (a) in accordance with the procedures of the relevant clearing systems; or (b) if the Notes are not held in a clearing system or if the relevant clearing system prescribe no method of selection, the Notes will be redeemed by drawing lots in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices; subject, in each case, to compliance with any applicable laws and stock exchange or other relevant regulatory requirements. Neither the Trustee nor the Agent shall have any liability for any selection made pursuant to this Condition 12(g).
- (h) **Redemption at the Option of Noteholders and Exercise of Noteholders’ Options:** If Put Option is specified in the Final Terms, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days’ notice to the Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to (but excluding) the date fixed for redemption.

To exercise such option or any other Noteholders’ option that may be set out in the Final Terms (which must be exercised on an Option Exercise Date) the holder must deposit the Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (“**Exercise Notice**”) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (i) **Redemption by the Issuer following a partial redemption of the Notes at the option of Noteholders:** If, on and as of any Optional Redemption Date, 66<sup>2</sup>/<sub>3</sub>% or more (on a cumulative basis taking account of the principal amount of all Notes then redeemed or to be redeemed, whether on such Optional Redemption Date or any prior Optional Redemption Date) of the aggregate principal amount of the Notes originally issued shall have been redeemed in accordance with the provisions of Condition 12(d) or Condition 12(h), the Issuer may, at its sole discretion, within 90 days of such Optional Redemption Date, give not less than 15 or more than 30 days’ notice to the Noteholders in accordance with Condition 22 (which notice shall be irrevocable) and to the Trustee and the Agents whereafter the Issuer shall redeem on the expiry date of such notice all (but not some only) of then-outstanding Notes at their principal amount together with interest accrued to, but excluding, the date of such redemption.
- (j) **Purchases:** KMG Finance, KMG and any of their subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

- (k) **Cancellation:** All Notes purchased by or on behalf of KMG Finance, KMG or any of their subsidiaries may be held, resold or, at the option of the Issuer, surrendered for cancellation by surrendering the Notes to the Registrar and, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and, if the Issuer is KMG Finance, KMG in respect of any such Notes shall be discharged.

### 13. Payments

- (a) **Payments of Principal and Interest:**
- (i) Payments of principal in respect of Notes shall be made against presentation and surrender of the relevant Notes at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest on Notes shall be paid to the Person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed by uninsured post to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. The holder of such Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of such Notes as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.
- (b) **Payments subject to Laws:** Payments will be subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 14, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to FATCA, or (without prejudice to the provisions of Condition 14) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders in respect of such payments.
- (c) **Appointment of Agents:** The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by KMG Finance and KMG and their respective specified offices are listed below. The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of KMG Finance, KMG and, in certain circumstances, the Trustee and do not assume any obligation or relationship of agency or trust for or with any Noteholder. KMG Finance and KMG reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) a Paying Agent or Paying Agents having specified offices in at least two major European cities and (v) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee. Notice of any such change or any change of any specified office shall promptly be given to the Noteholders in accordance with Condition 22.
- (d) **Calculation Agent and Reference Banks:** The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the Notes and for so long as any such Note is outstanding (as defined in the Trust Deed). If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall (with the prior written approval of the Trustee) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement,

within 7 days of the date upon which any such amount is due to be calculated, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

Notice of any such change shall promptly be given to the Noteholders.

- (e) **Non-Business Days:** If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” in the Final Terms and:
- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
  - (ii) (in the case of a payment in euro) which is a TARGET Business Day.

#### 14. Taxation

All payments by or on behalf of the Issuer or, if the Issuer is KMG Finance, KMG in respect of the Notes or under the Guarantee shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Netherlands or the Republic of Kazakhstan or, in either case, any political subdivision or any authority thereof or therein having the power to tax (collectively “**Taxes**”) unless such withholding or deduction is required by law. In such event, KMG Finance or (as the case may be) KMG will pay such additional amounts to the holder of any Note as will result in receipt by the Noteholder of such amounts as would have been received by them had no such withholding or deduction on account of any such Taxes had been required, except that no additional amounts shall be payable with respect to any Note:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Note by reason of his having some connection with the Netherlands or, in the case of payments by KMG, the Republic of Kazakhstan other than the mere holding of the Note or the receipt of payment thereunder or under the Guarantee; or
- (b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Note representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day;
- (c) **Presentation in another jurisdiction:** presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union.

Notwithstanding any other provision of the Terms and Conditions of the Notes, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to FATCA or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer, the Paying Agent nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

As used in these Conditions, “**Relevant Date**” in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the

date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 12 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 11 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

#### 15. Prescription

Claims against KMG Finance and/or KMG for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

#### 16. Events of Default

If any of the following events (each an “**Event of Default**”) occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject to it being indemnified and/or secured and/or prefunded to its satisfaction, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together with accrued interest to the date of such notice:

- (a) **Non-payment:** the Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or additional amounts on any of the Notes and such default continues for a period of at least seven days in the case of principal or at least fourteen days in the case of interest or additional amounts; or
- (b) **Breach of other obligations:** KMG Finance or KMG is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under Notes issued by it, the Guarantee (if applicable) or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 16) and such default or breach is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to KMG Finance or KMG, as the case may be, by the Trustee; or
- (c) **Cross-default:** (i) any Indebtedness for Borrowed Money of KMG Finance, KMG or any Material Subsidiary (a) becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof by reason of default by KMG Finance, KMG or such Material Subsidiary or (b) is not repaid at maturity as extended by the period of grace, if any, applicable thereto or (ii) any Indebtedness Guarantee given by KMG Finance, KMG or any Material Subsidiary in respect of Indebtedness for Borrowed Money of any other Person is not honoured when due and called, provided that the aggregate principal amount of such Indebtedness for Borrowed Money exceeds U.S.\$100,000,000 (or its equivalent in other currencies); or
- (d) **Bankruptcy:** (i) any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities, moratorium of payments or similar arrangements involving KMG Finance or KMG or any Material Subsidiary or all or (in the opinion of the Trustee) substantially all of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 45 days; or (ii) KMG Finance or KMG or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of KMG Finance or KMG or any Material Subsidiary, as the case may be, or in respect of its property, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay

its debts generally as they become due or KMG Finance or KMG or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the Material Subsidiary, (in the sole opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or

- (e) **Judgments:** The failure by KMG or any Material Subsidiary to pay any final judgment in excess of U.S.\$100,000,000 (or its equivalent in other currencies) which final judgment remains unpaid, and undischarged, and unwaived and unstayed for a period of more than 30 consecutive days after such judgement becomes final and non-appealable; or
- (f) **Material compliance with applicable laws:** KMG Finance or KMG fails to comply in any respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable KMG Finance or KMG lawfully to exercise its rights or perform or comply with its obligations under the Notes, the Guarantee or the Trust Deed or the Agency Agreement or to ensure that those obligations are legally binding and enforceable or to ensure that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect and the Trustee certifies that such non-compliance is, in the sole opinion of the Trustee, materially prejudicial to the interests of Noteholders; or
- (g) **Invalidity or Unenforceability:** (i) the validity of Notes, the Trust Deed, the Guarantee or the Agency Agreement is contested by KMG Finance or KMG or KMG Finance or KMG shall deny any of its obligations under the Notes, the Trust Deed, the Guarantee (if applicable) or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (ii) it is or becomes unlawful for KMG Finance or KMG to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed, the Guarantee (if applicable) or the Agency Agreement or (iii) all or any of KMG Finance's or KMG's obligations set out in the Notes, the Trust Deed, the Guarantee (if applicable) or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 16(g), the Trustee is of the opinion (determined in its sole discretion) that such occurrence is materially prejudicial to the interests of the Noteholders; or
- (h) **Government Intervention:** (i) all or any substantial part of the undertaking, assets and revenues of KMG Finance or KMG or any Material Subsidiary is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (ii) KMG Finance, KMG or any Material Subsidiary is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets, revenues and, following the occurrence of any of the events specified in this Condition 16(h), the Trustee is of the opinion (determined in its sole discretion) that such occurrence is materially prejudicial to the interests of the Noteholders.

## 17. Meetings of Noteholders, Modification, Waiver and Substitution

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by KMG Finance or KMG (as the case may be) or the Trustee and shall be convened by the Trustee (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) upon the request in writing of Noteholders holding not less than 20% in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more Voters holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more Voters being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the principal amount of or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown in the Final Terms, to reduce any such Minimum and/or Maximum, (v) to vary any method



of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to take any steps that as specified in the Final Terms may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution or any resolution, or (ix) (if applicable) to modify or cancel the Guarantee, in which case the necessary quorum shall be one or more Voters holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

- (b) **Modification and Waiver:** The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Notes or the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Notes or the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of the Issuer's successor in business (if applicable) or of KMG or its successor in business or any subsidiary of KMG or its successor in business in place of the Issuer or (if applicable) KMG, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and the Trust Deed provided that such change would not in the opinion of the Trustee (determined in its sole discretion) be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from KMG Finance or KMG any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

## 18. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against KMG Finance and/or KMG as it may think fit to enforce the terms of the Trust Deed, the Notes or the Guarantee but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in principal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against KMG Finance or KMG unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

## 19. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into business transactions with KMG Finance, KMG and any entity related to KMG Finance or KMG without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes as a result of such holders being connected in any way with a particular territory or tax jurisdiction and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to

claim, from the Issuer, any indemnification or payment in respect of any tax consequences of such exercise upon individual Noteholders.

**20. Replacement of Notes**

If a Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes) and otherwise as the Issuer may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

**21. Further Issues**

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single Series with the outstanding securities of any Series or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single Series with existing Notes or a separate Series. Further securities will be issued under a different CUSIP number unless there are issued pursuant to a “qualified reopening” for U.S. federal income tax purposes. Any further securities forming a single Series with the outstanding securities of any Series shall, and any other securities forming a separate Series may (with the consent of the Trustee), be constituted by the Trust Deed or any deed supplemental to it. The Trust Deed contains provisions for convening a single meeting of the Noteholders of a Series and the holders of securities of other Series where the Trustee so decides.

**22. Notices**

Notices to the Noteholders shall be sent by first class mail of (if posted overseas) by airmail to them (or, in the case of joint holders, to the first-named in the Register) at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing, provided that, so long as any Notes are listed on the London Stock Exchange and the Kazakhstan Stock Exchange, such notice may instead be published on the Regulatory News Service of the London Stock Exchange and on the website of Kazakhstan Stock Exchange, in each case in accordance with any rules from time to time of the London Stock Exchange and/or Kazakhstan Stock Exchange, as the case may be. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above. To the extent required by Kazakhstan law, notices shall also be published in the mass media in the form specified in the charter of KMG.

**23. Contracts (Rights of Third Parties) Act 1999**

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

**24. Governing Law, Jurisdiction and Arbitration**

- (a) **Governing law:** The Trust Deed and the Notes, including any non-contractual obligations arising out of or in connection with the Trust Deed and/or the Notes, are governed by, and shall be construed in accordance with, English Law.
- (b) **Submission to Jurisdiction; Arbitration:** Each of KMG Finance and KMG have in the Trust Deed (i) submitted irrevocably to the jurisdiction of the courts of England for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed or the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum;

(iii) designated Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX to accept service of any process on its behalf in England; (iv) consented to the enforcement of any judgment; (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction; and (vi) agreed that the Trustee may elect by written notice to KMG Finance or KMG (as the case may be) that any dispute (including a claim, dispute or difference regarding the existence, termination or validity of the Notes), shall be finally settled by arbitration in accordance with the Rules of the LCIA as at present in force and as modified by the Trust Deed.

## 25. Definitions

### (a) Defined Terms

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Attributable Indebtedness**” in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded semi-annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended);

“**Base Prospectus**” means the base prospectus relating to the Programme which comprises a base prospectus for the purpose of Article 5.4 of Directive 2003/71/EC (as amended by Directive 2010/73/EU, the “**Prospectus Directive**”) (which term shall include those documents incorporated in it by reference from time to time as provided in it) as from time to time amended, supplemented or replaced (but not including any information or documents replaced or superseded by any information so subsequently included or incorporated) and, in relation to each Tranche, the relevant Final Terms;

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a currency and/or one or more Business Centres (specified in the Final Terms) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

“**Capital Stock**” of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity;

“**Capitalised Lease Obligations**” means an obligation that is required to be classified and accounted for as a capitalised lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation will be the capitalised amount of such obligation at the time any determination thereof is to be made as determined in accordance with IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty;

“**Commodity Hedging Agreements**” means, in respect to any Person, any forward, futures, spot-deferred or option contract or other similar agreement or arrangement to which such Person is a party or a beneficiary entered into for protection against or to benefit from fluctuations in the price of any commodity produced or used by KMG or its Material Subsidiaries pursuant to its ordinary course business;

“**Currency Agreement**” means in respect of a Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party or a beneficiary;

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual - ISDA**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/360**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360;
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (v) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case  $D_1$  will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case  $D_2$  will be 30;

- (vi) if “**30E/360 (ISDA)**” is specified in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case  $D_1$  will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case  $D_2$  will be 30;

“**Disqualified Stock**” means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

- (i) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;
- (ii) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or
- (iii) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

“**Event of Default**” has the meaning assigned to such term in Condition 16 hereof;

“**Extraordinary Resolution**” has the meaning assigned to such term in the Trust Deed;

“**FATCA**” means section 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, as of the date of the Base Prospectus and any current or future regulations or agreements thereunder or official interpretations thereof;

“**Final Terms**” means, in relation to a Tranche, the Final Terms issued specifying the relevant details of such Tranche;

“**Group**” means KMG and its Subsidiaries taken as a whole;

“**guarantee**” means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

- (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise); or
- (ii) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

*provided, however*, that the term “guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “guarantee” used as a verb has a corresponding meaning. The term “guarantor” shall mean any Person guaranteeing any obligation;

“**Guarantor**” means KMG where KMG Finance is the Issuer for a Series, as specified in the relevant Final Terms;

“**Hedging Obligations**” of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Hedging Agreement;

“**IFRS**” means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (“**IASB**”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time), as consistently applied, and any variation to such accounting principles and practices which is not material;

“**Incur**” means issue, assume, guarantee, incur or otherwise become liable for; *provided, however*, that any Indebtedness of a Person existing at the time such Person becomes a Material Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Material Subsidiary. The term “**Incurrence**” when used as a noun shall have a correlative meaning.

“**Indebtedness**” means, with respect to any Person on any date of determination (without duplication):

- (i) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money;
- (ii) the principal of and premium (if any) in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (iii) the principal component of all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments (including reimbursement obligations with respect thereto except to the extent such reimbursement obligation relates to a trade payable and such obligation is satisfied within 30 days of Incurrence);
- (iv) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto;
- (v) Capitalised Lease Obligations and all Attributable Indebtedness of such Person;
- (vi) the principal component or liquidation preference of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

- (vii) the principal component of all Indebtedness of other Persons secured by a Security Interest on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided, however*, that the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Persons;
- (viii) the principal component of Indebtedness of other Persons to the extent guaranteed by such Person; and
- (ix) to the extent not otherwise included in this definition, net obligations of such Person under Hedging Obligations (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The amount of Indebtedness of any Person at any date will be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date;

**“Indebtedness for Borrowed Money”** means any Indebtedness of any Person for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service and (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a “with recourse” basis) having the commercial effect of a borrowing;

**“Indebtedness Guarantee”** means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such Indebtedness, (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for repayment of such Indebtedness;

**“Interest Accrual Period”** means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

**“Interest Amount”** means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

**“Interest Commencement Date”** means the Issue Date or such other date as may be specified in the Final Terms;

**“Interest Determination Date”** means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two London Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

**“Interest Period”** means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and

including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified in the Final Terms;

“**Interest Rate Agreements**” means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such Person is party or a beneficiary;

“**Issuer**” means KMG Finance or KMG, as specified in the relevant supplemental Trust Deed for the Series;

“**Material Subsidiary**” means any Subsidiary of KMG that has either: (i) gross assets which constitute 10% or greater of KMG’s consolidated gross assets, as set forth in KMG’s most recent audited consolidated financial statements prepared in accordance with IFRS and delivered pursuant to Condition 7; or (ii) gross revenues which constitute 10% or greater of the KMG’s consolidated gross revenues, as set forth in KMG’s most recent audited consolidated financial statements prepared in accordance with IFRS and delivered pursuant to Condition 7;

“**National Company**” means a joint stock company operating in certain areas of subsoil use on terms and conditions contemplated by Kazakhstan law, established by resolution of the Government of the Republic of Kazakhstan or local executive authorities of oblasts, cities of republican significance or the capital whose controlling stake is held by the state or a national managing holding;

“**Person**” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity;

“**Preferred Stock**” as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person;

“**Rate of Interest**” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the Final Terms;

“**Reference Banks**” means the institutions specified as such in the Final Terms or, if none, four major banks selected by the Calculation Agent (in consultation with the Issuer) in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe);

“**Relevant Financial Centre**” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the Final Terms or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London;

“**Relevant Time**” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the Final Terms or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre or, if no such customary local time exists, 11.00 hours in the Relevant Financial Centre and, for the purpose of this definition, “**local time**” means, with respect to Europe as a Relevant Financial Centre, Brussels time;

“**Sale/Leaseback Transaction**” means an arrangement relating to property now owned or hereafter acquired whereby KMG or a Material Subsidiary transfers such property to a Person and KMG or a Material Subsidiary leases it from such Person;

“**Specified Currency**” means the currency specified as such in the Final Terms or, if none is specified, the currency in which the Notes are denominated;



“**Stated Maturity**” means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof;

“**Subsidiary**” means in respect of any Person (including KMG), any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50% of the total voting power of the Voting Stock is held by KMG and/or any of its Subsidiaries and KMG and/or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which KMG or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract, if (in the case of each of (a) or (b) above) in accordance with IFRS such entity would be consolidated with KMG for financial statement purposes;

“**Subsoil Code**” means the Subsoil Code adopted by the Parliament of the Republic of Kazakhstan in December 2017, which will enter into force and replace the Subsoil Use Law on 29 June 2018;

“**Subsoil Use Law**” means Law of the Republic of Kazakhstan № 291-IV “On Subsoil and Subsoil Use” dated 24 June 2010 (as amended);

“**taxes**” means any taxes (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) which are now or hereafter imposed, levied, collected, withheld or assessed by the Netherlands or any taxing authority thereof or therein;

“**U.S. Dollars**”, “**USD**” and “**U.S.\$**” denote the lawful currency of the United States of America; and

“**Voting Stock**” of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees (or Persons performing similar functions) thereof.

There will appear at the foot of the Terms and Conditions endorsed on each Certificate the name and specified office of the Agents as set out at the end of this Base Prospectus.

(b) **Miscellaneous**

For all purposes under these Conditions, as at 31 December 2017 and for each relevant calculation thereafter (i) all financial and accounting terms used in the Conditions shall be determined in accordance with IFRS and tested by reference to the most recent consolidated financial statements prepared in accordance with IFRS and delivered pursuant to Condition 7; and (ii) in particular, without limitation of the foregoing, any obligation or instrument (howsoever evidenced), which is either (x) assumed under a product delivery contract, forward sale or prepayment agreement or other similar arrangement, or (y) accorded equity capital treatment under IFRS, shall not be regarded as “Indebtedness” or “Indebtedness for Borrowed Money” for any purpose under these Conditions.

*There will appear at the foot of the Terms and Conditions endorsed on each Certificate the name and specified office of the Agents as set out at the end of this Base Prospectus.*

## THE OIL AND GAS INDUSTRY IN KAZAKHSTAN

*The information contained in this section has been extracted from publicly-available documents and other publications. There is not necessarily any uniformity of views among such sources as to the information provided therein. In the case of statistical information presented herein, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Accordingly, the Company and KMG Finance each only accepts responsibility for accurately reproducing such extracts as they appear in this section.*

### Introduction

The oil and gas sector is of strategic importance to the Government because it is the principal source of Kazakhstan's export earnings and reserves, fiscal revenue and future foreign direct investment inflows. In 2015, the hydrocarbon industry accounted for 17.6% of the gross domestic product and 57.0% of the export earnings of the country.

Kazakhstan was a major raw materials supplier to the former Soviet Union and has sizeable, largely unexploited endowments of oil, natural gas and minerals. The Caspian region includes those parts of the countries (including Russia and Iran) that are adjacent to the Caspian Sea. A part of Uzbekistan is also considered to be part of the Caspian region due to its proximity to the Caspian Sea. To date, the two significant crude oil producing countries in the Caspian region were Kazakhstan and Azerbaijan. It is expected that these countries will continue to lead the region in crude oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields. Turkmenistan and Uzbekistan are the predominant gas producers in the Caspian region but do not produce significant crude oil volumes relative to Kazakhstan and Azerbaijan. In addition, the areas of Russia and Iran near the Caspian Sea are not a source of substantial crude oil production for these countries. Russia, however, plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea. The Government's stated intention is to preserve Kazakhstan's position as a major destination of foreign direct investment inflows within the CIS.

### Reserve Classifications

Kazakhstan has its own classification system of oil and gas reserves that is based on the system employed in the former Soviet Union and approved by an order of the MEMR (now the Ministry of Energy) on 27 October 2005, which is referred to in this Base Prospectus as the "Kazakhstan methodology". The Company calculates its reserves using the Kazakhstan methodology, which differs from accepted practices in most other parts of the world in that it does not base its estimates on economic viability of the recovery of oil reserves. Accordingly, under this methodology, stated reserves do not necessarily correspond to economically recoverable reserves and cannot be accurately reconciled with reserves calculations performed using different methodologies. See "*Presentation of Financial, Reserves and Certain Other Information—Certain Reserves Information*".

The Kazakhstan methodology classification system is based on the degree of development of the field reserves. All hydrocarbon accumulations in a field are grouped together. Once development commences in a field, all hydrocarbon accumulations in that field are included in the developed reserves. Each field has two subgroups: profitable and unprofitable reserves.

Profitable (or recoverable) reserves are reserves the extraction of which is economical using existing technologies and techniques. These reserves are determined on the basis of the recovery ratio. By the degree of exploration, reserves are divided into proved (A, B, C1) and preliminary estimated (not explored) (C2) reserves. Proved reserves are further subdivided into reserves to be developed (A and B) and reserves to be explored (C1).

Reserves not currently identified as commercial are classified as "resources". All figures set out in this Base Prospectus are figures for category A, B and C1 only, which are referred to in this Base Prospectus as "**A+B+C1 reserves**". Resource estimates are not included in this Base Prospectus.

The following table sets forth a detailed discussion of each reserve classification used in the Kazakhstan methodology:

Category A.....	Category A reserves relate to the part of a deposit drilled in accordance with an approved development project for the oil or natural gas field. They represent reserves that have been analysed in sufficient detail to comprehensively define the type, shape and size of the deposit, the level of hydrocarbon saturation, the reservoir type, the nature of changes in the reservoir characteristics, the hydrocarbon saturation of the productive strata of the deposit, the content and
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characteristics of the hydrocarbons and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and oil balance, hydro and other features).

Category B.....	Category B reserves relate to the part of a deposit drilled in accordance with either a trial industrial development project, in the case of a natural gas field, or an approved technological development scheme, in the case of an oil field. They represent reserves in which natural gas, gas condensate and oil content is determined on the basis of commercial flows from wells at various depths.
Category C1 .....	Category C1 reserves are calculated on the results of both commercial flows from operational wells and geological exploratory work, which are analysed to determine the type, shape and size of the deposit and the structure of the hydrocarbon bearing reservoir. The reservoir type and characteristics, hydrocarbon saturation, liquid hydrocarbon displacement rate, level of hydrocarbon saturation of the productive strata, content and characteristics of the hydrocarbons under stratum and standard productivity, stratum pressure, temperature, hydrocarbon balance and hydro geological and other conditions are analysed according to test data from drilled wells, core analyses and comparisons with neighbouring explored fields. Based on these analyses, preliminary data for trial industrial development, in the case of a natural gas field, or a technological development project, in the case of an oil field, is drawn up.

As a rough approximation, recoverable A and B reserves can be broadly compared to proved reserves and C1 reserves to proved and probable reserves in accordance with international methodology, although these categories do not necessarily consistently correspond to international methodologies. For example, the estimation of recoverable reserves under the Kazakhstan methodology is usually higher than under international methodologies such as the internationally accepted classifications and methodologies established by PRMS, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

## Oil Reserves and Production

According to BP's *Statistical Review of World Energy* June 2017, as at 31 December 2016, Kazakhstan ranked 12th in the world by oil reserves and 26th in the world by natural gas reserves. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet Republics and has the Caspian region's largest recoverable oil reserves. Kazakhstan's proved oil and gas reserves were 3.9 billion tonnes (representing 1.8% of the world's proved oil reserves) and one trillion cubic metres (representing 0.5% of the world's proved gas reserves), respectively, as at 31 December 2016.

According to BP's *Statistical Review of World Energy* June 2017, between 2005 and 2015, Kazakhstan's oil production grew at a compounded annual growth rate of approximately 2.7%. Kazakhstan produced approximately 79.3 million tonnes in 2012, 82.3 million tonnes in 2013, 81.1 million tonnes in 2014, 80.2 million tonnes in 2015 and 79.3 million tonnes in 2016.

The third OPEC and non-OPEC Ministerial meeting (including the Minister of Energy of Kazakhstan) was held in November 2017. During the meeting, the participants discussed joint measures aimed at stabilising the world oil market and agreed on the extension of the agreement on the reduction of oil production signed during the first Ministerial meeting held in December 2016, pursuant to which Kazakhstan agreed to decrease oil production by 20 thousand barrels per day to 1.68 million barrels per day in 2017. The agreement was extended until the end of 2018 by the signing of a declaration of co-operation between the OPEC and non- OPEC countries.

According to BP's *Statistical Review of World Energy* June 2017, the Asia Pacific region was the world's largest geographical region for oil consumption in 2016, accounting for approximately 35.2% of world consumption. The United States was the largest consumer of oil by country in 2016, accounting for 19.5% of world consumption of oil. Europe together with the former Soviet Republics represented the world's largest geographical region for the consumption of natural gas in 2016, accounting for 20.0% of world consumption. The United States was the largest consumer of natural gas by country, accounting for 22.0% of world consumption in 2016.

The following table sets forth oil production levels (including associated gas) in Kazakhstan for the years indicated:

### Oil Production

2013	2014	2015	2016	% change over 2015	2016 % share of global production
82.3	81.1	80.2	79.3	(1.4)	1.8

*(million tonnes per year)*

Source: BP Statistical Review of World Energy June 2017

As at the beginning of 2017, there were approximately 200 oil and gas fields registered in Kazakhstan. The most significant of these fields are the Tengiz Field, Kashagan Field, Karachaganak Field, Uzen Field, Kalamkas Field and Zhetybai Field. For a detailed description of the Tengiz Field and Kashagan Field, in which the Company has a direct interest, see “*Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—TCO*” and “*Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—NCPC*”, respectively. For a detailed description of the Karachaganak Field, in which the Company has a 10% interest through its wholly owned subsidiary, KMG-Karachaganak LLP, see “*Business—Exploration and Production—Other Significant Production Fields—KPO*”.

For a detailed description of the exploration projects in Kazakhstan in which the Company has an interest see “*Business—Exploration and Production—Exploration Projects*”

Other onshore exploration and appraisal activities were conducted with mixed success by smaller players.

### Gas Reserves and Production

Kazakhstan is a net exporter of gas. According to the BP Statistical Review of World Energy June 2017, as at 31 December 2016, Kazakhstan’s proven natural gas reserves are estimated at 1.0 trillion cubic metres. Most of Kazakhstan’s natural gas reserves are located in the west of the country near the Caspian Sea, with roughly 25% of proven reserves situated in the Karachaganak Field. Another important natural gas field, the Amangeldy Field, is situated in the south of the country, near Zhambyl and is being developed by KTG, a subsidiary of the Company.

Natural gas in Kazakhstan is almost entirely “associated” gas, meaning it is produced with oil. For this reason, several fields including the Karachaganak Field re-inject significant quantities of gas into the ground to maintain crude wellhead pressure for liquids extraction. In the long-term, when the liquids are exhausted, this gas can be recovered. In May 2005, the Government ordered all oil producing firms to reduce oil production to levels that would avoid natural gas flaring and, accordingly, flaring has declined steadily to date (See “*Environmental, Health and Safety Matters—Environmental Impact From Operations—Air Emissions*”).

Natural gas production in Kazakhstan has increased significantly since 1999. In 1999, the Government passed a law requiring subsoil users (such as oil companies) to include natural gas utilisation projects in their development plans. As a result of this law, natural gas production has steadily increased and, by 2000, it reached 11.5 bcm and had eclipsed its pre-independence production levels. Gas production increased from 17.2 bcm in 2012 to 19.9 bcm in 2016, an increase of approximately 14.2%. Increases in Kazakhstan’s gas production are expected to come primarily from the production of associated gas at the Tengiz, Karachaganak and Kashagan fields.

The following table sets forth gas production levels (including associated gas) in Kazakhstan for the years indicated:

Gas Production				
2014	2015	2016	2016 % change over 2015	2016 % share of global production
18.7	19.0	19.9	4.5	0.6

*(billion cubic meters per year)*

Source: BP Statistical Review of World Energy June 2017

### TCO

TCO owns the single largest production field in Kazakhstan and is the Company’s most significant joint venture in terms of production of oil. The Company’s share in TCO’s production has been a key driver in the Company’s growth. TCO is

a joint venture between the Company (20% as at 31 December 2017), Chevron Overseas (50%), ExxonMobil Kazakhstan Ventures Inc. (25%) and LukArco (5%).

TCO operates the Tengiz Field in the south-eastern part of the Pre-Caspian Basin on the north-eastern edge of the Caspian Sea, which is among the largest fields under development in the world based on estimated A+B+C1 reserves, and TCO also operates the nearby Korolevskoye Field. The Tengiz field was discovered in 1979 in the Atyrau region.

See “*Business—Exploration and Production—Significant Production Fields of Other Joint Ventures and Associates—TCO*” and “*Business—Transportation—Transportation and Sale of Crude Oil—TCO*” for a more detailed discussion of TCO and its operations.

### **Refining Facilities**

Oil refining in Kazakhstan is strictly regulated by the Government, through direct administration and through control of transportation tariffs by two national companies, the Company and Joint Stock Company “National Company “Kazakhstan Temir Zholy”.

The Company currently has a controlling or significant interest in all three major refineries in Kazakhstan (which, as at 31 December 2017, had a combined total actual refining capacity of 13.9 million tonnes of crude oil per year). More specifically, the Company controls the Atyrau Refinery in western Kazakhstan and the Pavlodar Refinery in north-eastern Kazakhstan, and, as at 31 December 2017, it held a 49.72% interest in the Shymkent Refinery in southern Kazakhstan. Following the merger of KMG RM with the Company in December 2017, the Company directly holds the interests in the Atyrau Refinery and, the Pavlodar Refinery and holds the interest in the Shymkent Refinery through Valseira Holdings B.V. See “*Business—Refining, Marketing and Trading*” for a description of the Atyrau Refinery, the Pavlodar Refinery and the Shymkent Refinery.

### **Subsoil Use Agreements**

#### ***The 2010 Subsoil Law***

The 2010 Subsoil Law provides that subsoil resources in Kazakhstan are owned by the State. The Competent Authority (as defined below, which is currently the Ministry of Energy) enters into Subsoil Use Agreements (exploration, production or exploration and production agreements) with subsoil users for fixed periods of time. Exploration may not be conducted without an exploration agreement. When commercial discoveries are made, the holder of an exploration agreement has an exclusive right to obtain a production contract through direct negotiations with the Competent Authority. Production agreements may govern the production rights for more than one block. Save for circumstances where hydrocarbons are extracted for limited production and made for trial purposes, hydrocarbons may only be extracted and sold if the relevant producer has entered into a production agreement with the Ministry of Energy.

Negotiation of a Subsoil Use Agreement is a complex process requiring the agreement of a number of ministries, including the Ministry of Energy, and the preparation of economic models with financial expenditure commitments. In the event a Subsoil Use Agreement cannot be negotiated, an applicant or producer bears the risks of being unable to obtain exploration or production rights in respect of the block in question. In addition, the explorer or producer must prepare a development plan for each field specifying detailed drilling and production targets once commercial discovery is made. The development plan may be periodically modified with the approval of the Competent Authority in order to reflect changing circumstances. Default by a producer under the terms of a Subsoil Use Agreement or development plan can result in the termination of a Subsoil Use Agreement and the relevant production rights.

Exploration agreements are valid for up to six years from the date of issuance and grant explorers the exclusive right to explore resources from certain fields within a defined area. Under the 2010 Subsoil Law, the exploration period for off-shore deposit projects may be extended by up to two years. In addition, the exploration period may be extended in the event of a force majeure (if proven) or for the period required for the appraisal of a discovery. Production agreements give the subsoil users the exclusive rights to extract resources from fields in a defined area and are valid for up to 25 years from the date of issuance and up to 45 years from the date of issuance for large and “unique” deposits. Combined exploration and production contracts are entered into only on an exceptional basis.

#### ***The Subsoil Code***

On 27 December 2017, the Parliament adopted the Subsoil Code (which becomes effective on 29 June 2018). Pursuant to the Subsoil Code, all newly-awarded subsoil agreements must have either (i) exploration and production components or (ii) a production component. Exploration agreements that do not include a production component will no longer be

awarded under the Subsoil Code and only the following types of exploration and production agreements and production agreements for specified time periods may be entered into with respect to hydrocarbons: (i) agreements for exploration and production of hydrocarbons; and (ii) agreements for the production of hydrocarbons for specified periods. Accordingly, with effect from June 2018, exploration activities may not be conducted unless an agreement with a production component has been entered into. Exploration and production agreements may govern the production rights for more than one block only in exceptional cases.

Generally, hydrocarbon subsoil use rights may only be obtained by way of a tender. Unlike other contractors, pursuant to the Subsoil Code, the Company may obtain subsoil use rights either by way of a tender, or by direct negotiations provided that certain requirements are met. Tenders are awarded based on the proposed subscription bonus. The subsoil user has the right to conduct any exploration and evaluation works at the exploration site, including trial operations.

The process of negotiating a Subsoil Use Agreement under the Subsoil Code, remains complex and involves the development of basic and technical project documentation with financial expenditure commitments.

Hydrocarbon exploration and production agreements grant companies the exclusive right to explore resources from fields in a defined area for a period of up to six years or, in the case of offshore deposits or complex hydrocarbon exploration projects, for a period of up to nine years from the date of registration. The term permitted for the extraction of hydrocarbons is determined by the preparatory period and the period of extraction sequentially stated in the agreement, which cannot differ from those disclosed by the subsoil user during the tender process.

The Subsoil Code provides for the extension of exploration periods for offshore deposit projects or complex exploration projects for up to nine years. In addition, the exploration period may be extended in the event of *force majeure* (if proven) or for the period required for the appraisal of a discovery. Production agreements, as well as supplemental agreements to the exploration and production agreement give subsoil users the rights to extract resources from fields in a defined area for a term of up to 25 years from the date of registration and up to 45 years from the date of registration for large and “unique” deposits. Under the Subsoil Code, production periods may be extended for up to 25 consecutive years.

See “*Business—Exploration and Production—Subsoil Use Agreements*” for a discussion of the licences and contracts of the Company.

### **Fiscal Regime**

The 2018 Tax Code, which became effective as of 1 January 2018, introduces a number of significant changes to tax legislation in Kazakhstan, which is applicable to the oil and gas industry. See “*Management’s Discussion and Analysis of Financial Performance and Results of Operation—Main Factors Affecting Results of Operation and Liquidity—Taxation*”.

In March 2016, the Minister of the National Economy introduced a progressive scale of export customs duty rates on crude oil. Under the new regime, export duty rates are calculated based on the mean market prices of Brent Crude and Ural oil trading classifications.

The following table sets out the progressive scale applicable to customs duty rates.

№	Mean market price of crude oil for the previous period for one barrel in U.S.\$	Export customs duty rate in U.S.\$ per tonne
1	Less than 25	0
2	From 25 to 30	10
3	From 30 to 35	20
4	From 35 to 40	35
5	From 40 to 45	40
6	From 45 to 50	45
7	From 50 to 55	50
8	From 55 to 60	55
9	From 60 to 65	60
10	From 65 to 70	65
11	From 70 to 75	70
12	From 75 to 80	75
13	From 80 to 85	80
14	From 85 to 90	85
15	From 90 to 95	90
16	From 95 to 100	95
17	From 100 to 105	100
18	From 105 to 115	115
19	From 115 to 125	130
20	From 125 to 135	145
21	From 135 to 145	160
22	From 145 to 155	176
23	From 155 to 165	191
24	From 165 to 175	206
25	From 175 to 185	221
26	185 and more	236

## Exploration Licences

The Government limited the awarding of new subsoil use contracts during the drafting of the 2009 Tax Code, which entered into force on 1 January 2009. The limitation was cancelled in April 2013. The subsoil use contracts awarded during this period of time were primarily for the exploration of offshore fields in the Caspian region.

- In December 2005, a PSA on exploration and production of Zhemchuzhiny Block was entered into between the Company, MEMR (now the Ministry of Energy) and Oman Pearls Company Limited under the general agreement between the Government and the Sultanate Oman of May 1993. Further Oman Pearls Company Limited sold its 55% interest in the project (or rights and obligations under the Zhemchuzhiny PSA) to Shell EP Offshore Ventures Limited. In April 2007, a Caspian Meruerty Operating Company B.V. was established to operate and is now operating the project, which is a joint venture of KazMunaiTeniz (with a 25% interest) (which, in its turn, is owned by the Company (99.096%) and its subsidiary KMG-Kumkol LLP (0.904%)), Shell EP Offshore Ventures Limited, (with a 55% interest) and Oman Pearls Company Limited, (with a 20% interest).
- In May 2009, an exploration contract (concession) for the Zhambyl block was signed with a KNOC-led consortium, which received a 27% interest in the project, with the remainder held by the Company. See “*Business—Project Zhambyl*”.
- In June 2009, ConocoPhillips and Mubadala signed an agreement with the Company for the development of N Block, with ConocoPhillips and Mubadala each holding a 24.5% interest and the Company holding a 51% interest in the project. In January 2013, the Company acquired ConocoPhillips’ 24.5% interest in the N Block Project for a total consideration of U.S.\$32.5 million and Mubadala transferred its interest in the project to the Company. Consequently, the Company holds directly and indirectly (through N Block B.V.) a 100.0% interest (as at 31 December 2017) in the N Block Project and a 100.0% interest as at 31 December 2017 (direct and indirect) in N Operating Company LLP. See “*Business—N Block Project*”.
- In October 2010, the Government also agreed to accelerate negotiations with CNPC for the Darkhan block, located west of the Buzachi Peninsula, but to date, no further contract has been signed. The Company, CNPC and CNOOC reached an agreement in August 2005 for joint development of the block. In December 2008, the Company was awarded a 30-year exploration and production contract for the onshore Urikhtau Field in the Aktobe region, which is expected to secure gas supplies for deliveries from western to southern Kazakhstan via the Beineu-Bozoi-Shymkent Gas Pipeline. The Company is currently discussing and negotiating joint exploration and development opportunities in the Urikhtau Field with potential joint venture partners.

- In June 2010, the Company was awarded an exploration and production contract in respect of the Satpayev Block in which the Company has a 75% interest (as at 31 December 2017) and OVL has a 25% interest. Project Satpayev is operated by Satpayev Operating LLP, a subsidiary of the Company. The project is in the exploration stage.
- In March 2015, KMG EP and the Ministry of Energy signed addendums to extend several Subsoil Use Agreements. The following four contracts have been extended with JSC Embamunaigas: the Kenbay field (Contract № 37) valid until 2041; the SE Novobogatinsk field (Contract № 61) valid until 2048; the Botakhan, Makat, Dossor, Tanatar, Kamyshitovoye and other fields (relating to a total of 22 fields - Contract № 211) valid until 2037; the Prorva, Kulsary, Karaton, Koschagyl and other fields (relating to a total of 13 fields - Contract № 413) valid until 2043. In addition, the contract for the exploration of hydrocarbons (Contract № 468) with Ural Oil and Gas LLP, which has been operating within the Fedorovsky block was extended until 2018.

## Foreign Investment in Oil and Gas

Since 2000, Kazakhstan has experienced significant economic growth. Two of the main catalysts for this growth have been economic reform and foreign direct investment, much of which has been concentrated in the energy sector. Exports of crude oil have grown significantly since 2000 and most of the oil from Kazakhstan is currently delivered to international markets by pipelines through Russia to shipping points on the Black Sea. The opening of the CPC Pipeline in 2001 substantially increased Kazakhstan's crude oil export capacity.

According to information published by the MID, in 2015, the share of foreign direct investments in the oil and natural gas sector was approximately 19%. Foreign direct investments in the oil and gas sector in Kazakhstan have taken the form of joint ventures, including the Company and its subsidiaries, as well as PSAs and exploration and field concessions. Major projects in Kazakhstan include projects at the Tengiz, Karachaganak and Kashagan fields.

TCO is developing the Tengiz and Korolevskoye oil fields pursuant to a production licence granted in 1993. This production licence was initially granted for 10 years, but can be extended by TCO for up to a total of 40 years; it was extended by TCO in 2003 until 2043. KPO, which is developing the Karachaganak field, operates under a 40-year PSA entered into with the Government in 1997. The Kashagan consortium, which is developing the Kashagan field, was also established in 1997 under a 40-year PSA with the Government, covering oil structures in Kashagan, Kalamkas, Aktoty and Kairan.

In May 2003, President Nazarbayev approved a new Caspian Sea development programme to be effective through 2015 (currently not in effect), which created new offshore blocks (potential oil fields) that were auctioned by the Competent Authority between 2003 and 2010. The Company has a mandatory share of at least 50% in all projects related to the new offshore blocks.

In December 2004, certain amendments to the Old Subsoil Law (as defined below) were adopted. The amendments provided that the State has a pre-emptive right, in the case of a proposed transfer of a direct interest under both existing and new contracts for subsoil use, to purchase such interest on terms no worse than those agreed by the parties to the proposed transfer.

In August 2007, the Kazakh Government claimed that the Kashagan consortium had breached certain provisions of its licence and environmental regulations, and consequently suspended the consortium's activities. A settlement reached in January 2008 resulted in the terms of the PSA being revised in favour of Company such that the share interest of Company doubled. The settlement also required the other members of the consortium to pay a penalty of U.S.\$5 billion to the Company until the end of the concession in 2041. "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—The Group is exposed to the risk of Government Intervention*". Phase I of Kashagan's development, known as the Experimental Programme, is already in the construction phase with the first oil production in September 2013. However, in the fourth quarter of 2013, the production in Kashagan was suspended for safety reasons. Production resumed in November 2016.

On 3 November 2007, additional amendments to the Old Subsoil Law became effective. These amendments provided the Competent Authority with the right to initiate reviews of subsoil use contract terms and to unilaterally terminate subsoil use contracts in respect of deposits of "strategic importance" if the actions of a subsoil user led to a significant change in the economic interests of the Republic of Kazakhstan and created a threat to national security. See "*—Regulation in Kazakhstan—Regulation of mineral rights in Kazakhstan—Regulation of Subsoil Use Rights*". The Old Subsoil Law has been replaced by the 2010 Subsoil Law, which was adopted on 24 June 2010 and is currently in force. On 27 December 2017, the Parliament adopted the Subsoil Code, which will become effective from 29 June 2018. Both the 2010 Subsoil Law and the Subsoil Code retained the above provisions. The Subsoil Code, however, amends the categories of deposits that fall within the scope of "deposits of strategic importance" and the Government is expected to enact a new list of



deposits of strategic importance in the coming months. See “—*Regulation in Kazakhstan—Regulation of Subsoil Use Rights in Kazakhstan—2010 Subsoil Law*”.

## Oil and Gas Exports

### Overview

Oil is exported via the Caspian Sea, rail cars and pipelines. The following table sets forth the volumes of oil exported by the routes indicated in 2016:

Name of route	Volume of exported oil in 2016 (million tonnes)
CPC Pipeline.....	40.8
Atyrau—Samara .....	14.40
Aktau Sea Port .....	2.2
Atasu—Alashankou .....	10.0

Sources: the Company and CPC Pipeline

Kazakhstan’s land-locked geographic position means that the pipeline infrastructure through neighbouring countries has played an important role in the exploitation of Kazakhstan’s hydrocarbon resources, allowing it to reach international markets.

### Exports Routes for Kazakhstan Oil

The CPC Pipeline, which has been operational since 2001, represents a major export route for oil produced in Kazakhstan. See “*Business—Transportation—Transportation of Crude Oil—KTO Pipeline System—CPC Pipeline*”.

In November 2008, Kazakhstan began supplying oil from the Tengiz Field to the BTC Pipeline, according to the pipeline’s operator BP. Azerbaijan and Kazakhstan have been discussing the possibility of exporting Kazakhstan crude through the BTC Pipeline since 2002 and a final agreement was signed on 16 June 2008. In October 2008, the first Kazakhstan oil from the TCO project was shipped across the Caspian Sea and exported via the BTC Pipeline, marking the first delivery of non-Azeri oil via the pipeline since its commissioning in 2006. In 2009, approximately 1.9 million tonnes of oil of the Tengiz Field were exported via the BTC Pipeline.

The 1,767 km BTC Pipeline delivers crude oil from Baku in Azerbaijan to a new marine terminal in the Turkish port of Ceyhan on the Mediterranean Sea and is the first direct pipeline link between the Caspian Sea and the Mediterranean Sea. The construction of the pipeline was completed in May 2005, costing approximately U.S.\$4 billion. The pipeline began operating in July 2006. It has a capacity of 1 million bopd. The pipeline is largely dedicated to the production from the Azeri Chirag Gunashli fields in the Azerbaijan sector of the Caspian Sea. However, since October 2008, the BTC pipeline has been used to transport Kazakhstan crude oil shipped across the Caspian Sea to Baku by tanker. The volume of Kazakh oil transported via the BTC pipeline has been steadily increasing since October 2008 when Kazakhstan began to use the route. According to the State Statistical Committee of Azerbaijan, the volume of oil transported increased from 17,400 tonnes in October 2008 to 240,200 tonnes in February 2009. In 2009, the BTC pipeline transported 1.9 million tonnes of Kazakh crude oil, according to the State Statistical Committee of Azerbaijan. However, according to the State Oil Company of the Azerbaijan Republic, Kazakhstan stopped the transport of Kazakhstan oil via the BTC pipeline in January 2010. Based on recent statements, Kazakhstan resumed transportation of oil through the pipeline at the end of 2013 with an intention to transport up to 4.5 million tonnes of crude oil in 2014.

On 28 May 2008, Kazakhstan ratified the Treaty between Kazakhstan and the Azerbaijan Republic dated 16 June 2006 on the support and facilitation of petroleum transportation from Kazakhstan through the Caspian Sea and the territory of the Azerbaijan Republic to international markets via the Baku-Tbilisi-Ceyhan system. In order to facilitate exports of oil from the Kashagan oil field during the next decade, Kazakhstan is currently developing the Kazakhstan-Caspian Transportation System (“**KCTS**”), which includes the construction of a 515 mile, 600,000 bopd capacity onshore pipeline from Eskene in western Kazakhstan to Kuryk on the Caspian near Aqtau, where a new 760,000 bopd oil terminal is to be built. The system also includes the creation of a new fleet of tankers and new port facilities in Baku, Azerbaijan. On 14 November 2008, the State Oil Company of the Azerbaijan Republic and the Company signed an agreement on key principles of the KCTS. While still preliminary, it is the first practical move to create a system with defined conditions of supplies, tariffs and other matters, guiding the trans-Caspian transportation of oil. The implementation period, stages and system capacity of KCTS are expected to be linked to the second and third phases of Kashagan’s development. While it was initially expected that crude oil would be transported from the Kashagan field through the CPC pipeline, the CPC

has announced that such oil will be transported through the CPC Pipeline. Between 1 November 2016 and 31 December 2016, the Kashagan Field produced 1.0 million tonnes of crude oil from the Kashagan field, which was transported through the CPC Pipeline.

The UAS pipeline transports oil from fields in the Atyrau and Mangistau regions to Russia. The pipeline system runs for approximately 1,235.3 km from Uzen in southwest Kazakhstan to Atyrau, before crossing into Russia and linking with Russia's Transneft system at Samara. In June 2002, Kazakhstan signed a 15-year oil transit agreement with Russia. Under such agreement, Kazakhstan will export at least 17.5 million tonnes of crude oil per year using the Russian pipeline system. The line was recently upgraded by the addition of pumping and heating stations and has a capacity of approximately 600,000 bopd. Before completion of the CPC Pipeline, Kazakhstan exported almost all of its oil through this system.

The Kazakhstan-China pipeline comprises two existing Soviet era pipeline sections and three major new pipeline sections with a total length of around 2,800 km from Atyrau in western Kazakhstan to Alashankou on the Kazakhstan-China border. At the Chinese border the pipeline links in to the infrastructure in the Xinjiang Gansu province in northwest China. The pipeline has been built in several stages:

- The first section was the 448.9 kilometre Kenkiyak-Atyrau section which was completed in 2003. Oil is temporarily flowing westwards, allowing export of Aktobe region oil through the CPC and Atyrau-Samara pipelines. The plan is that this section will be reversed to allow oil production from the Caspian region to travel through the line and onwards to China.
- The 962 kilometre Atasu-Alashankou section began commercial operation in July 2006. The pipeline allows oil from Kazakhstan's south Turgai basin and Russia to be exported to China.
- The 794 kilometre Kenkiyak-Aralsk-Kumkol section was completed in July 2009 and began commercial operation in October 2009. It is sourced with oil from the Kenkiyak area fields (Aktobe region).
- The overall capacity of the pipeline to China was 200,000 bopd, which increased to 240,000 bopd in 2012, and there are plans to expand to 400,000 bopd. The capacity of the Kenkiyak-Atyrau section is at 120,000 bopd and there are plans to expand the capacity of this section to 180,000 bopd, and subsequently to 240,000 bopd, although no target date has yet been set.
- The timing of the reversal of the Kenkiyak-Atyrau section is uncertain, and the decision to reverse the line will be made by the Kazakh Government. It is likely that this will happen once there is sufficient throughput capacity for all production from fields in the Kenkiyak Area to be exported eastwards.

Other pipeline routes from Kazakhstan are being considered, such as routes through the Caucasus region to Turkey and routes through Iran and Afghanistan. See "*Business—Competition*".

Rail transportation was the primary export route for Kazakhstan crude production before the development of the UAS and CPC Pipelines and it remains as an alternative transportation option.

See "*Business—Transportation—Transportation of Crude Oil*".

### ***Export Routes for Kazakhstan Gas***

In 2012, 12,318 km of the 20,230 km of gas pipelines in Kazakhstan were used for the transportation of gas (predominantly transit gas from neighbouring countries).

The majority of the gas pipelines in western Kazakhstan, with the exception of Makat-Atyrau-Astrakhan, are designed to provide gas to the CAC Pipeline. For a more detailed discussion of the CAC Pipeline, see "*Business—Transportation—Transportation and Storage of Gas—Central Asian System*" and "*Business—Transportation—Gas Transportation Volumes*".

In December 2010, Kazakhstan commenced the construction of the Beineu-Bozoi-Shymkent gas pipeline designed to transport gas from west Kazakhstan for use in the southern regions of Kazakhstan and export to China. See "*Business—Transportation—Gas Pipeline Projects—Beineu-Bozoi-Shymkent Gas Pipeline*".

The Bukhara Urals gas pipeline originates in Uzbekistan and was initially built to supply gas from Uzbekistan to north-east Kazakhstan and Russia's southeast Urals region. Gas flows along the pipeline are variable and, at times, the

pipeline transfers gas southwards from Russia. The annual throughput capacity of the Bukhara Urals gas pipeline is approximately 21.0 bcm.

Bukhara-Tashkent-Bishkek-Almaty is a transit gas pipeline that provides gas from Uzbekistan to Kazakhstan's main southern population centre. Between Shymkent and Almaty, the pipeline crosses Kyrgyz territory to supply gas to Bishkek, the Kyrgyz capital. The annual throughput capacity of the Bukhara-Tashkent-Bishkek-Almaty gas pipeline is 5.8 bcm.

See “*Business—Transportation—Transportation and Storage of Gas*”.

### **Regional Oil and Gas Industry**

While Russia dominates oil supply in the region, backed by large and under-exploited reserves, the Caspian states have an important role to play. Kazakhstan and Azerbaijan have become of increasing importance as a result of the growth rate in Russian oil supply slowing since the beginning of the decade, while the growth rate in oil supply from the Caspian region has continued to increase.

### Regional Oil Consumption and Production

The following table sets forth key regional oil consumers:

<b>Country</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(million tonnes per year)</i>		
Azerbaijan.....	4.4	4.5	4.6
<b>Kazakhstan</b> .....	12.3	13.2	13.2
Poland.....	23.9	24.9	27.2
Romania.....	9.0	9.2	9.5
Russia.....	152.3	144.2	148.0
Turkmenistan.....	6.5	6.6	6.7
Ukraine.....	10.3	10.2	10.1

Source: BP Statistical Review of World Energy June 2017.

The following table sets forth key regional oil producers:

<b>Country</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(million tonnes per year)</i>		
Azerbaijan.....	42.1	41.6	41.0
<b>Kazakhstan</b> .....	81.1	80.2	79.3
Romania.....	4.1	4.0	3.8
Russia.....	534.1	540.7	554.3
Turkmenistan.....	12.1	12.7	12.7

Source: BP Statistical Review of World Energy June 2017.

According to the BP Statistical Review of World Energy June 2017, regional oil production was an estimated 860.6 million tonnes per year. Kazakhstan accounted for an estimated 1.8% of the world's oil production in 2016.

#### Regional Refining Capacity

In 2016, refining capacity for the CIS region was 8,221 thousand barrels per day, with Kazakhstan's share of regional refining capacity being approximately 0.4%.

#### Regional Gas Consumption and Production

The CIS region consumed an estimated 546.7 bcm of natural gas and produced an estimated 764.3 bcm of natural gas in 2016. Kazakhstan's share of world gas consumption in 2016 was an estimated 0.4%, while its share of production was an estimated 0.6%.

#### **Regulatory Body**

In accordance with the 2010 Subsoil Law and the Regulations on the MOG (approved by Government Resolution № 454, dated 20 May 2010), certain non-commercial or regulatory functions of the Company as an "authorised body" of the Government were transferred to the MOG, including, *inter alia*, the representation of interests of the State under the PSAs.

Pursuant to the Presidential Decree of 6 August 2014, the MOG was transformed into the Ministry of Energy, which is now be responsible for the oil and gas sector, electric and nuclear power spheres, the use of renewable energy sources, domestic solid waste utilisation, environmental protection and supervision, control and preservation of natural resources. The Ministry of Energy will retain its regulatory functions with respect to PSAs when the Subsoil Code becomes effective in June 2018.

## REGULATION IN KAZAKHSTAN

### Regulation of Mineral Rights in Kazakhstan

#### *General*

In Kazakhstan, the subsoil and minerals contained therein are owned by the State, in accordance with the Constitution of Kazakhstan. The Government ensures access to the subsoil on the terms, conditions and within the limits as provided for by the 2010 Subsoil Law. With effect from 29 June 2018, the new Subsoil Code, which supersedes the 2010 Subsoil Law, will become effective. See “*New Regulation of Subsoil Use Rights Under the Subsoil Code*”. Unless otherwise stipulated by Kazakhstan law and Subsoil Use Agreements, mineral raw materials shall be owned by the subsoil user under a right of ownership (or in the case of a State-owned enterprise, under a right of economic or day-to-day management). The Government develops Kazakhstan’s subsoil use policy and appoints a Competent Authority responsible for implementation of the subsoil use policy. The Competent Authority (as defined below) acts on behalf of the Republic, including in Subsoil Use Agreements, and grants exploration and production rights. Historically, the Competent Authority for oil and gas sector as well as the hard minerals sector was the MEMR, which functions were split and transferred to the MOG (in respect of the oil and gas sector) and the Ministry of Industry and New Technologies (the “MINT”) (in respect of subsoil use in relation to hard minerals) from 12 March 2010.

Further, in August 2014, both ministries were reorganised pursuant to a decision of the President, with the functions and authorities of the MOG being transferred to the Ministry of Energy and the functions and authorities of MINT being split between the Ministry of Energy and the Ministry for Investments and Development (the “MID”) (the Ministry of Energy and the MID being jointly referred to as the “**Competent Authority**”). See “*—The 2014 Government Reorganisation*”.

Subsoil use rights for hydrocarbons are granted on the basis of tenders or, in the case of Company, by tender and, in certain cases, through direct negotiations. Oil and gas exploration and production rights are then secured by executing a contract with the Competent Authority. Subsoil use rights are granted for a determinable period but may be extended before the expiration of the relevant contract and licence (if applicable, agreed and permitted) subject to certain limitations and conditions.

Subsoil use rights may be terminated by the Competent Authority on the grounds provided for in the 2010 Subsoil Law and, with effect from June 2018, the Subsoil Code, which include among other things, breach by subsoil users of their contractual obligations (unless eliminated within the time period notified by the Competent Authority in the manner provided by law), including failures to pay taxes and compliance with mining, environmental, and health and safety requirements.

Subsoil use rights are established by means of a Subsoil Use Agreement, and no further licence is required, although previously issued and unexpired licences and PSAs continue to have legal effect. Certain entities within the Company hold their subsoil use rights on this basis. See “*The Oil and Gas Industry in Kazakhstan—Subsoil Use Agreements*”.

The current regime for granting subsoil use rights is as follows:

- **Exploration Contracts:** exploration contracts may be concluded for up to six years, subject to a general right of extension for the purposes of appraisal of a commercial discovery or in the event of *force majeure* (if proved by the subsoil user). In contrast to the Old Subsoil Law (as defined below), two two-year extensions of the exploration period are no longer permitted, except in respect of the offshore petroleum contracts where the exploration period may be extended for two years.
- **Production Contracts:** production contracts may be concluded for a period of up to 20 years, and for fields with large and unique reserves for a period of up to forty five years. The term of a production contract may not exceed the term required to fully process the reserves and may be extended in the event of the implementation of an industrially innovative project, providing for high value added products.
- **Combined E&P Contracts:** combined exploration and productions contracts are now only granted for sites considered to be of strategic importance and/or with complex geological structures, and require approval through a decision of the Government.

With effect from June 2018, the regime for granting subsoil use rights under the Subsoil Code will be as follows:

- **Exploration and Production Contracts:** contracts for the exploration and production of hydrocarbons may be concluded for a fixed term to be determined by the parties, however the exploration phase under such contracts cannot exceed six years or, in case of offshore deposits or complex hydrocarbon exploration projects, nine years. These limits are subject to a general right of extension for the purposes of appraisal of a commercial discovery and/or production test or in the event of *force majeure* (if proved by the subsoil user). There is an additional three-year pre-production period. Production periods under such contacts are for a period of up to 25 years (or up to 45 years for large and unique deposits) and can be extended for a period of up to 25 years.
- **Production Contracts:** production contracts may be concluded for a period of up to 25 years or, for fields with large and unique reserves, for a period of up to 45 years. Such contracts may be extended for a period of up to 25 years.

The Subsoil Code prohibits the entry into exploration contracts which do not provide for a production component.

### ***Major Regimes Regulating Subsoil Use Rights***

There are five main phases of subsoil use regulation in Kazakhstan:

- from Kazakhstan's independence in 1991 to August 1994;
- the licensing-contractual regime from August 1994 to August 1999, which had two sub-phases: (i) August 1994 to January 1996, and (ii) January 1996 to August 1999;
- the contractual regime, which commenced in August 1999 and was regulated by the Old Subsoil Law;
- the present regulation of activities in the oil and gas sector by the 2010 Subsoil Law, adopted in June 2010, which was amended in 2014 (see "*—The 2014 Amendment*"), and the Law on Gas and Gas Supply (adopted in January 2012) and the Trunk Pipeline Law (adopted in June 2012); and
- the new regulation of hydrocarbon activities that will enter into full force and effect in June 2018 in accordance with the Subsoil Code, adopted in December 2017.

### ***The Old Subsoil Law and the 1999 Amendments***

The legal framework that previously regulated subsoil use rights of the Company under the Subsoil Use Agreements, to which it is a party, was established with the adoption of Law № 2828 "On Subsoil and Subsoil Use" on 27 January 1996 (the "**Old Subsoil Law**"). In addition, at that time the existing Law "On Petroleum" (№ 2350, dated 28 June 1995, as amended) (the "**Petroleum Law**") replicated most of the provisions of the Old Subsoil Law and supplemented the same to the extent the Old Subsoil Law did not regulate specific matters related to exploration and production of hydrocarbons.

In August 1999, the Old Subsoil Law was amended by Law № 467-1 "Concerning the Introduction of Amendments and Additions to Several Legislative Acts on the Subsoil and Petroleum Operations in the Republic of Kazakhstan" (the "**1999 Amendments**"). The 1999 Amendments simplified the process of obtaining subsoil use rights by allowing the Competent Authority to grant these rights contractually, without first having to issue a licence (which was required under the previous regulatory framework).

### ***The 2004-2005 Amendments to the Old Subsoil Law – Introduction of the State's Pre-Emptive Right***

The Old Subsoil Law was further amended by Law № 2-III "On Introduction of Amendments and Additions to Certain Legal Acts on Subsoil Use and Petroleum Operations in the Republic of Kazakhstan" dated 1 December 2004 and Law № 79-III "On Introduction of Amendments and Additions to Certain Legal Acts on Subsoil Use and Performance of Petroleum Operations in the Republic of Kazakhstan" dated 14 October 2005 (the "**2004-2005 Amendments**"). The 2004-2005 Amendments (in particular article 71 of the Old Subsoil Law) provided the State's pre-emptive right (through the Government) in connection with any transfer of subsoil use rights (or parts thereof) and/or shares or participation interests in a subsoil user or a legal entity which can, directly and/or indirectly, affect and/or determine the decisions of a subsoil user, if the core business of the controlling entity is related to subsoil use in Kazakhstan. This gave the Government a right of first refusal in respect of any such transfers on terms "no worse than those offered by other prospective purchasers".

The 2004-2005 Amendments also provided that: (i) transfers of subsoil use rights, including contribution of subsoil use rights to charter capital; (ii) transfer of subsoil use rights during bankruptcy proceedings; and (iii) pledge of subsoil use rights required the consent of the Competent Authority.

### ***The 2007 Amendments to the Old Subsoil Law – Introduction of a concept of “deposits of strategic importance”***

In October 2007, the Parliament adopted new legislation amending the Old Subsoil Law (the “**2007 Amendments**”). The 2007 Amendments came into force on 3 November 2007. They introduced a concept of so-called “deposits of strategic importance”. A list of deposits of strategic importance was initially approved by Resolution № 1213 of the Government dated 13 August 2009 and then replaced by Resolution № 1137 of the Government dated 4 October 2011 (as amended) (the “**List of Strategic Deposits**”). The revisions provided the Competent Authority with the right to initiate reviews of terms and conditions of a Subsoil Use Agreement in respect of a “deposit of strategic importance” to demand: (a) amendments or additions to such Subsoil Use Agreement in circumstances where activities of the subsoil user lead to material changes in the economic interests of the State which jeopardise national security and (b) termination of the Subsoil Use Agreement in case the parties (*i.e.*, the Competent Authority and the subsoil user) fail to execute the respective amendments or additions to the Subsoil Use Agreement within six months from the date when an agreement was reached to restore the economic interests of the State (the “**Strategic Deposit Right**”). The 2007 Amendments had retroactive effect in respect of previously concluded Subsoil Use Agreements.

Certain deposits in respect of which the Company and its subsidiaries exercise their subsoil use rights are on the List of Strategic Deposits, including including the following deposits and fields: Akshabulak, Alibekmola, North Buzachi, Darkhan, Zhanazhol, Zhetybai, Kalamkas, Karazhanbas, Karachaganak, Kashagan, Kalamkas Sea, Kashagan Southwest, Aktota, Kairan, Kenbay, Kozhasai, Korolevskoye (pre-salt) field, Kumkol, Satpayev, Kurmangazy, Tengiz, Urikhtau, Uzen, South Zaburunye, Pearl, Makhambet and Bobek oilfields, Nursultan, Zhambyl, Mertvyi Kultuk, Fedorovskiy, Chinarevskoe.

### ***2010 Subsoil Law***

The 2010 Subsoil Law replaced two major laws governing relations of the State and subsoil users in the oil and gas sector: the Old Subsoil Law and the Petroleum Law. Adoption of the 2010 Subsoil Law was aimed at, among other things: (i) consolidation of the existing overlapping laws and regulations related to subsoil and subsoil use, including those in the sphere of oil and gas; (ii) clarifying areas of uncertainty by adding more procedures (specifically related to obtaining various consents, approvals and waivers from the Competent Authority); and (iii) eliminating the stabilisation of Subsoil Use Agreements.

The State implements the 2010 Subsoil Law and exercises its rights thereunder primarily through the Government, the Competent Authority and a national company. The Ministry of Energy currently acts in the capacity of the Competent Authority of the oil and gas industry and the Company acts in the capacity of the national oil and gas company. In 2002, the Government clarified the functions of the Company and other petroleum-related State entities (in Government Resolution № 707 dated 29 June 2002). On 3 April 2015, the Government adopted a further resolution, Resolution № 189, pursuant to which it allocated functions in subsoil industry between national companies. This resolution restates the role of the Company as the national oil and gas company being responsible for the exploration and production of oil and gas.

Under the 2010 Subsoil Law, the subsoil use rights may be permanent or temporary, alienable or inalienable, payable or free of charge. Most subsoil operations shall be carried out on the basis of temporary and payable subsoil use (except for production of commonly occurring minerals for the subsoil user’s own needs in the land plots which are held under the right of ownership or use, which shall be carried out under the right of permanent and free of charge subsoil use). Subsoil use rights for hydrocarbons shall be granted following a tender process with a number of exceptions. For example, a Subsoil Use Agreement for exploration or production of hydrocarbons with the Company should be executed on the basis of direct negotiations without a tender process.

Subsoil use rights may be held by Kazakhstan and foreign nationals and legal entities. A subsoil user shall be guaranteed protection of its rights in accordance with Kazakhstan legislation. Though, the 2010 Subsoil Law, in general, stipulates the stability of subsoil use contracts providing that any amendments and additions to legislation that worsen the results of a subsoil user’s business activities under a Subsoil Use Agreement shall not apply to such Subsoil Use Agreement which was concluded prior to such amendments and additions, such stability shall not apply to changes in Kazakhstan legislation in the areas of national security, defence capabilities, environmental protection, health, taxation and customs regulation.

The following State’s rights were retained in the 2010 Subsoil Law:

### *Priority Right to Acquire Minerals*

The State shall have a priority right over other parties to acquire minerals from a subsoil user at prices not exceeding those applied by the subsoil user in transactions related to the relevant minerals, which prevail on the date of any relevant transaction, minus transportation and selling costs.

### *Right to Requisition Minerals*

In the event of a state of emergency, the Government may requisition some or all of the minerals owned by a subsoil user. Requisition may be in any amount necessary to cover the needs of the State during the entire state of emergency period. Minerals may be requisitioned from any subsoil user regardless of the form of ownership. The State shall guarantee compensation for requisitioned minerals either by payment in kind or by paying their monetary value to a foreign subsoil user in freely convertible currency and to a domestic subsoil user in the national currency at prices not exceeding those applied by subsoil users in transactions related to the relevant minerals, which prevail on the date of requisition, minus transportation and selling costs.

### *The State's Pre-Emptive Right*

The 2010 Subsoil Law differentiates between subsoil use rights and “the objects related to the subsoil use rights” (the “**Objects**”). Objects are participatory interests (or shares, securities confirming title to shares, securities convertible into shares) in a legal entity holding the subsoil use right, as well as a legal entity which may directly and/or indirectly determine and/or influence decisions adopted by a subsoil user (the “**Controlling Legal Entity**”), if the principal activity of such Controlling Legal Entity is related to the subsoil use in Kazakhstan. The State has a pre-emptive right in connection with any transfer of subsoil use rights, any transfer of shares or participation interests in subsoil users and/or any transfer of the Objects (the “**State's Pre-Emptive Right**”). The State's Pre-Emptive Right only applies to those contracts (whether existing or future) related to deposits of strategic importance.

The State's Pre-Emptive Right is also triggered when a subsoil user holding the subsoil use right in respect of a “deposit of strategic importance” or a Controlling Legal Entity of such subsoil user offers its shares, or securities confirming title to its shares, or other securities convertible into its shares on an organised securities market (*i.e.*, on a stock exchange). In addition, except for certain circumstances which are described below, such offerings require the consent of the Competent Authority which shall be granted in accordance with the provisions of the 2010 Subsoil Law.

According to the 2010 Subsoil Law, Resolution № 189 of the Government dated 3 April 2015 (regarding the delineation of activities (functions) of the national companies in the sphere of subsoil use) and Resolution № 333 dated 27 April 2015 (approving the rules of exercise of the State's Pre-Emptive Right by the national holding (*i.e.*, Samruk-Kazyna) and the national company), the State exercises its Pre-Emptive Right related to the “deposits of strategic importance” in oil and gas through the Company. Although the 2010 Subsoil Law and other applicable regulations provide that the State may also exercise its Pre-Emptive Right through Samruk-Kazyna, it appears, in practice, the State tends to act through the Company. The Competent Authority should, subject to the Company's intention to acquire such subsoil use rights or the Objects and recommendations of the special interdepartmental commission for the exercise of the State's Pre-Emptive Right (the “**Interdepartmental Commission**”), adopt a decision on behalf of the Government on the acquisition of the alienated subsoil use right or the Object by the Company. According to the 2010 Subsoil Law, the Company would acquire the alienated subsoil use right or the Object on terms no worse than those offered by other proposed acquirers. If the State makes a decision to exercise its Pre-Emptive Right to acquire the subsoil use right or the Objects, then such subsoil use right or the Objects should be acquired by the Company within no more than six months from the date of such decision. Under the law, it may take up to 75 business days (and more, in practice) from the date when an application for the State's waiver of its Pre-Emptive Right is filed with the Competent Authority to the date when the Company enters into direct negotiations with the seller (or transferor) in respect of the transaction.

As noted above, certain deposits in respect of which the Company and its subsidiaries exercise their subsoil use rights are on the List of Strategic Deposits. In practice, it means that, with certain limited exemptions discussed in “—*The Right to Grant Consents for Transfer of Subsoil Use Rights and Objects Related to Subsoil Use Rights*” below, the State's waiver of the State's Pre-Emptive Right may need to be formally obtained by the Company's subsidiary, for example, in respect of a transfer of its subsoil use rights or the Objects, which are related to the “deposits of strategic importance”. Where the Company is the owner of the alienated subsoil use right or the Objects related to “deposits of strategic importance”, it appears that the Company may need to formally follow the procedure of obtaining the State's waiver, as the law does not provide exemptions or directions in this regard.

### **The Right to Grant Consents for Transfer of Subsoil Use Rights and Objects Related to Subsoil Use Rights**



The subsoil use right (or part thereof) and the Objects may be transferred, including in cases of foreclosure (including pledges), provided that the consent of the Competent Authority is obtained pursuant to provisions of Article 36 of the 2010 Subsoil Law (which provision of the 2010 Subsoil Law corresponds to provisions of Article 14 of the Old Subsoil Law) and in accordance with the procedure established by Article 37 of the 2010 Subsoil Law. Any transactions or other related actions effected without such Competent Authority's consent should be deemed invalid as of the date of their conclusion or undertaking.

Further, the acquirer (or the transferee) and the subsoil user (in the case of the transfer of subsoil use rights) must notify the Competent Authority on the completion of the transaction within five business days. Failure to file such notification within the set time period may lead to the transaction being invalidated.

Any offering of shares, or securities confirming title to shares, or any other securities convertible into shares of a subsoil user or its Controlling Legal Entity on an organised securities market requires the consent of the Competent Authority.

The Competent Authority's consent shall not, however, be required in the following instances:

- transactions for alienation of shares or other securities confirming title to shares, or securities convertible into shares which are traded on an organised securities market and are issued by a subsoil user legal entity or a Controlling Legal Entity;
- the transfer, in full or in part, of the subsoil use right and/or an Object:
  - (a) to a subsidiary in which at least a 99% participatory interest (shareholding) is directly or indirectly held by the subsoil user, provided that such subsidiary is not registered in a jurisdiction with a preferential tax treatment (the so-called "black-listed offshore jurisdictions"); and
  - (b) between legal entities in each of which at least a 99% participatory interest (shareholding) is directly or indirectly held by one and the same person, provided that the acquirer of all or part of the subsoil use right or the Objects is not registered in a jurisdiction with a preferential tax treatment; or
- the transfer of shares (participatory interests) in a subsoil user legal entity if, as the result of such a transfer, an entity acquires the right to directly or indirectly control less than 0.1% of the participatory interests (shareholdings) in the charter capital of the subsoil user.

In these instances, the State's waiver of the State's Pre-Emptive Right (for "deposits of strategic importance") is also not required.

Any transactions or other related actions effected without the required consent of the Competent Authority are null and void *ab initio*.

#### *Consents for Establishment of Pledge over the Subsoil Use Rights and the Objects*

The 2010 Subsoil Law explicitly requires that subsoil use rights and the Objects may be pledged only with the consent of the Competent Authority. The pledgor of subsoil use rights or an Object is responsible for obtaining the Competent Authority's consent, which consent should be obtained in the manner and order and according to the procedures provided by the 2010 Subsoil Law for the Competent Authority's consent for the transfer of the subsoil use right or the Objects. Any transactions or other related actions effected without such Competent Authority's consent for the pledge should be deemed invalid as of the date of their conclusion or undertaking.

The pledge of subsoil use rights becomes valid and effective only upon its registration with the Competent Authority. Such registration also establishes priority between several registered pledgeholders. The first registered pledgeholder obtains the "first ranking priority" in recovering its debt from the value of the collateral. For the same priority reasons, a pledge of shares in a subsoil user or its Controlling Legal Entity (established and registered under Kazakhstan law) may need to be registered with the State registration authorities or the centralised registrar. In practice, the pledgeholders and the subsoil users (where their subsoil use rights are pledged) notify the Competent Authority on the effected (completed) transaction within a five-business-day period to avoid a risk of invalidation of such transaction.

A credit facility secured by a pledge of subsoil use right shall only be applied for the purposes of subsoil use provided under the respective Subsoil Use Agreement or for further processing, if such processing is provided for in the relevant Subsoil Use Agreement and is carried out within the territory of Kazakhstan by the subsoil user itself or by its wholly-owned subsidiary.

Article 41 of the 2010 Subsoil Law provides for the procedure of enforcement of a pledge of subsoil use rights or an Object. The enforcement of such pledge must be effected through a public auction and court proceedings. Participants in the public auction must obtain the Competent Authority's consent to the established procedure. In the event of the announcement of a failed auction, a pledgeholder may obtain the subsoil use rights or the Object subject to receipt of the Competent Authority's consent as provided by law.

#### *Termination of Subsoil Use Agreements*

According to Article 72.3 of the 2010 Subsoil Law, the Competent Authority may unilaterally terminate a Subsoil Use Agreement if a subsoil user:

- fails to timely eliminate more than two violations of obligations under its Subsoil Use Agreement or project documents within the time set in the Competent Authority's notice;
- transfers a subsoil use right or the Objects without the Competent Authority's consent where such consent was required under the 2010 Subsoil Law; and/or
- performs less than 30% of all its financial obligations during two consecutive years.

In December 2014, the 2010 Subsoil Law was supplemented with Article 72-1, which mandates a trust management arrangement to be established by the Competent Authority over deposits if the Competent Authority terminates a Subsoil Use Agreement with respect to such deposits. The Company acts as a trust manager of such assets unless a new subsoil user enters into a Subsoil Use Agreement (in respect of such assets) with the Competent Authority. The Company may reimburse all its justified expenses supported by documents from the amount of revenues generated by the Company as a result of operation of such assets and shall pay the remaining portion of such revenues to the State. The 2010 Subsoil Law does not provide expressly whether the Company is entitled to a trust management fee. If the revenues are insufficient to compensate all such expenses of the Company, the State should compensate the relevant amount to the Company. For example, with respect to the trust management agreement for certain deposits, the costs incurred by the trustee are subject to annual reimbursement by the writing off of money maintained in a special bank account, following approval by the Ministry of Energy.

#### *Amendments to Subsoil Use Agreements in relation to Strategic Deposit Rights*

As in the Old Subsoil Law, according to the 2010 Subsoil Law, the State has the right to initiate reviews of the terms of a Subsoil Use Agreement and to demand amendments and/or additions to Subsoil Use Agreements in respect of a deposit of strategic importance if the actions of a subsoil user have a negative impact on Kazakhstan's economic interests and thereby threaten national security. The Law on National Security defines the term "threat to the national security" as any set of internal or external factors that obstructs the realisation of the national interests of Kazakhstan, with the term "national interests" being broadly defined as any lawful political, economic or social needs of Kazakhstan that enable the State to protect the rights of citizens, societal values and fundamentals of the constitutional order. The main test for terminating a Subsoil Use Agreement is unclear and is determined at the discretion of the relevant government authorities in each particular case.

If the introduction of amendments proposed by the Competent Authority fails or is otherwise not agreed, the Competent Authority may unilaterally terminate the relevant Subsoil Use Agreement if the following conditions are met:

- if within a period of up to two months after the receipt of the Competent Authority's notice of a required amendment and/or an addition to the relevant Subsoil Use Agreement, the subsoil user fails to give its consent in writing to the conduct of such negotiations or if it refuses to conduct them;
- if within a period of up to four months after the receipt of the subsoil user's consent to negotiate a required amendment and/or addition to the relevant contract, the subsoil user and the Competent Authority fail to reach an agreement on the amendment and/or addition to the contract; or
- if within a period of up to six months following a mutually agreed outcome of negotiations on the restoration of the economic interests of the State, the parties fail to sign the agreed amendments and/or additions to the contract to reflect the outcome.

In addition, as an ultimate means of sanction, the Competent Authority (based on a decision of the Government) has the right to unilaterally terminate a Subsoil Use Agreement in respect of a deposit of strategic importance by the giving of

two months' advance notice, if the Government believes that the subsoil user's actions have resulted in a change of Kazakhstan's economic interests and thereby threaten national security.

#### Stabilisation and Taxation of the Subsoil Use Agreements

According to the 2010 Subsoil Law, a subsoil user is guaranteed protection of its rights in accordance with Kazakhstan law. Any amendments and/or additions to law that worsen the results of a subsoil user's business activities under a Subsoil Use Agreement should not apply to contracts concluded prior to such amendment and/or additions, except for changes to Kazakhstan law in respect of national security, defence capabilities, environmental protection, health, taxation and customs regulation.

#### Oil and Gas Export Duties

The export duty for crude oil exports was effectively replaced with a rent tax under the 2009 Tax Code, but in 2010, the Kazakhstan Government re-introduced an export duty for crude oil exports.

On 15 October 2005, the Government adopted Resolution № 1036, which approved a list of certain oil products on which export customs duty was levied (the "**ED Resolution 2005**"). Initially, one of the purposes of the ED Resolution 2005 was to stimulate development of internal refinery and processing industries. By amendments to the ED Resolution 2005, dated 8 April 2008, "crude oil" was added to the list of oil products covered by the ED Resolution 2005. Government Resolution № 1598 dated 31 December 2013 (the "**New ED Resolution 2013**") replaced the ED Resolution 2005 at that time setting the rate of export customs duty for crude oil at U.S.\$60 per tonne.

Subsequently, the New ED Resolution 2013 was abolished with the adoption of Order № 81 of the Minister of National Economy dated 17 February 2016 which, *inter alia*, approved the Rules for Calculation of the Rate of Export Customs Duty for Crude Oil and Oil Products (the "**ED Rules**") and introduced a progressive scale of export customs duty rates on crude oil.

According to the ED Rules, the rate of customs duty for crude oil shall depend on the average world price of crude oil for a specific period which shall be calculated by the tax authorities according to the formula provided in the ED Rules. Accordingly, the customs duty rate for crude oil varies from zero (when the average global price of crude oil is less than U.S.\$25) up to U.S.\$236 per tonne (when the average world price of crude oil is U.S.\$185 or higher). The customs duty rate is calculated by the tax authorities on a monthly basis. In February 2016, the Minister of National Economy of Kazakhstan introduced a progressive scale of export customs duty rates on crude oil. Under the new regime, export duty rates are calculated on the basis of the mean market prices of Brent Crude and Urals oil trading classifications. See "*The Oil and Gas Industry in Kazakhstan—Fiscal Regime*".

#### **2014 Amendment**

The 2010 Subsoil Law was amended by Law № 271-V of the Republic of Kazakhstan "On Introduction of Amendments and Additions to Certain Legal Acts of the Republic of Kazakhstan on Subsoil Use" dated 29 December 2014 (the "**2014 Amendment**"). The adoption of the 2014 Amendment introduced significant changes to the 2010 Subsoil Law. The aim of the 2014 Amendment was to further liberalise Kazakhstan's subsoil use laws. Further changes to the 2010 Subsoil Law have not materially affected the operations of the Company.

The following is a high-level summary of some of the most significant changes to the 2010 Subsoil Law that were introduced by the 2014 Amendment:

##### *Limitation of use of the State's Pre-Emptive Right*

As a result of the 2014 Amendment, the State now has the right to use its Pre-Emptive Right only in connection with subsoil use rights and the Objects pertaining to fields that are "strategically important" and included in the List of Strategic Deposits.

##### *Restriction of any transfer of subsoil use right*

With certain exceptions, the old regime had a restriction on transfers of all subsoil use rights for two years from the date of the relevant contract. Pursuant to the 2014 Amendment, the restriction now applies only to contracts for exploration, production and joint exploration and production of hydrocarbons.

##### *Auction – the new form of competitive bid to obtain subsoil use right*

Prior to the 2014 Amendment being enacted, the only form of a competitive bid was a tender. Now a competitive bid may be conducted by way of a tender and auction. Auction is defined as a “simplified procedure to determine the winner out of participants of a competitive bid who presented their application to participate in an auction”. The winner of an auction is the participant who offered the largest amount of money as a signatory bonus.

#### *Simpler procedure to obtain subsoil use rights*

Under the 2014 Amendment a simplified procedure was introduced for obtaining an exploration subsoil use right on the basis of an application by a potential subsoil user. Such rights are provided only in respect of subsoil plots that have not been previously studied deeply (“**frontier plots**”). Such subsoil plots should not exceed ten blocks, each of which should be equal to one minute under the geographical system of coordinates.

If a subsoil use right for exploration is granted as a result of direct negotiations, it should be based on the model contract for exploration, the form of which is approved by the Competent Authority. Such contract should be signed by a potential subsoil user and attached to the application.

A draft of the exploration works for the project should be developed and approved by a subsoil user individually after execution and registration of the model contract for exploration. The draft should be assessed by an ecological expert.

It is anticipated that, under the proposed Subsoil Code, procedures of obtaining subsoil use rights in some instances will be further simplified in accordance with certain international practice (*e.g.*, “first come – first served”, *etc.*).

#### *Mandatory terms and conditions of exploration and production contracts*

In accordance with the 2014 Amendment “with an exception of a contract (agreement) for State geological study of subsoils and model contract for exploration, a contract should be executed in a form and substance, as provided by model contracts on subsoil use types”. The list of mandatory terms, which previously consisted of 27 clauses, has been decreased to four. This was primarily achieved by excluding almost all of terms and conditions which duplicated provisions of the legislation. In contrast, the list of so-called “special terms and conditions” was increased.

#### *Grounds for termination of Subsoil Use Agreements by the Competent Authority and other related issues*

The 2014 Amendment set out certain additional grounds for the unilateral termination of a contract by the Competent Authority, including in circumstances where the subsoil user meets less than 30% of its financial obligations for two consecutive years. The 2014 Amendment also contains one more ground for a unilateral termination of a contract: refusal to present information or presentation of certain false information.

The 2014 Amendment determines deadlines before which a subsoil user can remedy any contractual breaches included in a notification from the Competent Authority as a ground for unilateral termination of the contract. Previously deadlines to remedy contractual breaches were determined by the Competent Authority in relation to each subsoil user. Pursuant to the 2014 Amendment, they are determined by law. Subsoil users may apply for deadlines to be extended.

#### *Changes to project documents regulation*

Prior to the introduction of the 2014 Amendment, an exploration works project required an industrial safety expert opinion, an infection control expert opinion and a mandatory State ecological expert opinion. Pursuant to the 2014 Amendment, exploration works projects now require only a mandatory State ecological expert opinion.

An appraisal works project, which includes experimental-industrial (pilot) production projects or test operations projects, is subject to receipt of a number of mandatory expert opinions. If, however, an appraisal works project does not include an experimental-industrial (pilot) production project or a test operations project, it should be only subject to an ecological expert opinion. The review and execution of an appraisal works project may take up to eight months under the 2014 Amendment, rather than five months (as was the case prior to the introduction of the 2014 Amendment).

There is no longer a requirement to carry out a feasibility study on implementation of production works.

The period for review and execution of project documents by the Competent Authority was increased from 18 to 21 months.

#### *Oil spills*

The 2014 Amendment introduced a new Article 95-1 regulating procedures in the event of an oil spill in the sea (an “**Oil Spill**”). The 2014 Amendment provides for varying degrees of Oil Spill, which are qualified depending on the quantity of oil spilled and volume of resources required to remedy the Oil Spill.

Pursuant to the 2014 Amendment, a subsoil user performing oil operations at sea is required to have its own materials and equipment required to remedy the Oil Spill if it is of either the first or second degree. To remedy a third degree Oil Spill, a subsoil user is required to enter into an agreement with a specialised certified professional rescue services provider, which has sufficient resources to liquidate the Oil Spill. A subsoil user must remedy the loss incurred to the environment and third parties as a result of the Oil Spill and reimburse the State’s costs for liquidating the Oil Spill.

#### *Oil information system*

All hydrocarbon subsoil users should equip their production facilities, the list of which is determined by the Competent Authority, with equipment that automatically controls and determines volumes of oil.

#### ***New Regulation of Subsoil Use Rights under the Subsoil Code***

The Subsoil Code introduces a new regulatory model for subsoil use in Kazakhstan. With effect from 29 June 2018, the Subsoil Code will enter into force and the Subsoil Law will cease to have effect, save for a number of surviving provisions which shall continue to apply to contracts executed prior to entry into force of the Subsoil Code.

The reforms introduced by the Subsoil Code primarily affect the mining sector, while regulation of the oil and gas sector remains substantially unchanged. There are, however, a number of key changes concerning oil and gas contracts, which are summarised below.

#### *Previously Issued Licences and Awarded Contracts*

All previously issued licences, and awarded contracts, will remain in full force and effect after the entry into force of the Subsoil Code. The Subsoil Code also grants subsoil users (including those operating in the upstream oil and gas industry) the right to amend and restate their previously-awarded contracts to conform to the Subsoil Code and a model Subsoil Use Agreement to be adopted within the framework of the Subsoil Code.

The Subsoil Code lists provisions, which must apply to previously issued licences and awarded contracts, while a few provisions of the Subsoil Law, including the stability clause, will remain in effect.

#### *Priority Right to Acquire Minerals*

The State continues to enjoy a priority right over other parties to acquire minerals produced by a subsoil user on the same terms and conditions as are currently provided by the Subsoil Law.

#### *Rights to Requisition Minerals*

The Subsoil Code no longer provides for the Government’s right to requisition the minerals owned by a subsoil user. Pursuant to the Law № 413-IV “On State Property” dated 1 March 2011, as amended, the State is entitled to requisition any person or legal entity’s property in the public interest in the event of martial law or a state of emergency, subject to compensation being paid to the owner of such requisitioned property.

#### *The State’s Pre-Emptive Right and Strategic Deposits*

The notion of the State’s Pre-Emptive Right has been retained in the Subsoil Code, which continues to apply to deposits of strategic importance. However, the criteria for designating the deposits as strategically important have been amended. In respect of oil and gas deposits, these criteria are as follows:

- the deposit must contain in excess of 50 million tonnes of geological reserves of oil or in excess of 15 bcm of natural gas; or
- the deposit is located in the Kazakhstan sector of the Caspian sea.

The Government is expected to approve a new list of deposits of strategic importance in the coming months.

### *The Consent for Transfers of Subsoil Use Rights and the Objects*

Similar to the Subsoil Law, the Competent Authority's consent continues to be required in the event of a transfer of subsoil use rights and the Objects, including in the case of an initial public offering of shares and pledges of subsoil use rights and the Objects. At the same time, the Subsoil Code extends the list of exemptions when such consent or the waiver of the State's Pre-Emptive Right is not required, including, *inter alia*, transfers:

- to a subsidiary in which at least a 99% participatory interest is held by a subsoil user or a Controlling Legal Entity, provided they are not registered in a jurisdiction with preferential tax treatment;
- between legal entities where at least a 99% participatory interest in each entity is held directly or indirectly by the same person, provided that the acquirer of all or part of the subsoil use right and/or the Objects is not registered in a jurisdiction with preferential tax treatment;
- to a legal entity which owns at least a 99% participatory interest in a subsoil user or its Controlling Legal Entity, provided that they are not registered in a jurisdiction with preferential tax treatment;
- relating to an increase of share capital (including by way of an issue of additional shares), provided that the ownership proportions remain the same;
- relating to a buy-out by an issuer of its shares or other securities; or
- if, as a result of such a transfers an entity acquires less than 1% of the participatory interest in the subsoil user or the Controlling Legal Entity.

Any other transactions or related actions effected without the required consent of the Competent Authority are null and void *ab initio*.

### *National Subsoil Resources Management Programme*

The Subsoil Code provides that the Competent Authority is responsible for developing and approving a "National Subsoil Resources Management Programme", which must identify, *inter alia*, subsoil blocks to be provided to: (i) subsoil users for exploration and production (through tenders); and (ii) the national oil and gas company (*i.e.*, the Company) (through direct negotiations). Accordingly, subsoil users, other than the Company, may only obtain subsoil use rights with respect to blocks identified in the Programme through a tender process (unless such subsoil user qualifies as a strategic partner and forms a joint venture with the Company for joint exploration and production).

In a tender process, the majority of the key terms and conditions of the subsoil use will be determined unilaterally by the Competent Authority and will be set out in the auction notification. Such conditions will subsequently form the binding terms and conditions of the proposed subsoil contract. The notification will include details of the works to be performed, local content requirements, minimum social costs and expenses, local personnel education requirements and the period of exploration and production. Potential bidders compete by offering subscription bonuses, with the highest bid winning the tender.

Direct negotiations are available only to the Company (as the national oil and gas company) with respect to the blocks specifically reserved for it by the National Subsoil Resources Management Programme. The Company is also free to cooperate with strategic partners for joint exploration and production (and may still benefit from direct negotiations with respect to such blocks rather than having to participate in a tender). The criteria of a strategic partner must be developed and approved by the Company and are subject to review by the Competent Authority. The Company may also transfer its share in any Subsoil Use Agreement to a subsidiary in which it has at least a 50% interest.

The Company (as national oil and gas company) may also obtain a contract by way of direct negotiations with respect to blocks, which are not reserved for it by the National Subsoil Resources Management Programme, provided that no potential bidder has approached the Competent Authority with respect to such block. If the Company participates in a tender for a specific block, it is not entitled to any preferential treatment.

### *Type of Contracts*

Pursuant to the Subsoil Codes, exploration contracts (with no production component) are no longer permitted. Accordingly, only joint exploration and production contracts or production only contracts may be granted under the Subsoil Code.

### *Social Obligations*

Subsoil users will be obliged to make mandatory payments to finance the training of Kazakhstani personnel and research projects at a rate of 1% of the production costs incurred by the subsoil user after the second year of the production phase of the relevant contract. Within the same timeframe, the subsoil user will also have to pay an amount equivalent to 1% of its investment for social and economic development of the region.

### *Consents for Grant of Pledge over the Subsoil Use Rights and the Objects*

The Subsoil Code repeals the requirement to obtain the consent of the Competent Authority in order to grant a pledge over subsoil use rights. It is, however, mandatory to register such pledge with the Competent Authority. Registration is in accordance with Law № 254-I of the Republic of Kazakhstan “On Registration of Pledge of Movable Property” dated 30 June 1998. The enforcement of the right to subsoil use (or a share in the subsoil use right) is made in accordance with the procedures provided for by the laws of the Republic of Kazakhstan.

The Subsoil Code also lifted the restriction on the use of credit facilities secured by a pledge of subsoil use rights to be applied only for the purposes of subsoil use provided under the respective Subsoil Use Agreement or for further processing. This limitation is now applicable only in respect of hydrocarbon contracts, allowing subsoil users of other types of minerals to pledge their subsoil use rights for any purpose.

### *Grounds for Contract Termination*

The Subsoil Code amends the list of the grounds for unilateral termination of a subsoil contract by the Competent Authority. In particular, it provides that the Competent Authority may terminate a contract early based on, *inter alia*, a valid court decision prohibiting subsoil use activities. Moreover, the failure of a subsoil user to obtain positive opinions with respect to its project documents, may also result in the unilateral termination of the contract.

The following grounds of termination, existing under the 2010 Subsoil Law, are abolished in the Subsoil Code: refusal to present information or presentation of certain false information; delay in payment for social-economic development; and failure to comply with the requirements in respect of minimal amount of expenses and types of work.

### **Offshore and Certain Exploration Operations**

The 2010 Subsoil Law and the Subsoil Code provide that the Company must be given at least a 50% interest in offshore Subsoil Use Agreements, which condition is a mandatory condition of tenders for the subsoil use right to conduct offshore petroleum operations. On 31 March 2015, the Minister of Investments and Development and the Minister of Energy adopted rules, which provide some guidelines in relation to representation by the Company of State’s interests in contracts (including in respect of the offshore operations). These rules restate the “at least 50% interest” requirement of the 2010 Subsoil Law. At a later stage, the Company may reduce its interest in the offshore Subsoil Use Agreements, provided that it retains control over the subsoil users under the contract.

According to the 2010 Subsoil Law and the Subsoil Code, exploration under Subsoil Use Agreements in which the Company is the contractor should be financed by its strategic partner, unless otherwise provided for by a joint operation agreement.

In general, the Company’s subsoil use operations offshore are subject to specific, more strict regulation, as provided by the 2010 Subsoil Law (as set forth in Articles 93-99), the Subsoil Code (as set forth in Articles 154-159), the Environmental Code, the Water Code (№ 481, dated 9 July 2003, as amended) (the “**Water Code**”) and the Rules for conducting petroleum operations at sea, inland water bodies, in zones of extreme ecological situation and in specially protected natural areas (approved by Order № 130 of the Minister of Energy dated 23 February 2015). Pursuant to such laws and regulations, a number of specific approvals, consents and permits of the competent government authorities are required for, among other things, construction, dredging and blasting operations, extraction of minerals and other resources, laying of cables, pipelines and other communications, drilling and other work, as well as for construction of artificial islands, dams and structures. Although the Subsoil Code still requires special resources in case of oil spills, the requirement for a subsoil user to have its own resources is eliminated and the subsoil user shall employ a third party by way of concluding an agreements with the specialised organisation for the liquidation of oil spills at sea. The Subsoil Code retains the provision of the 2010 Subsoil Law that prohibits the construction and operation of oil reservoirs and storages offshore. Offshore subsoil operations must be conducted in a way not to interfere and not cause harm to sea drylands, fishing and other activities. A subsoil user conducting operations offshore must develop specific programmes for the prevention of marine pollution and include such programmes into the project documentation.

Under the law, the Government shall make a general decision as to the possibility to conduct petroleum operations at sea.

Petroleum operations in the Kazakhstan sector of the Caspian Sea may be limited to an approved depth. Furthermore, pursuant to the Law “On Specially Protected Natural Territories” (№ 175-III, dated 7 July 2006, as amended), the water area on the east of the northern part of the Caspian Sea, with the deltas of the Volga and the Ural rivers (within the territory of Kazakhstan), is a part of the State protected area, established, among other things, to conserve fish stocks and provide for natural reproduction of sturgeon and other valuable species. Within the established State protected area, subsoil use operations are subject to additional environmental requirements established by the Environmental Code and may be limited or prohibited.

### **Dispute Resolution**

The 2010 Subsoil Law states that disputes in connection with a Subsoil Use Agreement should firstly be resolved by negotiations, and secondly, if the dispute continues, the parties to a Subsoil Use Agreement shall be entitled to resolve such disputes in accordance with the laws of Kazakhstan and international treaties ratified by Kazakhstan. These requirements do not apply to PSAs, which provide for different dispute resolution rules which are case-specific.

Under the Subsoil Code, any disputes arising in connection with the exercise, change, or termination of the subsoil use right are subject to settlement pursuant to Kazakhstan law and international treaties ratified by Kazakhstan.

### **Social Contributions and Commitments**

Contracts for subsoil use are required to identify the subsoil user’s obligation to ensure equal conditions and fair pay for Kazakhstan personnel in comparison to foreign personnel, including personnel employed at the subcontractor level. A subsoil user is also obligated to give priority to hire Kazakhstan nationals to work and be trained.

In addition, Subsoil Use Agreements might contain other social commitments and contributions to be undertaken by subsoil users, including those related to infrastructure and social development of the respective regions, as well as commitments related to the required establishment of sanitary protection zones.

### **Regulation of Production Sharing Rights Related to Offshore Oil Operations**

#### ***The Law on Production Sharing Agreements***

The Law “On Production Sharing Agreements for Conducting Offshore Petroleum Operations” (№ 68-III, dated 8 July 2005) (the “**PSA Law**”), which, together with other subsoil legislation, was the applicable law for PSAs in Kazakhstan, was abolished by the introduction of the new Tax Code on 10 December 2008. The PSA Law ceased to have effect from 1 January 2009. There were no legislative acts introduced to replace the PSA Law. According to the 2010 Subsoil Law (as defined above) PSAs are not a specified form of permitted Subsoil Use Agreement. Therefore, the 2010 Subsoil Law does not permit the State to enter into new PSAs with contractors, though PSAs concluded before the enactment of the 2010 Subsoil Law remain effective.

The PSA Law was Kazakhstan’s only law dedicated exclusively to PSAs, and applied to oil operations in Kazakhstan’s sector of the Caspian Sea and the Aral Sea.

Under the PSA Law, the principal method of obtaining oil blocks was through open or closed tenders, unless otherwise prescribed in international treaties or contracts the Government is a party to. The Company was given the right of share participation as a contractor in the amount of not less than 50% in all new offshore PSAs concluded by the Government. In addition the PSAs could be concluded by way of direct negotiations between the Company, as an authorised agent of the Government, and the Competent Authority (at that time, MEMR), on the one side, and the investor, on the other side. Further, the PSA Law set forth the procedure and general terms of the PSA tenders. Basic tender terms included a requirement that offshore oil operators purchase goods and services from Kazakhstan producers, including but not limited to refining services, and obligations to develop technologies and infrastructure in Kazakhstan.

In accordance with the PSA Law, the PSAs could only be for exploration and production or production, with a general term of up to 35 years and 25 years, respectively. The PSA Law also referred to “unique” deposits in respect of which the term of the PSA might have been extended up to 45 years, however “unique” was not defined by the law.



Pursuant to the PSA Law, a contractor was allowed to, fully or partially, transfer its rights and obligations under the PSA in the manner generally provided in the Petroleum Law, which required prior Competent Authority's approval (at that time, MEMR). While the PSA Law did not contain the State's Pre-Emptive Right to acquire any interest in an existing PSA from a selling contractor, the State could execute the State's Pre-Emptive Right in accordance with the Subsoil Law.

### **Trunk Pipeline**

The Law "On Trunk Pipeline" (№ 20-V dated 22 June 2012, as amended) (the "**Trunk Pipeline Law**") sets out a unified legislative basis for the construction, ownership, and operation of trunk pipelines, as well as the State's control over trunk pipelines. In particular, the Trunk Pipeline Law provides that (i) a trunk pipeline, (ii) shares in an entity that owns a trunk pipeline, and (iii) shares in an entity that may directly and/or indirectly determine and/or influence decisions adopted by an owner of a trunk pipeline constitute "strategic assets".

Pursuant to the Trunk Pipeline Law, and the Law "On State Property" (№ 413-IV dated 1 March 2011 as amended) (the "**State Property Law**"), the State has a priority right to acquire (i) "strategic assets" that are being alienated; and (ii) a controlling interest (of not less than 51%) in any new trunk pipeline project. The State may waive its priority right to acquire strategic assets and interest in a new trunk pipeline project or subscribe for less than a 51% interest in a new trunk pipeline project. The Trunk Pipeline Law does not envisage a priority right of the State in respect of an expansion of an existing trunk pipeline.

In addition, the Trunk Pipeline Law provides that, for trunk pipelines in which the State, a national management holding company, or a national company directly or indirectly owns more than a 50% interest, operator services must be provided by the national operator, unless otherwise agreed by the Government. Pursuant to Government Resolution № 1273 dated 8 October 2012, KTO, the Company's subsidiary, is determined as the trunk pipeline national operator and now performs all functions and exercises all rights of the national operator as provided by the Trunk Pipeline Law, Government Resolution № 1273 and its constitutive documents.

The Trunk Pipeline Law (as well as legislation regulating natural monopolies) provides for equal rights of access to trunk pipeline services for all shippers if there is free throughput capacity, subject to certain statutory limitations. If there is limited throughput pipeline capacity, oil and oil product transportation services must be rendered in the priority established by the Trunk Pipeline Law, where first priority is given to shippers supplying oil to domestic refineries. The Trunk Pipeline Law also provides for the possibility of swap operations (*i.e.*, swaps of products by one shipper for the products of another shipper) for the purposes of supplying oil to domestic refineries and gas to the domestic market or outside Kazakhstan, upon written consent of the pipeline owner (or other person legally holding rights to the pipeline), the Competent Authority, and the relevant swapping entities.

The Trunk Pipeline Law defines a trunk pipeline as an integrated production and technological facilities complex and includes an obligation to ensure the safe transportation of products. Pursuant to the Trunk Pipeline Law, the owner of a trunk pipeline must perform environmental rehabilitation procedures upon the removal of a trunk pipeline from operation. The costs of complying with such a requirement are, at present, unknown.

### **Gas and Gas Supply**

The Law "On Gas and Gas Supply" (№ 532-IV, dated 9 January 2012, as amended) (the "**Gas Law**") consolidates and streamlines various legislation that previously regulated this area.

Pursuant to the Gas Law the State is the owner of associated gas produced in Kazakhstan (under both new production contracts and existing (including those entered into before the Gas Law entered into force) production contracts, unless they expressly specify that the subsoil user is the owner of the produced gas) and transferred to the State by producers (under the production contracts that provide that the subsoil user is the owner of associated gas).

The Gas Law establishes the State's priority right to purchase (through a national operator) on terms no less favourable than those offered by a third party: (i) any facility within an integrated sales gas supply system (*i.e.*, connecting pipelines, trunk pipelines, sales gas storage facilities and other facilities for production, transport, storage, sale and consumption of gas); (ii) a share in the right of common ownership over such facilities, and (iii) shares (or a participatory interest) in an entity which owns such facilities (*i.e.*, any oil producer that owns gas processing facilities or connecting pipelines for sales of gas). Such priority right of the State does not extend to: (a) transfers (sales) of gas-filling compressor stations and gas-consuming systems of industrial consumers; (b) sales of shares that are traded on the organized security markets; (c) transfers of the facilities and the shares between entities in which not less than 99% of shares is owned directly or indirectly by the same person or the same owner of the facility within the integrated sales gas supply system; and (d) transfers as a result of which the transferee (or acquirer) receives directly or indirectly the right to dispose of less than

0.1% of shares (or participation interest) in a legal entity, which owns an object of the integrated sales gas supply system. The State may exercise such priority right on terms no less favourable than those offered by a third party in the manner and according to procedures provided by the Gas Law and the State Property Law.

In addition, the Gas Law provides for the State's pre-emptive right to buy (through the national operator) natural and purified gas at a price approved by the Competent Authority and determined pursuant to formulas provided in Government Resolution № 121, dated 13 November 2014 (as amended). The price of natural and purified gas includes production costs, processing costs, transportation costs and a maximum profit margin. If the State waives its pre-emptive right to buy gas, the seller may sell the gas to a third party.

By Resolution № 914 of the Government of the Republic of Kazakhstan dated 5 July 2012, KTG, the Company's subsidiary, has been appointed as the national operator in the sphere of gas and gas supply. Accordingly, KTG has been given a priority right to purchase (on behalf of the State) raw and commercial gas produced in Kazakhstan at a regulated price, which it will then sell in the domestic market. KTG, as the national operator, exercises its other rights and functions stipulated by the Gas Law.

In addition to the matters described above, the Gas Law regulates the general terms and conditions of sales of commercial, liquefied petroleum and liquefied natural gas (based on the approved model contracts), matters related to wholesale and retail sales of gas in the domestic market, as well as matters related to transportation and storage of gas.

### **Licensing of Production, Refining, Pipeline Transportation, Storage and Subsoil Services**

In May 2014, the Parliament adopted the Law "On Permits and Notifications" (№ 202-V, dated 16 May 2014, as amended) (the "**Permits and Notifications Law**"), which consolidates and streamlines various regulations in relation to State licences, permits, consents, and other State approvals.

The Permits and Notifications Law provides that production of oil and gas, operation of oil refining, oil and gas pipelines and subsoil services (such as drilling of oil and gas wells and other related services) are licenced activities and such licences are not transferable from one person (licensee) (in respect of certain facilities) to another.

These licences are granted for an unlimited period of time by the relevant Competent Authority after submission of the required documentation and payment of a fee. A licence can be suspended or terminated in case a licensee fails to comply with qualification requirements, including but not limited to lack of qualified personnel or proper equipment.

If a legal entity conducts activities without the relevant licence, as required by the Licensing Law, such entity and its managers are subject to administrative and criminal liability.

### **The Competent Authority and Other Regulatory Authorities**

#### ***General***

The State plays a role in four areas of subsoil management. Firstly, the Government is responsible, among other things, for organising and managing State-owned reserves, imposing restrictions on subsoil use for the purposes of national security, environmental security and the protection of life and health of the population, defining the procedures for the conclusion of contracts, appointing the Competent Authority, regulating oil and gas export by imposing customs, protection, antidumping and compensation duties and quotes, establishing quotes for transportation of oil by various transport, appointing the Interdepartmental Commission (which, with effect from 29 June 2018 and the entry into force of the Subsoil Code, shall be known as the Expert Committee) members to exercise the State's Pre-Emptive Right, and approving a number of normative legal acts in the sphere of oil and gas. Secondly, the State executes, implements and monitors Subsoil Use Agreements through the Competent Authority, which has the power to execute and implement oil and gas contracts, and through a number of other Government agencies. Thirdly, the State's Pre-Emptive Right is exercised through Samruk-Kazyna, the Company, and, until 29 June 2018, through authorised Government agencies (if needed). Finally, local executive authorities (known as *akimats*) have responsibility for, among other things, granting land to subsoil users. Pursuant to the Subsoil Code, however, akimats will no longer supervise the protection of the land and participate in negotiations with subsoil users for environmental and social protection.

In addition to regulation relating to subsoil management, there are a number of regulatory authorities that regulate other aspects of hydrocarbon extraction, transportation and refining.

Under the Old Subsoil Law, the Company, in its status as a "national company", worked with the Competent Authority, among other things, to develop State policies in the oil and gas industry and in the provision of efficient and rational

development of oil and gas resources of Kazakhstan. The former regulatory functions of the Company in the oil and gas sector has been fully transferred to the Competent Authority and other Government authorities.

According to the 2010 Subsoil Law, the Company should:

- participate in the implementation of the unified State's policy in the area of subsoil use;
- represent the State in Subsoil Use Agreements providing for the Company to have a participatory interest in such Subsoil Use Agreements in accordance with the procedure established by the Competent Authority in the field of industrial innovation, together with the Competent Authority in the oil and gas field, and within the authority set forth in such Subsoil Use Agreements;
- conduct subsoil operations together with tender winners by means of a participatory interest in Subsoil Use Agreements, pursuant to a decision of the Competent Authority;
- conduct subsoil operations in subsoil areas allocated to it on the basis of direct negotiations;
- participate in international and domestic subsoil operations and hydrocarbons transportation projects of Kazakhstan;
- participate in the preparation of annual reports on Subsoil Use Agreement implementation to the President of Kazakhstan and the Government;
- conduct corporate management and monitoring of exploration, development, production, processing, and marketing of minerals as well as transportation of hydrocarbons and design, construction and operation of oil and gas pipelines and oil and gas field infrastructure; and
- in instances when the State makes a decision to exercise its Pre-Emptive Right, conduct negotiations and enter into contracts with the seller (or transferor) for acquisition of the alienated subsoil use right or the Object.

The Subsoil Code does not explicitly provide a list of Company's functions (as set out in the 2010 Subsoil Law). It is, however, implied that the Company will continue to perform most of the activities described in the 2010 Subsoil Law, with a few functions being transferred to authorised bodies within the Competent Authority

### ***The 2014 Government Reorganisation***

On 6 August 2014, President Nazarbayev, in an attempt to optimise the structure of ministries and make the Government more compact and more effective, declared his decision to reorganise the Government. The 17 ministries and 9 Government agencies functioning previously have been reduced to 12.

Pursuant to Presidential Decree № 875 dated 6 August 2014 "On the Reform of the Public Administration System in the Republic of Kazakhstan", the MOG was transformed into the Ministry of Energy, taking up some of the functions of the MINT (which became the MID) and the MEMR, which was dissolved.

Thus, the Ministry of Energy is now responsible not only for the oil and gas sector, but also for the electric and nuclear power spheres, the use of renewable energy sources, domestic solid waste utilisation, environmental protection and supervision, control and preservation of natural resources.

### ***The Ministry of Energy***

Following the reorganisation of the Government, the Ministry of Energy succeeded the MOG as the Competent Authority for the oil and gas sphere and the MEWR for the environmental control sphere. The Ministry of Energy acts in the capacity of the oil and gas Competent Authority, in respect of, among other things, oil and gas refineries, hydrocarbons transportation and operation of trunk pipelines.

According to the 2010 Subsoil Law, the Subsoil Code and other effective legislation, the Ministry of Energy, as a successor of the MOG, is responsible for, among other things:

- implementing the State's policy in oil and gas, petrochemical and hydrocarbons transportation industries;

- representing the State's interests in PSAs;
- organising tenders and auctions for grants of subsoil use rights for oil and gas exploration and production, preparing and approving lists of blocks for tenders and auctions;
- executing and registering oil and gas contracts;
- preparing and approving model contracts;
- approving working programmes related to oil and gas contracts;
- monitoring compliance with the terms of oil and gas contracts;
- granting consents for the transfer of subsoil use rights and the Objects and registration of transactions involving pledges of subsoil use rights, as applicable to oil and gas projects;
- suspending and terminating Subsoil Use Agreements in oil and gas in accordance with the procedures set forth in the 2010 Subsoil Law and Subsoil Code;
- determining the amounts of oil and gas to be supplied by subsoil users to the domestic market;
- monitoring compliance of oil and gas subsoil users with requirements to purchase certain amounts of goods, work and services from local providers;
- approving gas utilisation programmes; and
- issuing permits for using money in the liquidation fund.

#### ***Other Regulatory Authorities***

Other major government authorities which regulate aspects of hydrocarbon extraction, operations in oil and gas transportation, refining and sales in Kazakhstan include:

- MID, which is the successor of functions of MINT and the competent Government authority for subsoil users who carry out exploration and production activities in mining areas (except for the commonly occurring minerals), contains the following committees within its structure:
  - the Committee for Geology and Subsoil Use which, among other functions and authorities, issues geological and mining allotments;
  - the Committee for Technical Regulation and Metrology which supervises compliance of oil and gas equipment with Kazakhstan quality and safety standards;
  - the Committee for Industrial Development and Industrial Safety, which among other things supervises health and safety matters in mining operations (while the Ministry of Emergency Situations has been dissolved) and is involved in granting permits for export of geological information;
- various Government authorities responsible for the approval of construction projects and the use of water and land resources, including the local executive authorities;
- the Ministry of Labour and Social Protection of the Population is responsible for investigating labour disputes and complaints from individual employees and monitors compliance with the obligations of subsoil users to give preference in hiring, including to employ a certain minimum percentage of Kazakhstan nationals, and issues work permits for foreign workers;
- the Natural Monopolies Committee, which is responsible for the regulation of tariffs for oil and gas transportation and prices related to sales of gas;

- the Ministry of Finance, the committees of which are responsible, among other things, for tax matters and compliance with customs regulations (including the regulation of export from, import to and transportation in the territories of the Eurasian Customs Union); and
- territorial departments of the Ministry of Justice and other regional and municipal regulatory authorities, which are responsible, among other things, for registering legal entities and non-commercial associations, as well as properties, pledges and mortgages.

The Company and its subsidiaries' shareholder registers are maintained by Integrated Securities Registrar JSC which is a quasi-sovereign institution owned and controlled by the National Bank of Kazakhstan and which has an exclusive right to maintain securities registrars of Kazakhstan joint stock companies and certain limited liability partnerships (upon a voluntary decision of their participants).

## **Environmental Compliance**

The Company is subject to a variety of Kazakhstan's environmental laws, regulations and requirements that govern air emissions, water use and disposal, waste management, impacts on wildlife, as well as land use and reclamation. The Environmental Code (dated 9 January 2007, № 212-III, as amended) (the "**Environmental Code**") governs the activities of Kazakhstan subsoil users.

The Environmental Code further sets forth specific requirements in relation to offshore operations in the Caspian Sea, which are stricter than the general requirements applicable to onshore subsoil operations.

Subsoil Use Agreements typically impose environmental obligations in addition to that required by the law. The penalties for failing to comply with these obligations can be substantial, including fines or even suspension or termination of the Subsoil Use Agreement.

Under Kazakhstan law, companies are obligated to obtain permits (as described below) for the contamination of the environment and must observe all requirements set out in such permits.

## **Environmental Permits**

The concept of an environmental permit (the "**EP**") was developed as a means for the Government to regulate pollution. An EP is a special permit that grants a subsoil user a temporary right to emit or disperse emissions into the atmosphere and the discharge of waste substances into surface and underground waters. EPs contain the conditions governing the user's impact on the environment. The obligation to obtain an EP arises not only as a matter of law, but also under Subsoil Use Agreements. Companies whose operations impact the environment are required to obtain an EP. Depending on the quantity of pollutants emitted into the environment, an EP is to be issued for up to ten years or until the change in technology or the terms and conditions of subsoil use either by regional executive authorities or by the Competent Authority for environmental protection, which, following the reorganisation of the Government, is the Ministry of Energy. Fees for pollution of the environment are established by the Tax Code of Kazakhstan and may be increased (within certain limits) by local representative bodies (*Maslikhat*). An EP shall not exempt a subsoil user from liability to pay compensation for damage to the environment caused by its activities, or exempt the subsoil user or its officers from administrative or criminal liability.

In March 2009, the President of Kazakhstan signed the law on the ratification of the Kyoto Protocol. Ratification of the Kyoto Protocol, which is intended to limit or discourage emissions of greenhouse gases such as carbon dioxide, is expected to have an impact on environmental regulation in Kazakhstan. The effect of such ratification in other countries is still unclear; accordingly, potential compliance costs associated with the Kyoto Protocol are unknown.

Following the ratification of the Kyoto Protocol, the Environmental Code was amended to set out a framework for climate change control in Kazakhstan, which came into force on 1 January 2013. This framework included obtaining quotas for greenhouse gas emissions from legal entities emitting more than 20,000 tonnes of carbon dioxide in a year, quota trading and the development of the national quota allocation plan. However, in response to industry complaints on the imperfections of the legal mechanism put in place for the allocation of quotas and trading, and difficulties with adherence to such quotas, in April 2016, Kazakhstan suspended the application of a number of provisions of the Environmental Code related to greenhouse gas emissions until 1 January 2018. The application of the national allocation plan for 2016-2020 and the quotas distributed among the companies were also suspended until 1 January 2018.

On 27 December 2017, the Government approved the National Plan for the Allocation of Quotas in respect of Greenhouse Gases Emissions for 2018-2020, which came into effect on 1 January 2018. This Plan replaced the national allocation

plan for 2016-2020. The National Plan for the Allocation of Quotas sets the total volume of quotas for greenhouse gas emissions in the amount of 485909138 units for 129 companies.

In addition to the Kyoto Protocol, in November 2016, Kazakhstan ratified the Paris Agreement under the United Nations Framework Convention on Climate Change (the “**Paris Agreement**”).

It is anticipated that Kazakhstan will further re-consider its greenhouse gas regulation. The potential effect that may arise therefrom is still unclear. Accordingly, potential compliance costs associated with any amendment to greenhouse gas regulation are unknown and may be significant.

### ***Water Permits***

The Water Code aims to implement governmental policy in relation to the utilisation and protection of water resources. The Water Code sets out obligations for the use of water and discharge of certain materials into the water, on the basis of Water Use Permits (the “**WUP**”). WUP can be withdrawn if the terms as specified in the relevant WUP are breached. Such terms include monitoring the quality of undergrounds water, submitting statistical reports and monitoring reports, complying with requirements relating to water pollution during mining operations and regular checking of equipment. If any circumstances relating to its water use change a WUP holder is obliged to agree to such changes with the relevant government agencies. The term of a WUP may be extended subject to compliance with requirements specified within the WUP.

### ***Recordkeeping***

Under the 2010 Subsoil Law, the Subsoil Code-and Kazakhstan environmental legislation, a subsoil user is required to keep an adequate record of extracted minerals and reserves, including processing by-products and residual waste. The State monitors the records of extracted minerals and reserves. A subsoil user is also required to provide geological reports on its activities in the contract territory relating to exploration and use of the subsoil.

### ***Enforcement***

Article 116 of the Environmental Code specifies which authorised bodies are responsible for monitoring environmental compliance and enforcing environmental requirements. These officials include the Chief State Ecological Inspector, the Deputy Chief State Ecological Inspector and other regional officials who have the authority to supervise environmental compliance and initiate judicial proceedings.

Article 117 of the Environmental Code authorises the relevant Government officials, in their enforcement of environmental protection measures, to, *inter alia*:

- inspect facilities and take measurements and samples for analysis;
- request and receive documentation, results of analysis and other materials;
- initiate procedures relating to the suspension and annulment of environmental and other permits in the event of violation of the terms of such permits and until June 2018 initiate procedures relating to the (i) suspension of licences; (ii) termination of contracts for the use and taking of natural resources; and (iii) suspension and annulment of environmental and other permits in the event of violation of the terms of such permits;
- issue orders for individuals and legal entities to eliminate violations of Kazakhstan’s environmental laws;
- file claims with courts with respect to violations of Kazakhstan law; and
- until June 2018, suggest the Competent Authority terminates Subsoil Use Agreements in certain circumstances.

### ***Environmental and Other Mandatory Insurance***

Kazakhstan law establishes a number of mandatory insurances to be obtained by any entity conducting certain types of activities.

#### ***Environmental Insurance***

Pursuant to the Law “On Mandatory Environmental Insurance” dated 13 December 2005 № 93-III, any entity carrying out environmentally hazardous activities should insure against the risks associated with such respective activities. An agreement of mandatory environmental insurance should cover damages to life, health, property of third parties and the environment caused as a result of an environmentally hazardous activity and other activities (except for payments for moral damage, loss of profit and payment of penalty interest).

According to Clause 3 of the List of Environmentally Hazardous Businesses and Other Activities, approved by Order № 27 of the Minister of Energy, dated 21 January 2015, environmentally hazardous activities include: (i) commercial production of oil and gas; (ii) storage of oil, oil products and chemicals; (iii) oil refineries’ activities (other than the production of lubricants from crude oil); and (iv) the operation of oil and gas pipelines.

A subsoil user cannot carry out its activities without obtaining environmental insurance.

Other lines of mandatory insurance, which are required by Kazakhstan law and applicable to the Company’s activities, are as follows:

#### *Insurance of Civil Liability of Danger Units Owners*

According to the Law “On Civilian Protection” (№ 188-V, dated 11 April 2014, as amended) (the “**Civilian Protection Law**”) and the Law “On Mandatory Insurance of Civil Liability of Owners of Units Associated with Danger of Damage to Third Parties” (№ 580-II, dated 7 July 2004, as amended), companies must insure against risks associated with the functioning of their hazardous manufacturing units. A hazardous manufacturing unit is a unit that produces, uses, processes, generates, stores, transposes or destroys at least one of the following substances: inflammable substances, explosives, fuels, oxidizing agents, toxic agents, highly toxic substances and other hazardous substances according to the laws; or a unit that carries out mining, geological prospecting, drilling and explosive works, production of natural resources and processing of minerals in underground conditions.

#### *Insurance of the Employees against Accidents at Work*

According to the Law “On Mandatory Insurance of an Employee against Accidents when Carrying Out Employee’s Labour Duties” (№ 30-III, dated 7 February 2005, as amended), since 1 July 2005 all employers are obliged to insure employees against accidents when carrying out their employment duties.

#### *Insurance of the Civil Liability of Transport Vehicles Owners*

According to the Law “On Mandatory Insurance of the Civil Liability of Transport Vehicle Owners” (№ 446-II, dated 1 July 2003, as amended), civil liability of owners of, *inter alia*, cars, trucks, buses, minibuses, and transport vehicles, motor-transport and trailers (semi-trailers) are subject to mandatory insurance requirements, and any use of such vehicles without insurance is prohibited.

#### *Statute of Limitations on Proceedings*

The statute of limitations for bringing civil proceedings for breach of environmental requirements is governed by the general statute of limitation provisions under Article 178 of the Civil Code which provides for a three-year limitation period. This limitation does not apply to regulatory proceedings, criminal or administrative prosecutions in connection with breaches of environmental requirements, which are subject to separate limitation periods.

#### **Health and Safety Compliance**

The Company’s activities are subject to laws and regulations of Kazakhstan relating to safety and health matters, including industry specific health and safety requirements, and are regulated by various government authorities, including the Ministry of Labour and Social Protection of the Population. Such laws and normative acts include the Sanitary Rules on “Sanitary and Epidemiological Requirements to Technological and Axillary Facilities and Installations Carrying Out Oil Operations” approved by Order № 236 of the Minister of National Economy of the Republic of Kazakhstan, dated 20 March 2015, as amended, and other normative acts setting out requirements for industry safety in the oil and gas industry. The laws and regulations require an employer to provide its employees with properly functioning and safe equipment, to train its employees on health and safety requirements, to adopt corporate health and safety regulations, to provide special uniform and shoe wear, special nutrition, to perform periodic medical examinations of its employees, to obtain periodic third party attestation for equipment and worksites, to provide adequate insurance to its employees, to maintain third party liability insurance and to comply with fire safety, sanitary and hygienic regulations.

## **Price Regulation**

The Government can regulate prices with respect to Company members that are Kazakhstan companies if such companies have the status of a natural monopoly or hold a dominant position in the relevant market. KTO and KTG (each through their respective subsidiaries), each of which is classified as a natural monopoly, are subject to price regulation by the Natural Monopolies Committee. Such price regulation applies to domestic market only and does not apply to oil and gas transit and/or export transportation tariffs (set out in accordance with respective international treaties and/or transportation agreements).

The Law “On State Regulation of Production and Circulation of Certain Types of Oil Products” (№ 463-IV, dated 20 July 2011) empowers the State to regulate marginal retail prices for oil products. The Ministry of Energy is the government body authorized to determine the types of regulated oil products and their respective marginal retail prices. The applicable laws do not provide for government regulation of oil products’ wholesale prices.

The 2014 EEU Treaty provides that a programme for the creation of common oil and oil products market should be approved by 1 January 2018 with the aim of developing common transportation access rules and common trade rules by 2023. The discussions are, however, still in process, and it is not clear what additional effect, if any, EEU rules would have on Company’s revenues from the sale of oil products.

## **Kazakhstan-based Goods and Services**

The Government is promoting the development of related domestic industries and has adopted new policies in the oil and gas sector to accomplish this goal.

An example of these policies is the greater emphasis on the use of Kazakhstan based goods and services providers. Pursuant to this policy, subsoil users are required to use equipment, materials and products manufactured in Kazakhstan and to retain Kazakhstan producers for the provisions of works and services, provided they meet the necessary standards and requirements. Furthermore, subsoil users are required to give preference to Kazakhstan personnel while conducting subsoil use operations. Investors are also frequently required to contribute certain amounts of funds to social projects and benefits.

## **S-K Rules**

Pursuant to the Sovereign Wealth Fund Law, the Company is not subject to the general State procurement rules (established by the State Procurement Law) and conducts its procurements in accordance with the S-K Rules.

The S-K Rules are generally similar to the State procurement rules and provide for mandatory procedures for the procurement of goods and services by Samruk-Kazyna and companies in which Samruk-Kazyna has a 50% or more direct or indirect ownership. The S-K Rules require such companies to conduct formal public tenders in order to procure most types of goods and services, subject to certain limited exceptions. The procurement of certain limited categories of goods and services, as well as goods and services provided by companies that are subject to the anti-monopoly laws of Kazakhstan, are conducted by way of direct trades without involving the tendering procedures. Samruk-Kazyna exercises overall supervision over compliance with the S-K Rules.

The S-K Rules were amended in 2016 following Kazakhstan’s accession to the World Trade Organisation (the “WTO”) at the end of 2015. Specifically, Subsoil Use Agreements entered into before 1 January 2015 will continue to keep certain benefits for domestic suppliers during the transition period until 2021 after which date such benefits are expected to be eliminated. Contracts entered into after 1 January 2015 are not expected to provide for such benefits. Members of the Group that are not subsoil users may no longer apply local content benefits previously available under the S-K Rules. However, the S-K Rules do not apply to long-term contracts entered into before the 2016 amendments to the S-K Rules. Also, the S-K Rules maintain the previously existing benefits for intra-group sales unchanged. Moreover, further amendments were introduced in 2017. These amendments mainly related to procedural requirements for e-procurement and banking guarantees. The Company does not expect the amendments to the S-K Rules in connection Kazakhstan’s accession to the WTO to materially affect its operations.

## **New Arbitration Law**

The Arbitration Law dated 8 April 2016 consolidated and replaced the Law “On Arbitration Courts” (№ 22, dated 28 December 2004, as amended) and the Law “On International Arbitration” (№ 23, dated 28 December 2004, as amended) for the purposes of outlining a unified approach for out-of-court dispute resolution mechanisms.



The introductory language to the Arbitration Law, as well as other provisions of this law, imply that the Arbitration Law should only apply where the matter involves dispute resolution in Kazakhstan (*i.e.*, in respect of arbitration bodies with a seat in Kazakhstan). In particular, the preamble to the Arbitration Law states that: *“This [l]aw regulates social relations arisen in the process of arbitration activity on the territory of the Republic of Kazakhstan as well as the procedure and terms of recognition and enforcement of arbitral awards in Kazakhstan...”* There are, however, certain novelties in the Arbitration Law which may have implications (as described below) in respect of the arbitration provisions contained in the Notes and the Trust Deed. In particular, the provisions of the Arbitration Law do not clearly differentiate between domestic and foreign arbitration. See *“Enforcement of Civil Liabilities”* for a description of the Arbitration Law. Given that the Arbitration Law has not been tested in practice, there can be no assurance that Kazakhstan courts would support the interpretation of the Arbitration Law set out in *“Enforcement of Civil Liabilities”* and that an award against the Company and/or KMG Finance in arbitral proceedings in London under English law would be enforced in Kazakhstan. See *“Risk Factors—Risk Factors Relating to the Notes—It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Company and its management.”*

### **Licensing of Subsoil Services, Storage and Pipeline Transportation**

In May 2014, the new Kazakhstan Law № 202-V dated 16 May 2014, as amended, “On Permits and Notifications” came into force (the **“Permits and Notifications Law”**). According to the Permits and Notifications Law, operations concerning the production of oil and gas and the operation of the main oil and gas pipelines are licenced activities. Subsoil services (such as the drilling of oil and gas wells and other related services) are also subject to licensing.

A licence is not transferable from an existing facility to another. It is granted for an unlimited period of time by the Competent Authority after submission of the required documentation confirming that the facility fulfils all applicable requirements and the payment of a fee.

A licence can be suspended or terminated in case a licensee fails to comply with qualification requirements, including but not limited to, a lack of qualified personnel or proper equipment.

If a legal entity conducts activities without the relevant licence, as required by the Permits and Notifications Law, such entity and its officers are subject to administrative and criminal liability.

### **Anti-monopoly Regulation**

The Natural Monopolies Committee is responsible for the supervision of competition matters, including those relating to the oil and gas industry. It regulates the competitive behaviour of legal entities that are not natural monopolies and supervises legal entities that hold dominant positions in a particular commodity market.

In accordance with Kazakhstan’s Entrepreneurial Code (the **“Entrepreneurial Code”**), a company is deemed to occupy a dominant position if its market share is equal to or exceeds a threshold of 35%, provided that all of the following circumstances are true in respect of such entity: (i) there is a possibility of such entity unilaterally determining prices and having a decisive influence on the general conditions of a product’s sale in the market; (ii) such possible decisive influence is for a specified duration; and (iii) if there are economic, technological, administrative or any other restrictions for others to access the market. Companies with a market share of 50% or more are considered to occupy a dominant position whether or not they fulfil the above criteria.

In addition, if not more than three entities in a relevant market hold an aggregate market share of 50% or more, or if not more than four entities in a relevant market hold an aggregate market share of 70% or more, each is deemed to hold a dominant market position, provided that such entities meet all of the following criteria: (i) the market share remains the same for a year or longer (or the term of a certain market existence); (ii) the product sold or purchased by such entity cannot be replaced with another product; and (iii) the information on the price for such product or the conditions of its sale is available to the general public. At the same time, if an entity holds a market share not exceeding 15% of the relevant market, such entity shall not be deemed to hold a dominant market position.

Market participants that intend to engage or have engaged in an economic concentration must obtain approval from the Natural Monopolies Committee or properly notify it of the engagement, depending on the type of concentration.

According to the Entrepreneurial Code, an economic concentration is:

- a reorganisation of a market participant through a merger or consolidation;

- the acquisition by a person (or a group of persons) of voting shares (or participation interests in charter capital or participatory shares) in a market participant where such person (or group of persons) gains the right to dispose of more than 50% of such shares (or participation interests in charter capital or participatory shares) if, prior to such acquisition, such person (or group of persons) did not possess shares (or participation interests in charter capital or participatory shares) in such market participant or possessed 50% or less of the voting shares (or participation interests in charter capital or participatory shares) in the charter capital of such market participant. This, however, does not apply to a new company set-up;
- the acquisition by a market participant (or a group of persons) of fixed production assets and/or intangible assets of another market participant into ownership, possession and use, including in payment (transfer) of charter capital if the book value of the property constituting the subject of the transaction (inter-related transactions) exceeds 10% of the book value of the fixed production assets and intangible assets of the market participant alienating or transferring the property;
- the acquisition by a market participant (including on the basis of a trust management agreement, joint operation agreement or agency agreement) of rights which allow such market participant to issue binding instructions to the other market participant for the conduct of its business activities or to perform the functions of its executive body; or
- the participation of the same individuals in the executive bodies, boards of directors, supervisory boards or other management bodies of two or more market participants, provided that such individuals determine the terms of business activities conducted by such market participants.

Either of the above transactions effected within one group of entities is not considered to be an economic concentration and as such does not require approval from or notification to the Natural Monopolies Committee. Approval by the Natural Monopolies Committee (for transaction(s) numbered (1) to (3) immediately above) or the notification to the Natural Monopolies Committee (for transactions numbered (4) and (5)) is required when the aggregate book value of assets of the reorganised market participants (or group of persons) or the acquirer (or group of persons) and the market participant whose voting shares (or participation interests in charter capital or participatory shares) are acquired, or their aggregate sales of goods in the most recent financial year exceed by ten times the monthly calculation index in effect in the year of filing an application for approval (notification).

In general, it is the responsibility of the purchaser, which acquires shares (participation interests, stocks), fixed production assets, intangible assets or respective rights, to obtain prior approval from the Natural Monopolies Committee.

A company which engages in an economic concentration without the applicable approval of or notification to the Natural Monopolies Committee in violation of the Entrepreneurial Code may be subject to administrative fines and penalties.

Economic concentration conducted in the absence of the Natural Monopolies Committee's consent that results in the creation or enhancement of a dominant or monopoly positions of a market participant (or a group of entities) and/or restriction of competition may be invalidated by a court on the basis of an action brought by the Natural Monopolies Committee.

In addition, state registration, re-registration of a market participant and rights to real estate in violation of the requirements of the Entrepreneurial Code discussed above may be invalidated and cancelled by a court on the basis of an action brought by the Natural Monopolies Committee.

## TAXATION

*The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisors as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.*

### **United States Federal Income Taxation**

*The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a holder thereof. This summary does not address the U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and additional or modified disclosure concerning certain U.S. federal income tax consequences relevant to such type of Note may be provided, as appropriate. This summary only applies to holders that acquire Notes as part of the initial distribution at their initial issue price and that hold the Notes as capital assets for U.S. federal income tax purposes. This overview does not discuss all aspects of U.S. federal income taxation that may be applicable to all members of a class of holders subject to special treatment under United States federal income taxation (except as may be specifically set forth below), such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax exempt organisations, dealers or traders in securities or currencies, persons that mark their securities to market, holders that will hold Notes through a partnership or other pass through entity, holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes, controlled foreign corporations, passive foreign investment companies, U.S. Holders (as defined below) that have a functional currency other than the U.S. Dollar, or certain expatriates and long-term residents of the United States. Moreover, this summary does not address the U.S. federal estate and gift tax, the "net investment income" tax imposed under Section 1411 of the Code or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not include any description of the tax laws of any non-U.S., U.S. State or local governments.*

*This summary is based on the Internal Revenue Code of 1986, as amended, (the "Code") existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein. Any special U.S. federal income tax considerations relevant to a particular issue of the Notes will be provided in a supplement to this Base Prospectus.*

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes who for U.S. federal income tax purposes is (i) a citizen or resident of the United States; (ii) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States or any State thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or any other entity or arrangement treated as a partnership) for U.S. federal income tax purposes holds Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor concerning the U.S. federal income tax consequences of the acquisition, ownership or disposition of Notes by the partnership.

**A Non-U.S. Holder is a beneficial owner of Notes that is neither a U.S. Holder nor a partnership (or any other entity treated as a partnership) for U.S. federal income tax purposes.**

***THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.***

## ***U.S. Holders***

### Classification of the Notes

The determination of whether an obligation represents debt, equity or some other instrument or interest is based on all the relevant facts and circumstances. There may be no statutory, judicial or administrative authority directly addressing the appropriate characterisation of the Notes, and no rulings have been or will be sought from the Internal Revenue Service (“**IRS**”) with respect to the appropriate characterisation of the Notes for U.S. federal income tax purposes. To the extent it is required to take a position, the Issuer intends to take the position that the Notes are characterised as debt for U.S. federal income tax purposes. It is possible that the IRS might contend that the Notes issued by the Issuer should be treated not as indebtedness of the Issuer but either as equity of the Issuer, or as indebtedness of the Company (if the Issuer is KMG Finance). Additional alternative characterisations may also be possible. Further possible characterisations, if applicable, may be discussed in any supplemental prospectus or series prospectus. Prospective purchasers of the Notes should consult their own tax advisers about the consequences in the event the Notes are treated as equity of the Issuer or indebtedness of the Company (if the Issuer is KMG Finance), or any other characterisation for U.S. federal income tax purposes and the consequences of acquiring, owning or disposing of Notes. The remainder of this discussion assumes that the Notes will be treated as debt for U.S. federal income tax purposes.

### New Legislation

Under recently enacted legislation, U.S. Holders that use an accrual method of accounting for tax purposes generally will be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements. The application of this rule thus may require the accrual of income earlier than would be the case under the general tax rules described below, although the precise application of this rule is unclear at this time. This rule generally will be effective for tax years beginning after 31 December 2017 or, for debt instruments issued with original issue discount, for tax years beginning after 31 December 2018. U.S. Holders that use an accrual method of accounting should consult with their tax advisers regarding the potential applicability of this legislation to their particular situation.

### Interest

Except as set forth below, interest paid on a Note, whether payable in U.S. Dollars or a currency, composite currency or basket of currencies other than U.S. Dollars (a “**foreign currency**”), including any additional amounts, will be includible in a U.S. Holder’s gross income as ordinary interest income at the time it is received or accrued, in accordance with the U.S. Holder’s usual method of accounting for U.S. federal income tax purposes. In addition, interest and original issue discount (“**OID**”), if any, accrued with respect to the Notes (as described below under “—*Original Issue Discount*”) on the Notes will generally be treated as income from sources outside the United States for U.S. federal income tax purposes. For purposes of calculating the U.S. Holder’s foreign tax credit limitation, interest on the Notes should generally constitute “passive category income” or, in the case of certain U.S. Holders, “general category income”. The U.S. federal income tax rules relating to foreign tax credits and limitations thereof are complex and may vary depending on the facts and circumstances of each U.S. Holder. Accordingly, U.S. Holders should consult their own tax advisers regarding the availability of a foreign tax credit for foreign taxes withheld under such U.S. Holder’s particular situation.

### Foreign Currency Denominated Qualified Stated Interest

Except as set forth below, if any payment of “qualified stated interest” (as defined below), including any additional amounts, is denominated in, or determined by reference to, a foreign currency (a “Foreign Currency Note”), the amount of income recognised by a U.S. Holder will be the U.S. Dollar value of the foreign currency, including the amount of any applicable withholding tax thereon, regardless of whether the foreign currency is converted into U.S. Dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. Dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. Dollar value of accrued interest income using the average rate of exchange for the accrual period (or, in the case of an accrual period that spans two taxable years of the U.S. Holder, the part of the period within each taxable year) or, at the U.S. Holder’s election, at the spot rate of exchange on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years of the U.S. Holder, the part of the period within each taxable year) or the spot rate on the date of receipt, if that date is within five days of the last day of the accrual period. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS first table year to the IRS. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise U.S. source foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date of payment is received differs from the rate applicable to an accrual of that interest, regardless of whether the payment is converted to U.S.

Dollars at such time. This foreign currency gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income received on the debt security.

### Original Issue Discount

U.S. Holders of Notes issued with OID, including zero coupon notes, with a term of over one year (an “**Original Issue Discount Note**”), will be subject to special tax accounting rules, as described in greater detail below. Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. Dollar are described under Foreign Currency Discount Notes below.

The following discussion does not address the application of the U.S. Treasury Regulations governing OID to, or address the U.S. federal income tax consequences of, an investment in Notes that are contingent payment debt instruments. In the event the Issuer issues contingent payment debt instruments, the relevant supplemental prospectus will describe certain U.S. federal income tax consequences thereof.

For U.S. federal income tax purposes, a Note (including a zero coupon note), other than a Note with a term of one year or less (a “**Short Term Note**”), will be treated as issued with OID if the excess of the Note’s stated redemption price at maturity over its issue price equals or exceeds a *de minimis* amount (0.25% of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of a Note that provides for payments other than qualified stated interest before maturity, its weighted average maturity)). The “issue price” of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, agent or wholesaler). The “stated redemption price at maturity” of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest”. The term “qualified stated interest” means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or a variable rate (in the circumstances described below under “—*Variable Rate Debt Instruments*”). Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice will be given if it is determined that a particular Note will bear interest that is not qualified stated interest. In the case of a Note issued with *de minimis* OID, a U.S. Holder of such Note will recognise capital gain with respect to any *de minimis* OID as stated principal payments on the Note are made. The amount of such gain with respect to each principal payment will equal the product of the total amount of the Note’s *de minimis* OID and a fraction, the numerator of which is the amount of the principal payment made and the denominator of which is the stated principal amount of the Note.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the “daily portions” of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note (“**accrued OID**”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “adjusted issue price” of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortisation of any acquisition or bond premium, as described below) and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will have to include in income increasingly greater amounts of OID in successive accrual periods.

Certain of the Notes may be redeemed prior to their maturity at the Issuer’s option and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the relevant Final Terms and should consult their own tax advisors with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the Notes.

In the case of an Original Issue Discount Note that is a Floating Rate Note (as described below under “*Variable Rate Debt Instruments*”), both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain

Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Note is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the relevant supplemental prospectus and should consult their own tax advisors regarding the U.S. federal income tax consequences of the holding and disposition of such Notes.

#### *Election to Treat all Interest as Original Issue Discount*

U.S. Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. This election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. U.S. Holders should consult their own tax advisors about this election.

#### *Acquisition Premium*

A U.S. Holder that purchases an Original Issue Discount Note for an amount that is greater than its adjusted issue price but less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, will be considered to have purchased the Original Issue Discount Note at an “acquisition premium”. If the U.S. Holder does not make the election described above under “*Election to Treat all Interest as Original Issue Discount*,” under the acquisition premium rules, the daily portions of OID which the U.S. Holder must include in its gross income with respect to such Original Issue Discount Note will be reduced by an amount equal to the daily portion of the OID for such day multiplied by the acquisition premium fraction. The numerator of the “acquisition premium fraction” is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the adjusted issue price of the Note, and the denominator is the sum of the daily portions of OID for such Note for all days after the date of purchase and ending on the stated maturity date (i.e., the total OID remaining on the Note).

#### *Variable Rate Debt Instruments*

Generally, a Note that provides for interest at a variable rate (a “**Floating Rate Note**”) will qualify as a “variable rate debt instrument” under U.S. Treasury Regulations governing the accrual of OID if: (a) its issue price does not exceed the total non-contingent principal payments due under the Floating Rate Note by more than an amount equal to the lesser of (i) 0.015 multiplied by the product of the total non-contingent principal payments and the number of complete years to maturity from the issue date or (ii) 15 percent of the total non-contingent principal payments; (b) it does not provide for stated interest other than stated interest that pays or compounds at least annually at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) each qualified floating rate or objective rate taken into account in stated interest that is in effect at any time during the term of the Note is set at a current value of that rate (i.e., the value of the rate on any day that is no earlier than three months prior to the first day on which the value is in effect and no later than one year following that first day).

A “qualified floating rate” is any variable rate where: (a) variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Floating Rate Notes are denominated; or (b) the rate is equal to such a rate multiplied by either a fixed multiple that is greater than 0.65 but not more than 1.35, or a fixed multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Floating Rate Notes together will constitute a single qualified floating rate. Two or more qualified floating rates will be presumed to meet the requirements of the previous sentence if the values of all rates on the issue date are within 25 basis points of each other. A variable rate is not a qualified floating rate if it is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are fixed throughout the term of the Note or are not reasonably expected to significantly affect the yield on the Note.

An “objective rate” is a rate that: (a) is not a qualified floating rate; and (b) is determined using a single fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of the issuer or a related party. Despite the foregoing, a variable rate of interest on Floating Rate Notes will not constitute an objective rate if it is reasonably expected that the average value of such rate during the first half of the Floating Rate Notes’ term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Floating Rate Notes’ term. A “qualified inverse floating rate,” is any objective rate where such rate is equal to a fixed rate minus a qualified floating rate, and the variations in the rate can reasonably be expected to inversely reflect

contemporaneous variations in the cost of newly borrowed funds in the currency in which the Floating Rate Notes are denominated.

Generally, if a Floating Rate Note provides for stated interest (payable unconditionally at least annually) at a fixed rate for an initial period of one year or less followed by a variable rate that is either a single qualified floating rate or a single objective rate, and the value of the variable rate on the Floating Rate Notes' issue date is intended to approximate the fixed rate, then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be. If the Notes pay interest at a single objective rate or a single qualified floating rate, the amount of OID, if any, is determined by using a fixed rate equal to, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date, of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate, a fixed rate that reflects the yield reasonably expected for such Floating Rate Note.

If a Floating Rate Note that is a variable rate debt instrument does not provide for stated interest at a single qualified floating rate or single objective rate, or at a single fixed rate (other than at a single fixed rate for an initial period), the amount of qualified stated interest and the amount and accrual of OID on the Note are generally determined by: (a) determining a fixed rate substitute for each variable rate provided under the Floating Rate Note (generally, the value of each variable rate as of the issue date or, in the case of an objective rate that is not a qualified inverse floating rate, a rate that reflects the yield that is reasonably expected for the Note); (b) constructing the equivalent fixed rate debt instrument (using the fixed rate substitutes described above); (c) determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument (by applying the general OID rules as described above under "*Original Issue Discount*"); and (d) making the appropriate adjustment for actual variable rates during the applicable accrual period.

If a Floating Rate Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate and in addition provides for stated interest at a single fixed rate (other than a single fixed rate for an initial period), a U.S. Holder generally must determine the amount of interest and OID accruals by using the method described in the preceding paragraph with the modification that the Floating Rate Note is treated, for purposes of the first three steps of the determination, as if it provided for a qualified floating rate (or qualified inverse floating rate, if the Note provides for a qualified inverse floating rate) rather than the fixed rate. The qualified floating rate (or qualified inverse floating rate) replacing the fixed rate must be such that the fair market value of the Note as of the issue date would be approximately the same as the fair market value of an otherwise identical debt instrument that provides for a qualified floating rate (or qualified inverse floating rate) rather than a fixed rate.

A Floating Rate Note that does not qualify as a variable rate debt instrument will be treated as a contingent payment debt obligation. Certain consequences of the treatment of such a Note for U.S. federal income tax purposes will be more fully described in the relevant supplemental prospectus.

#### Short Term Notes

In the case of Short Term Notes, all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, U.S. Holders generally will be taxable on the discount in lieu of any stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short Term Note, unless the U.S. Holder elects to compute this discount using tax basis instead of issue price. Under the OID regulations, in general, individuals and certain other cash method U.S. Holders of a Short Term Note are not required to include accrued discount in their income currently unless the U.S. Holder elects to do so (but may be required to include any stated interest in income as it is received). U.S. Holders that report income for U.S. federal income tax purposes on the accrual method and certain other U.S. Holders are required to accrue discount on such Short Term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder that is not required, and does not elect, to include discount in income currently, any gain realised on the sale, exchange or retirement of the Short Term Note will generally be ordinary income to the extent of the discount accrued on a straight-line basis (unless an election is made to accrue the OID under the constant yield method) through the date of sale, exchange or retirement. In addition, a U.S. Holder that does not elect to include currently accrued discount in income may be required to defer deductions for a portion of the U.S. Holder's interest expense with respect to any indebtedness incurred or continued to purchase or carry such Notes.

#### Foreign Currency Discount Notes

OID for any accrual period on an Original Issue Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined for any accrual period in the foreign currency and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under "*Foreign Currency Denominated Interest*" above. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder will recognise foreign currency gain or loss (taxable as

ordinary income or loss) equal to the difference between the amount received (translated into U.S. Dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

#### Sale, Exchange or Retirement

A U.S. Holder's adjusted tax basis in a Note generally will be its U.S. Dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The U.S. Dollar cost of a Note purchased with a foreign currency generally will be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the U.S. Holder's adjusted tax basis of the Note. The amount realised does not include the amount attributable to accrued but unpaid interest or OID, which will be taxable as interest income to the extent not previously included in income. The amount realised on a sale, exchange or retirement for an amount in foreign currency will be the U.S. Dollar value of such amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, within the meaning of the applicable U.S. Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale.

Except with respect to (i) gains or losses attributable to changes in exchange rates (as described in the next paragraph), and (ii) gain on the disposition of a Short Term Note (see "*—Short Term Notes*"), gain or loss recognised on the sale, exchange or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held for more than one year at the time of such sale. The deductibility of capital losses is subject to limitation. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income or loss. Prospective investors should consult their tax advisors as to the foreign tax credit implications of such sale, exchange or retirement of Notes.

Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a Note that is attributable to changes in exchange rates will be treated as U.S. source ordinary income or loss; however, exchange gain or loss is taken into account only to the extent of total gain or loss realised on the transaction.

#### Sale, Exchange or Retirement of Foreign Currency

A U.S. Holder will have a tax basis in any foreign currency received as interest on a Note or on the sale, exchange or retirement of a Note equal to its U.S. Dollar value at the time such interest is received or at the time of such sale or retirement. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss realised by a U.S. Holder on a sale or other disposition of foreign currency (including its exchange for U.S. Dollars or its use to purchase Notes) generally will be ordinary income or loss.

#### Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.\$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amount for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty of up to U.S.\$10,000 in the case of a natural person and U.S.\$50,000 in all other cases may be imposed in any taxable year on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. U.S. Holders should consult their own tax advisors as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any foreign currency received as interest or as proceeds from the sale, exchange or retirement of the Notes.

#### *Foreign Asset Reporting*

Certain U.S. Holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial institutions). U.S.



Holder are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of the Notes.

### ***Non U.S. Holders***

Under U.S. federal income tax law currently in effect, subject to the discussion below under the caption “U.S. Backup Withholding Tax and Information Reporting,” payments of interest (including OID) on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Subject to the discussion below under the caption “U.S. Backup Withholding Tax and Information Reporting,” any gain realised by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

### ***U.S. Backup Withholding and Information Reporting***

A backup withholding and information reporting requirements apply to certain payments of principal of, and interest and accruals of OID on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of Notes that are U.S. persons. Information reporting generally will apply to payments of principal of, and interest and accruals of OID on, an obligation, and to proceeds from the sale or redemption of, an obligation made within the United States, or by a U.S. payor or U.S. middleman, to a holder (other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding on payments made within the United States, including payments of accrued OID, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a U.S. person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Note that is not a U.S. person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is currently 24%.

Backup withholding is not an additional tax. Holders generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder’s U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

### **Kazakhstan Taxation**

#### ***In Respect of Notes issued by KMG Finance***

##### Interest

Under Kazakhstan law as presently in effect, payments of principal or interest on the Notes by KMG Finance to an individual who is a tax non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, “**Non-Kazakhstan Holders**”) will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. Interest payable by KMG Finance to residents of Kazakhstan or to tax non-residents who maintain a permanent establishment in Kazakhstan (together, “**Kazakhstan Holders**”), other than to individuals, will be subject to Kazakhstan income tax unless the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE).

##### Gains

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income tax. Any gains derived by Kazakhstan Holders in relation to Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE) and sold through open trades on such stock exchange will not be subject to Kazakhstan income tax.

### Payments under the Guarantee

Payments by the Company to Non-Kazakhstan Holders under the Guarantee will be subject to withholding tax at a rate of 20%, unless reduced by an applicable double taxation treaty.

Non-Kazakhstan holders who are resident in countries, such as the United States or the United Kingdom, with which Kazakhstan has bilateral taxation treaties may be entitled to a reduced rate of withholding tax, subject to timely submission to the Company of the duly issued tax residency certificate from such country of residence.

Payments by the Company to Kazakhstan Holders, other than individuals, under the Guarantee will be subject to income tax at a rate of 20%. Payments to individual Kazakhstan Holders under the Guarantee will be subject to income tax at a rate of 10%.

Noteholders should consult their own tax advisors on the applicability of tax deductions and applicable tax rates to the payments under the Guarantee.

The Company will agree under its Guarantee in the Trust Deed to pay additional amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in Condition 14 (*Taxation*). Payments of interest by the Company under the Guarantee to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax.

### ***In Respect of Notes issued by KMG***

#### Interest

Payments of interest on the Notes issued by the Company to Non-Kazakhstan Holders will be subject to withholding tax of Kazakhstan at a rate of 15%, unless reduced by an applicable double taxation treaty. Payments of interest on the Notes to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time-to-time by the Kazakhstan Government (these countries currently include Liechtenstein, Nigeria, Malta, Aruba (being part of the Netherlands) and others) (and to Non-Kazakhstan Holders who failed to submit to the Company proper documentary evidence of its tax residency in a country which is not included into such list of countries with a favourable tax regime) will be subject to withholding of Kazakhstan tax at a rate of 20%, unless reduced by an applicable double taxation treaty.

Non-Kazakhstan holders who are resident in countries, such as the United States or the United Kingdom, with which Kazakhstan has bilateral taxation treaties may be entitled to a reduced rate of withholding tax, subject to timely submission to the Company of the duly issued tax residency certificate from such country of residence.

Payments of interest by the Company to Kazakhstan Holders, other than to individuals (who are exempt) and Kazakhstan investment funds and certain other entities, will be subject to Kazakhstan withholding tax at a rate of 15%.

The withholding tax on interest will not apply in either case if the Notes are, as at the date of accrual of interest, listed on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE).

The Company will agree under the terms and conditions of the Notes to pay additional amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in Condition 14 (*Taxation*).

#### Gains

Gains realised by Kazakhstan Holders as a result of the disposal, sale, exchange or transfer of the Notes will be included in the income of such Kazakhstan Holders. The net income of such Kazakhstan Holders will be subject to corporate income tax at a rate of 20% or individual income tax at a rate of 10%, as the case may be.

If on the date of sale, the Notes are listed on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE) and are sold through open trades on such stock exchange, any gains realized by Kazakhstan Holders are not subject to withholding tax in Kazakhstan.

Gains realised by Non-Kazakhstan Holders derived as a result of the disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15%, unless an applicable double taxation treaty provides for an exemption from capital gains tax. If the disposal of the Notes is made by a Non-Kazakhstan Holder registered in a country with a

favourable tax regime, as referred to above, gains derived from such disposal are subject to withholding tax in Kazakhstan at the rate of 20%, unless exempt by an applicable double taxation treaty.

Non-Kazakhstan holders who are residents of countries, such as the United States or the United Kingdom, with which Kazakhstan has bilateral double taxation treaties may be entitled to an exemption from withholding tax, subject to compliance with certain administrative procedures.

Gains realised by Non-Kazakhstan Holders in relation to Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE) or a foreign stock exchange and are sold through open trades on such stock exchanges, are not subject to withholding tax in Kazakhstan.

Gains made by a Kazakhstan or Non-Kazakhstan Holder on the sale of Notes otherwise than through open trades on the relevant such stock exchanges may be subject to Kazakhstan tax or withholding tax, respectively. In respect of the gains realised by Non-Kazakhstan Holders, a purchaser or the transferee of the Notes may be treated as a withholding agent and, therefore, required to withhold the capital gains tax from the seller and pay it in Kazakhstan. However, Kazakhstan tax legislation does not specify a mechanism for the collection of any such tax from the purchasers or transferees who are Non-Kazakhstan Holders or have no taxable presence in Kazakhstan otherwise. Any prospective purchasers or transferees of the Notes from Non-Kazakhstan Holders should consult their own tax advisors on the tax consequences of such purchase.

## **The Netherlands Taxation**

### ***General***

The following is a general summary of the Dutch tax consequences as at the date of this Base Prospectus in relation to payments made under Notes issued by KMG Finance and in relation to the acquisition, holding or disposal of Notes. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder of a Note or a prospective holder and in view of its general nature, it should be treated with corresponding caution. Holders should consult their tax advisers with regard to the tax consequences of investing in the Notes. Except as otherwise indicated, this summary only addresses the Netherlands tax legislation as in effect at the date of this Base Prospectus and as interpreted in published case law until this date.

This summary does not describe the Netherlands tax considerations for holders, who have a substantial interest (“*aanmerkelijk belang*”) in the Issuer. In general, a holder of a Note is considered to have a substantial interest in the Issuer, if he, alone or together with his partner (a statutorily defined term) or certain other related persons, directly or indirectly, has (i) an interest of 5% or more of the total issued capital of the Issuer or of 5% or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer.

### ***Withholding Tax***

All payments made by KMG Finance under Notes issued by it can be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, provided that none of the payments under the Notes will depend on or will be deemed to depend on the profits or distribution of the profits by KMG Finance or an affiliated party.

### ***Corporate Income Tax and Individual Income Tax***

#### **Residents of the Netherlands**

If the holder of a Note is a resident or deemed to be a resident of the Netherlands for Dutch corporate income tax purposes, income derived from Notes held by it and gains realised upon the disposal of Notes held by it are subject to Dutch corporate income tax (2018 rates of 20.0% on profits up to and including €200,000; 25.0% on profits in excess of €200,000).

If the holder of a Note is an individual, resident or deemed to be a resident of the Netherlands for Dutch income tax purposes, the income derived from Notes held by it and the gains realised upon the disposal or deemed disposal of Notes held by it are taxable at the progressive income tax rates (with a maximum of 52.0%), if:

- the holder has an enterprise or an interest in an enterprise, to which enterprise the Notes are attributable; or

- the holder is considered to perform activities with respect to the Notes that exceed regular asset management (“**normaal vermogensbeheer**”).

If both aforementioned conditions do not apply to the individual holder of a Note, such holder will be taxed annually on a notional income of 0.36% - 5.38% of the value of the Notes held by it at the beginning of the calendar year at a flat rate of 30.0%, regardless of whether any interest is received or any capital gains in respect of the Notes are actually realised. The individual holder of a Note will only be subject to the above notional income tax in so far as certain thresholds are exceeded.

#### Non-residents of the Netherlands

A holder of a Note who derives income from a Note or who realises a gain on the disposal or deemed disposal of a Note will not be subject to Dutch taxation on income or capital gains, provided that:

- such holder is neither resident nor deemed to be resident in the Netherlands; and
- such holder does not have an interest in an enterprise or deemed enterprise (statutorily defined term) which is, in whole or in part either effectively managed in the Netherlands or, carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise the Notes are attributable; and
- in the event the holder is an individual, such holder does not carry out any other activities in the Netherlands that exceed regular asset management; and
- such holder does not have an interest in an enterprise in the Netherlands other than by way of securities.

A holder of a Note will not become subject to taxation in the Netherlands by reason only of the execution, delivery or enforcement of the Notes or the performance by the relevant Issuer or, if applicable, KMG of its obligations under the Notes.

#### Gift, Estate or Inheritance Taxes

Dutch gift, estate or inheritance taxes will not be levied on the occasion of the acquisition of a Note by way of gift by, or on the death of, a holder of a Note, unless:

- the holder is, or is deemed to be, resident in the Netherlands; or
- in the case of a gift of a Note by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands.

For purposes of Dutch gift and inheritance tax, an individual who holds Dutch nationality will be deemed to be resident in the Netherlands, if he/she has been resident in the Netherlands at any time during the 10 years preceding the date of the gift or his/her death.

For purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in the Netherlands, if he/she has been resident in the Netherlands at any time during the twelve months preceding the date of the gift.

#### ***Other Taxes and Duties***

There is no Dutch registration tax, capital tax, stamp duty or any other similar tax or duty other than court fees and contributions for the registration with the Trade Register of the Chamber of Commerce, payable by a holder of a Note in the Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of the Netherlands) of the Notes or the performance of Issuer’s obligations under the Notes. There is no Dutch value added tax payable in respect of payments in consideration for the issue of the Notes, in respect of the payment of interest or principal under the Notes or the transfer of the Notes.

#### **The Proposed Financial Transaction Tax**

On 14 February 2013, the European Commission has published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transaction tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal is very broad in scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution and at least one party is established in a participating Member State. A financial institution may be, or may be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State, or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

### **Certain ERISA and Other Considerations**

The U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”) imposes certain requirements on “employee benefit plans” (as defined in ERISA) that are subject to Title I of ERISA, including entities whose underlying assets include the assets of such plans (collectively, “**ERISA Plans**”), and on those persons who are fiduciaries with respect to ERISA Plans. For example, Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) prohibit certain transactions involving the assets of an ERISA Plan and of other “plans” that are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, “**Plans**”), and certain persons (referred to as “parties in interest” under ERISA or “disqualified persons” under Section 4975 of the Code) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

Accordingly, each purchaser of Notes or any beneficial interest therein, and each transferee thereof, will be deemed to have represented and agreed that (i) it is not (and is not deemed for purposes of ERISA or Section 4975 to be), and will (throughout the period during which it holds Notes (or an interest therein)) not be (or be deemed for purposes of ERISA or Section 4975 to be), a Plan, or (ii) its purchase and holding of Notes do not and will not constitute or otherwise result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code.

Certain governmental plans, church plans, non-U.S. plans and other plans that are not subject to ERISA or Section 4975 of the Code may be subject to any federal, state, local or non-U.S. law (“**Similar Law**”) that is substantially similar to Section 406 of ERISA or Section 4975 of the Code. Each purchaser of Notes or any beneficial interest therein, and each transferee thereof, that is or may become any such plan is responsible for determining the extent, if any, to which the purchase and holding of Notes will constitute or otherwise result in a violation of Similar Law.

No information that the Issuer, the Company, KMG Finance, the Registrar, the Dealers or any entity or other person providing marketing services on their behalf, or any of their respective affiliates (collectively, the “**Issuer Parties**”) is providing shall be considered to be or is advice on which any Plan may rely for any investment decision. Plans need to make their own decisions, with whatever third-party advice they may wish to obtain, and are not authorized to rely on any information any Issuer Party is providing as advice that is a basis for their decisions. The Issuer Parties have not made and are not making a recommendation, have not provided and are not providing investment advice of any kind whatsoever (whether impartial or otherwise), and have not given and are not giving any advice in a fiduciary capacity, in connection with any Plan’s decision to purchase a Note.

Each Plan (including, without limitation, an individual retirement account), by its purchase of a Note, shall be deemed to have represented that it is (or is acting through) (i)(A) a bank or similar institution, an insurance carrier, a registered investment adviser or a registered broker-dealer, or (B) any independent fiduciary (but, with respect to an individual retirement account, not the owner of the account) that holds, or has under management or control, total assets of at least \$50 million; each of the foregoing as further described in 29 C.F.R. § 2510.3-21(c)(1)(i); (ii) an entity or other person that is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies; and (iii) an

independent fiduciary with respect to the purchase of Notes and is responsible for exercising independent judgment in evaluating such purchase.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN IMPLICATIONS UNDER ERISA, SECTION 4975 OF THE CODE AND SIMILAR LAW OF AN INVESTMENT IN THE NOTES AND DOES NOT PURPORT TO BE COMPLETE. PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN LEGAL, TAX, FINANCIAL AND OTHER ADVISORS PRIOR TO INVESTING IN THE NOTES TO REVIEW THESE IMPLICATIONS IN LIGHT OF SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

## OVERVIEW OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

### The Global Notes

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, one or more Rule 144A Global Notes deposited with a custodian for, and registered in the name of Cede & Co., as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—*Book Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the relevant Dealers (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all relevant Dealers have so certified (the “**distribution compliance period**”), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “*Transfer Restrictions*”. Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See “—*Book Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See “*Transfer Restrictions*”.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to the Rule 144A Global Note(s), as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under “*Transfer Restrictions*”.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “**Definitive Notes**”). The Notes are not issuable in bearer form.

### Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- **Payments.** Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.
- **Notices.** So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of the Notes provided that for so long as the Notes are listed on the Regulated Market of the London Stock Exchange and the rules of the Regulated Market of the London Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in London (which is expected to be the Financial Times).

- **Meetings.** The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.
- **Trustee's Powers.** In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.
- **Record Date.** Notwithstanding Condition 13, "Record Date" shall mean the Clearing System Business Day immediately prior to the due date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive, except 25 December and 1 January.
- **Cancellation.** Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.
- **Redemption at the Option of the Issuer.** Any Call Option provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.
- **Redemption at the Option of Noteholders.** Any Put Option provided for in the Conditions may be exercised by the holder of the Global Note (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Conditions substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent (except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Note with the Registrar or any Transfer Agent at its specified office.

## Exchange for Definitive Notes

### *Exchange*

Registration of title to Notes initially represented by a Rule 144A Global Note in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless such depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Rule 144A Global Note or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary and the Registrar has received a notice from the registered holder of a Rule 144A Global Note requesting an exchange of a specified amount of the Rule 144A Global Note for Definitive Notes.

Registration of title to Notes initially represented by a Regulation S Global Note in a name other than the nominee of the common depositary for Euroclear and Clearstream, Luxembourg will only be permitted (i) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, or (ii) following the failure to pay principal in respect of any Note at maturity or upon acceleration of any Note and the Registrar has received a notice from the registered holder (*i.e.* common depositary) of the relevant Regulation S Global Note requesting an exchange of the Regulation S Global Note for Definitive Notes.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.



“**Exchange Date**” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

### ***Delivery***

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Company (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer, the Guarantor (if any) and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “*Transfer Restrictions*”.

### ***Legends***

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under “*Transfer Restrictions*”, or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Company, KMG Finance and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Company or KMG Finance that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

### **Book Entry Procedures for the Global Notes**

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See “—*Book Entry Ownership — Settlement and Transfer of Interests in Notes held in the Clearing Systems*”.

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**”) and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

### ***DTC***

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through

electronic computerised book entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “—*Exchange for Definitive Notes*”, DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

### **Book Entry Ownership**

#### ***Euroclear and Clearstream, Luxembourg***

The Regulation S Global Notes representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

#### ***DTC***

The Rule 144A Global Notes representing Rule 144A Notes of any Series will have a CUSIP number, unless otherwise agreed, and will be deposited with a custodian for, and registered in the name of Cede & Co., as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

#### ***Relationship of Participants with Clearing Systems***

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the relevant Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The relevant Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depository by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The relevant Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the relevant Issuer or, if applicable, the Company in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the relevant Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of KMG Finance or the Company, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

#### ***Settlement and Transfer of Interests in Notes held in the Clearing Systems***

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the “**Beneficial Owner**”) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual beneficial owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time-to-time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

#### ***Trading Between Euroclear and/or Clearstream, Luxembourg Participants***

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

#### ***Trading Between DTC Participants***

Secondary market sales of book entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement system in same day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

#### ***Trading Between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser***

When book entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

#### ***Trading Between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser***

When book entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule

144A Global Note who will in turn deliver such book entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note, and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the relevant Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

### **Pre-issue Trades Settlement**

It is expected that the delivery of Notes will be made against payment therefor on the closing date thereof, which could be more than two business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within two business days (T+2), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until two days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisors.

## TRANSFER RESTRICTIONS

### Rule 144A Notes

Each purchaser of a beneficial interest in the Rule 144A Global Note, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a QIB that is also a QP, (b) not a broker dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) not a participant directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes of the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
- (2) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Note in a principal amount that is not less than U.S.\$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book entry depositaries.
- (3) It understands that Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred, except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs each of which is also a QP, each of which is purchasing not less than U.S.\$200,000 in principal amount of the Rule 144A Notes, or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (4) It understands that the relevant Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The relevant Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to any person who it reasonably believes is a U.S. person who is not a QIB and a QP.
- (5) It understands that its purchase and holding of Rule 144A Notes constitute a representation and agreement by it that (i) it is not (and is not deemed for purposes of ERISA or Section 4975 to be), and will (throughout the period during which it holds Rule 144A Notes (or an interest therein)) not be (or be deemed for purposes of ERISA or Section 4975 of the Code to be), (A) an “employee benefit plan” (as defined in ERISA) that is subject to Title I of ERISA, (B) other “plan” (as defined in Section 4975 of the Code) that is subject to Section 4975 of the Code, or (C) an entity whose underlying assets include plan assets by reason of such employee benefit plan’s or other plan’s investment in the entity (each plan or entity described in the foregoing clauses (A), (B) or (C), a “**Plan**”), and it is not (and is not deemed to be), and will not be (or be deemed to be), a governmental plan, church plan, non-U.S. plan or other plan subject to any federal, state, local or non-U.S. law (“**Similar Law**”) that is substantially similar to Section 406 of ERISA or Section 4975 of the Code, or (ii) the purchase and holding of the Regulation S Notes do not and will not constitute or otherwise result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of Similar Law.
- (6) It understands that Rule 144A Notes (and any individual Note Certificates issued in respect thereof), unless otherwise agreed between the relevant Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE [AND THE GUARANTEE IN RESPECT HEREOF] [HAS] [HAVE] NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A “**QIB**”) THAT IS ALSO A QUALIFIED PURCHASER (“**QUALIFIED PURCHASER**”) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS

AMENDED (THE “**INVESTMENT COMPANY ACT**”), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QUALIFIED PURCHASER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$200,000 PRINCIPAL AMOUNT OF NOTES, OR (2) TO NON U.S. PERSONS IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT (“**REGULATION S**”), AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

EACH BENEFICIAL OWNER HEREOF REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QUALIFIED PURCHASER; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A “401(k)” PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS ALSO A QUALIFIED PURCHASER; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS RULE 144A NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.\$200,000 IN PRINCIPAL AMOUNT OF RULE 144A NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES, AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES. THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT, IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A PERSON WHO IS NOT A QIB THAT IS ALSO A QUALIFIED PURCHASER, THE ISSUER MAY (A) REQUIRE IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON (I) WHO IS A QIB WHO IS ALSO A QUALIFIED PURCHASER AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) TO A NON U.S. PERSON PURCHASING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATIONS OR (B) REQUIRE THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100% OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO ANY PERSON WHO IT REASONABLY BELIEVES IS A U.S. PERSON WHO IS NOT A QIB AND A QUALIFIED PURCHASER. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND AGREES THAT (I) IT IS NOT (AND IS NOT DEEMED FOR PURPOSES OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”) OR SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “**CODE**”) TO BE), AND WILL (THROUGHOUT THE PERIOD DURING WHICH IT HOLDS THIS NOTE OR ANY INTEREST HEREIN) NOT BE (OR BE DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 OF THE CODE TO BE), (A) AN “EMPLOYEE BENEFIT PLAN” (AS DEFINED IN ERISA) THAT IS SUBJECT TO TITLE I OF ERISA, (B) OTHER “PLAN” (AS DEFINED IN SECTION 4975 OF THE CODE) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF SUCH EMPLOYEE BENEFIT PLAN’S OR OTHER PLAN’S INVESTMENT IN THE ENTITY, AND IT IS NOT (AND IS NOT DEEMED TO BE), AND WILL NOT BE (OR BE DEEMED TO BE), A GOVERNMENTAL PLAN, CHURCH PLAN, NON-U.S. PLAN OR OTHER PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW (“**SIMILAR LAW**”) THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (II) THE PURCHASE AND HOLDING OF THIS NOTE DO NOT AND WILL NOT CONSTITUTE OR OTHERWISE RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THE ISSUER MAY COMPEL EACH BENEFICIAL HOLDER HEREOF TO CERTIFY PERIODICALLY THAT SUCH HOLDER IS A QIB AND A QUALIFIED PURCHASER.

- (1) It acknowledges that the Company, KMG Finance, the Registrar, the Dealers and their affiliates, and others will rely upon the trust and accuracy of the above acknowledgements, representations and

agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Company, KMG Finance and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts who are QIBs that are also QPs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each such account.

- (2) It understands that Rule 144A Notes will be evidenced by one or more Rule 144A Global Notes. Before any interest in a Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (3) Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

### Regulation S Notes

Each purchaser of Regulation S Notes outside the United States and each subsequent purchaser of Regulation S Notes in resales, throughout the period that it holds such Regulation S Notes, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred, except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIB each of which is also a QP, each of which is purchasing not less than U.S.\$200,000 in principal amount of the Rule 144A Notes or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that Regulation S Notes will be evidenced by one or more Regulation S Global Notes. Before any interest in a Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (4) It acknowledges that the Company, KMG Finance, the Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Company, KMG Finance and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
- (5) It understands that its purchase and holding of Regulation S Notes constitute a representation and agreement by it that (i) it is not (and is not deemed for purposes of ERISA or Section 4975 to be), and will (throughout the period during which it holds Regulation S Notes (or an interest therein)) not be (or be deemed for purposes of ERISA or Section 4975 of the Code to be), (A) an “employee benefit plan” (as defined in ERISA) that is subject to Title I of ERISA, (B) other “plan” (as defined in Section 4975 of the Code) that is subject to Section 4975 of the Code, or (C) an entity whose underlying assets include plan assets by reason of such employee benefit plan’s or other plan’s investment in the entity (each plan or entity described in the foregoing clauses (A), (B) or (C), a “**Plan**”), and it is not (and is not deemed to be), and will not be (or be deemed to be), a governmental plan, church plan, non-U.S. plan or other plan subject to any federal, state, local or non-u.s. law (“**Similar Law**”) that is substantially similar to Section 406 of ERISA or Section 4975 of the Code, or (ii) the purchase and holding of the Rule 144A Notes do not and

will not constitute or otherwise result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of Similar Law.

- (6) If such purchaser is or may be a Plan (including, without limitation, an individual retirement account), it understands that its purchase and holding of Regulation S Notes constitute a representation and agreement by it that it is (or is acting through) (i)(A) a bank or similar institution, an insurance carrier, a registered investment adviser or a registered broker-dealer, or (B) any independent fiduciary (but, with respect to an individual retirement account, not the owner of the account) that holds, or has under management or control, total assets of at least \$50 million; each of the foregoing as further described in 29 C.F.R. § 2510.3-21(c)(1)(i); (ii) an entity or other person that is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies; and (iii) an independent fiduciary with respect to the purchase of Regulation S Notes and is responsible for exercising independent judgment in evaluating such purchase.



## SUBSCRIPTION AND SALE

Notes may be sold from time-to-time by the relevant Issuer to any one or more of Citigroup Global Markets Limited, JSC Halyk Finance, J.P. Morgan Securities plc, MUFG Securities EMEA plc and UBS AG, London Branch (the “**Joint Arrangers**”) and any other Dealers appointed under the terms of the Dealer Agreement (as defined below). The arrangements under which Notes may from time-to-time be agreed to be sold by the relevant Issuer to, and purchased by, Dealers are set out in an amended and restated dealer agreement dated 3 April 2018, as may be supplemented, amended or restated from time-to-time (the “**Dealer Agreement**”), and made among the Company, KMG Finance, the Joint Arrangers and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Company and KMG Finance in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes. The Dealer Agreement provides that the obligations of the Dealers to subscribe for the Notes are subject to certain conditions precedent.

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company, KMG Finance or any of their subsidiaries and affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities or instruments of the Company, KMG Finance or any of their subsidiaries and affiliates. Certain of the Dealers and their affiliates have lending relationships with the Company, KMG Finance and certain of their subsidiaries and affiliates and, in this connection, routinely hedge their credit exposure to these entities consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions, which consist of either the purchase of credit default swaps or the creation of short positions in securities issued by the Company, KMG Finance and certain of their subsidiaries and affiliates, including, potentially, Notes issued under the Programme. Any such short positions could adversely affect future trading prices of the Notes. The Dealers and their affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

### **United States of America**

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree, that it will not offer, sell or deliver any Notes, (a) as part of their distribution at any time, or (b) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the relevant Issuer and, if the relevant Issuer is KMG Finance, the Company by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. The Dealer Agreement provides that the Dealers may, directly or through their respective U.S. broker dealer affiliates only, arrange for the offer and resale of Notes within the United States only to QIBs that are QPs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

### **Prohibition of Sales to EEA Retail Investors**

Unless the Final Terms in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area.

For the purposes of this provision the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
- (b) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

### **United Kingdom**

Each Dealer has represented and agreed that:

- (1) in relation to any Notes which have a maturity of less than a year (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **Republic of Kazakhstan**

Each Dealer has represented and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan except in compliance with the applicable laws of Kazakhstan and the regulations of the KASE.

### **The Netherlands**

#### Offer to qualified investors only

Notes offered pursuant to this Base Prospectus, are not and may not be offered in the Netherlands other than to persons or entities which are qualified investors as defined in article 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht* or the “**FSA**”).

#### Zero Coupon Notes

Zero Coupon Notes in bearer form and other Notes that qualify as savings certificates as defined in the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) may only be transferred or accepted through the mediation of either KMG Finance or a member of Euronext Amsterdam with due observance of the Dutch Savings Certificates Act and its implementing regulations (including registration requirements), provided that no such mediation is required in respect of (i) the transfer and acceptance of rights representing an interest in a Zero Coupon Note in global form, or (ii) the initial issue of such Notes to the first holders thereof, (iii) any transfer and acceptance by individuals who do not act in the conduct of a profession or trade, or (iv) the issue and trading of Notes, if such Notes are physically issued outside the Netherlands and are not distributed in the Netherlands in the course of primary trading or immediately thereafter.

## **Russian Federation**

Each Dealer has represented and agreed that it has not offered or sold or transferred or otherwise disposed of, and will not offer or sell or transfer or otherwise dispose of, any Notes (as part of their initial distribution or at any time thereafter) to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian law.

## **Switzerland**

Each Dealer has represented, warranted and agreed that:

- (a) this Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland; and
- (b) neither this Base Prospectus nor any other offering or marketing material relating to the offering nor the Issuer, nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., Swiss Financial Markets Supervisory Authority FINMA, and investors in the Notes will not benefit from protection or supervision by such authority.

## **General**

These selling restrictions may be modified by the agreement of the Company, KMG Finance and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in a supplement to this Base Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Base Prospectus or any other offering material or any set of Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Base Prospectus, any other offering material or any set of Final Terms and neither the Company, KMG Finance nor any other Dealer shall have responsibility therefor.

## GENERAL INFORMATION

1. The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted for listing on the Official List and to trading on the Regulated Market will be admitted separately as and when issued, subject only to the issue of the Global Note representing the Notes of that Tranche. The listing of the Programme in respect of Notes to be issued under the Programme during the 12-month period from the date of this Base Prospectus is expected to be granted on or around 6 April 2018.
2. In addition, unless otherwise agreed with the relevant Dealer(s) and provided for in the Final Terms, the Company will use its reasonable endeavours to cause all Notes issued by the Company under the Programme to be admitted to the “bonds” category of the “debt securities” sector of the “main” platform of the official list of the KASE as from (and including) the Issue Date, and the Company will use its reasonable endeavours to cause the Notes issued by KMG Finance to be listed on the KASE. No Notes may be issued or placed without the prior permissions of the NBK.
3. The establishment of the Programme was authorised by a duly adopted resolution of the board of directors of KMG Finance on 25 March 2008 and by a duly adopted resolution of the Board of Directors of the Company on 4 March 2008. An increase in the size of the Programme was authorised by a duly adopted resolution of the board of directors of the KMG Finance on 24 June 2009 and by a duly adopted resolution of the Board of Directors of the Company on 23 June 2009. A subsequent increase in the size of the Programme was authorised by a duly adopted resolution of the board of directors of KMG Finance on 18 February 2010 and by a duly adopted resolution of the Board of Directors of the Company on 14 April 2010. A further increase in the size of the Programme was authorised by a duly adopted resolution of the board of directors of KMG Finance on 11 April 2013 and by a duly adopted resolution of the Board of Directors of the Company on 13 March 2013. The Company and KMG Finance have obtained or will obtain from time-to-time all necessary consents, approvals and authorisations, if any required of them, respectively, in connection with the issue and performance of the Notes and the granting of guarantees in relation thereto.
4. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and/or DTC. The appropriate common code and the International Securities Identification Number and (where applicable) the CUSIP number in relation to the Notes of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.
5. The issue price and the amount of the relevant Notes will be determined based on the prevailing market conditions. Neither the Company nor KMG Finance intends to provide any post issuance information in relation to any issues of Notes.
6. There has been no material adverse change in the prospects of, nor has there been any significant change in the financial or trading position of, the Company and its consolidated subsidiaries, joint ventures and associates, taken as a whole, since 31 December 2017. There has been no material adverse change in the prospects of, nor has there been any significant change in the financial or trading position of, KMG Finance since 31 December 2017.
7. The Company’s independent auditors are Ernst & Young LLP, acting as auditors under licence № 0000003 dated 15 July 2005 issued by the Ministry of Finance of the Republic of Kazakhstan. Ernst & Young LLP is a member of the Chamber of Auditors of Kazakhstan, the professional body which oversees audit firms in Kazakhstan. The Company’s financial statements are prepared in accordance with IFRS. The Company’s audited financial statements for each of the financial years ended 31 December 2017 and 31 December 2016 were audited by Ernst & Young LLP, which issued reports thereon without qualification. The business address of Ernst & Young LLP is Esentai Tower, 77/7, Al-Farabi Ave., Almaty 050060, Kazakhstan.
8. For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations, of the following documents may be inspected during normal business hours at the specified office of the Paying Agent namely:
  - the constitutional documents of the Company and KMG Finance;
  - the annual report and accounts of the Company for the financial years ended 31 December 2017 and 2016, including, in each case, the audit report relating to such accounts;

- the most recently publicly available annual report and accounts of the Company prepared in accordance with IFRS (published on an annual basis);
- the Agency Agreement;
- the Trust Deed (which contains the forms of the Notes in global and definitive form);
- the Final Terms relating to Notes;
- copies of the documents incorporated by reference into this Base Prospectus; and
- a copy of this Base Prospectus, together with any supplements to this Base Prospectus or any further base prospectus and any documents incorporated by reference therein.

In addition, this Base Prospectus, together with any supplements to this Base Prospectus, will be published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Copies of documents incorporated by reference into this Base Prospectus may also be viewed electronically and free of charge at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

## APPENDIX I - GLOSSARY OF FREQUENTLY USED DEFINED TERMS

“**2010 Subsoil Law**” means Law № 291-IV “On Subsoil and Subsoil Use”, dated 24 June 2010 (as amended), which replaced the Old Subsoil Law and the Petroleum Law and serves the current framework for the regulation of subsoil use rights in Kazakhstan.

“**2016 Financial Statements**” means the Company’s consolidated financial statements as at and for the year ended 31 December 2016;

“**2017 Financial Statements**” means the Company’s consolidated financial statements as at and for the year ended 31 December 2017;

“**A+B+C1 reserves**” means reserves of crude oil and gas classified as category A, B and C1 under Kazakhstan methodology. See “*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*”.

“**Agency Agreement**” means the agency agreement by and between KMG EP and KMG RM in relation to sales of crude oil by KMG EP (as annually renewed under the Kazakhstan state procurement legislation);

“**AGP**” means Asia Gas Pipeline LLP;

“**Asia Gas Pipeline**” means the Uzbekistan-China gas pipeline across Kazakhstan, which transmits gas from the other Central Asian Republics to major population centres in southern Kazakhstan and to China, owned and operated by AGP;

“**Atyrau Refinery**” means the oil refinery at Atyrau, western Kazakhstan, operated by “Atyrau Refinery LLP”;

“**Aysir**” means Aysir Turizm ve Inshaat AS;

“**BP**” means BP p.l.c.;

“**BSGP**” means Beineu-Shymkent Gas Pipeline LLP;

“**BTC Pipeline**” means the pipeline operated by BP;

“**CAC Pipeline**” means the Central Asia Centre pipeline system, a sub-system of the Central Asia System;

“**CCEL**” means CITIC Canada Energy Limited;

“**CIS**” means the Commonwealth of Independent States;

“**CITIC**” means CITIC Resources Holding Limited;

“**CNODC**” means China National Oil and Gas Exploration and Development Corporation;

“**CNPC**” means China National Petroleum Corporation;

“**CNPC E&D**” means CNPC Exploration and Development Company Ltd. controlled by CNPC;

“**Company**” means, as the context requires, KMG itself or KMG together with its subsidiaries and joint ventures or KMG together with its subsidiaries, joint ventures and associates;

“**Company’s A+B+C1 reserves**” means the A+B+C1 reserves of crude oil and gas of the Company and its subsidiaries and the Company’s and the Company’s subsidiaries proportionate share in their respective joint venture’s A+B+C1 reserves of crude oil and gas, collectively, but not including CCE (see “*Presentation of Financial, Reserves and Certain Other Information—Presentation of Certain Information Relating to Subsidiaries, Joint Ventures and Associates*”);

“**Company’s production**” means the crude oil and gas production of the Company and its subsidiaries and the Company’s and the Company’s subsidiaries proportionate share in their respective joint venture’s crude oil and gas production, collectively, but not including CCEL.

“**Competent Authority**” means the State’s central executive body, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of Subsoil Use Agreements in oil and gas and mining, except for contracts for exploration and production of commonly occurring minerals (the exploration and production contracts which have been concluded with the local executive authorities), which was historically the MEMR (for oil and gas and minerals), and from and after 12 March 2010, was the MOG for oil and gas and the MINT for solid minerals and certain types of underground waters; and, following the reorganisation of the MOG and the MINT in August 2014, are currently the Ministry of Energy and the MID, respectively. Also, currently, the MID is the Competent Authority for subsoil use contracts for exploration and production of industrial and technical underground waters produced in the volume of 2,000 cubic meters or more per day for their injection into the formation in accordance with the respective technological schemes of production;

“**Concession Agreement**” means the agreement between ICA and the Government relating to the operation of the domestic and international gas transportation network in Kazakhstan dated 14 June 1997 as further amended;

“**CPC**” means the Caspian Pipeline Consortium;

“**CPC Pipeline**” means the pipeline owned and operated by the CPC; “**EIA**” means the U.S. Energy Information Agency;

“**EMG**” means JSC EmbaMunaiGas;

“**EUR**”, **Euro**” or “**€**” means the currency used by the member states participating in the third stage of the Economic and Monetary Union of the Treaty establishing the European community;

“**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended;

“**FGP**” means TCO’s future generation (or future growth) expansion project;

“**Gas Law**” means Law № 532-IV “On Gas and Gas Supply” dated 9 January 2012 (as amended);

“**Government**” means the Government of Kazakhstan;

“**Group**” means, as the context requires, KMG together with its subsidiaries and joint ventures or KMG together with its subsidiaries, joint ventures and associates;

“**Guarantor**” means, if applicable, JSC NC “KazMunayGas”;

“**ICA**” means JSC Intergas Central Asia;

“**IFRS**” means International Financial Reporting Standards as promulgated by the International Accounting Standards Board;

“**IMF**” means the International Monetary Fund;

“**Issuer**” means KMG Finance or, as specified in the relevant Final Terms, JSC NC “KazMunayGas”;

“**JSC Law**” means Law № 415 of the Republic of Kazakhstan “On Joint Stock Companies” dated 13 May 2003 (as amended);

“**Kazakhoil**” means CJSC “National Oil and Gas Company Kazakhoil”;

“**Kazakhoil Aktobe**” means Kazakhoil Aktobe LLP;

“**Kazakhstan**” means the Republic of Kazakhstan;

“**Kazakhstan methodology**” means the method by which the Company estimates its crude oil and natural gas reserves. See “*The Oil and Gas Industry in Kazakhstan—Reserve Classifications*”. “**Kazgermunai**” means “JV “Kazgermunai” LLP;

“**KazMunayTeniz**” means Limited liability partnership “Offshore oil company “KazMunayTeniz” (or LLP “OOC “KazMunayTeniz”);

“**KazRosGas**” means JV KazRosGas LLP;

“**KCP**” means Kazakhstan-China Pipeline JV LLP or JV Kazakhstan-China Pipeline LLP;

“**KC Pipeline**” means a pipeline network under construction that will connect western Kazakhstan with the Chinese border;

“**KMG**” means Joint Stock Company “National company “KazMunayGas” or JSC NC “KazMunayGas”;

“**KMG EP**” means JSC KazMunaiGas Exploration Production or JSC KazMunaiGas EP;

“**KMG International**” means KazMunayGas International B.V.;

“**KMG PKOP**” means KazMunaiGaz PKOP Investment B.V.;

“**KPO**” means Karachaganak Petroleum Operating B.V.;

“**KMG RM**” means JSC KazMunaiGaz Refining and Marketing;

“**KNOC**” means the Korean National Oil Consortium;

“**KTG**” means JSC KazTransGas;

“**KTO**” means JSC KazTransOil;

“**KZT**” or “**Tenge**” means the official currency of Kazakhstan;

“**LIBOR**” means the London Inter Bank Offered Rate;

“**LPG**” means liquefied petroleum gas;

“**MEMR**” means the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan, which was the Competent Authority before its functions were transferred to the MOG and the MINT;

“**MEWR**” means the Ministry of Environment and Water Resources of the Republic of Kazakhstan;

“**MIBV**” means Mangistau Investments B.V.;

“**MID**” means the Ministry for Investments and Development of the Republic of Kazakhstan, the State’s central executive agency which is currently the transferee of the MINT’s supervisory authority and, accordingly, the Competent Authority in the mining sector, also having a number of major functions related to operations in oil and gas; it is in charge of such matters as, among others, granting geological information and regulating its use (export), issuing geological and mining allotments, recording reserves and putting them on the State’s balance, conducting expertise of subsoil use contracts and project documentation required for conducting subsoil use operations under the law, and granting permits for water use;

“**Ministry of Energy**” means the Ministry of Energy of the Republic of Kazakhstan, the State’s central executive agency, which is currently the Competent Authority in oil and gas sector;

“**MINT**” means the Ministry of Industry and New Technologies of the Republic of Kazakhstan, which was the Competent Authority and the transferee of the MEMR’s supervisory authority prior to 6 August 2014, when its functions were transferred to the MID;

“**MMG**” means JSC MangistauMunaiGaz;

“**MOG**” means the Ministry of Oil and Gas of Kazakhstan, the State’s central executive agency, which was the Competent Authority in the oil and gas sector prior to 6 August 2014, when its functions were transferred to the Ministry of Energy;

“**Mubadala**” means Mubadala Development Company (Oil and Gas N Block Kazakhstan) GmbH;

“**MunayTas**” means JSC MunayTas North West Pipeline Company JV;



“**Natural Monopolies Committee**” means the Committee for Regulation of Natural Monopolies, Protection of Competition and Consumers' Rights under the Ministry of the National Economy of the Republic of Kazakhstan;

“**NBK**” means the National Bank of the Republic of Kazakhstan;

“**N Block**” means the Nursultan Block;

“**N Block Project**” means the project for exploration and development in the Nursultan Block;

“**NC PSA**” means the North Caspian Production Sharing Agreement dated 18 November 1997 and a joint operating agreement dated 29 March 2005 among a consortium consisting of AGIP Caspian Sea B.V., ExxonMobil Kazakhstan Inc., Inpex North Caspian Sea Ltd, Phillips Petroleum Kazakhstan Ltd, Shell Kazakhstan Development B.V. and Total EP Kazakhstan;

“**NCPC**” means the North Caspian Project Consortium;

“**North Caspian Project**” means the project by NCPC to develop the North Caspian Sea, which includes the Kashagan Field;

“**Note**” means notes of the Issuer unconditionally issued under the Programme and irrevocably guaranteed the Guarantor;

“**Old Subsoil Law**” means Law № 2828 of the Republic of Kazakhstan “On Subsoil and Subsoil Use”, as amended, dated 27 January 1996 (as amended), which was then replaced with the 2010 Subsoil Law;

“**OMG**” means JSC OzenMunaiGas;

“**OPEC**” means the Organisation of Petroleum Exporting Countries;

“**Parliament**” means the Parliament of Kazakhstan;

“**Pavlodar Refinery**” means “Pavlodar Oil Chemistry Refinery” LLP, the oil refinery in Pavlodar, Kazakhstan;

“**Petroleum Law**” means Law № 2350 of the Republic of Kazakhstan “On Petroleum” dated 28 June 1995 (as amended), which was replaced with the 2010 Subsoil Law;

“**Petromidia Refinery**” means the oil refinery in Navodari, Romania operated by Rompetrol Rafinare;

“**PKI**” means PetroKazakhstan Inc.;

“**PKKR**” means JSC PetroKazakhstan Kumkol Resources;

“**Programme**” means the U.S.\$10,500,000,000 Global Medium Term Note Programme whereby KMG Finance and KMG may from time to time issue Notes, which in the case of Notes issued by KMG Finance are unconditionally and irrevocably guaranteed by KMG, in an aggregate amount (taken all together) up to U.S.\$10,500,000,000;

“**PSAs**” means production sharing agreements;

“**Relationship Agreement**” means the agreement by and between the Company and KMG EP dated 8 September 2006;

“**Samruk-Kazyna**” means Sovereign Wealth Fund “Samruk-Kazyna” JSC;

“**SEC**” means the Securities and Exchange Commission of the United States of America;

“**Securities Act**” means the U.S. Securities Act of 1933, as amended;

“**Services Agreement**” means the agreement entered annually by and between the Company and KMG EP;

“**Shymkent Refinery**” means the oil refinery in Shymkent, Kazakhstan operated by “PetroKazakhstan Oil Products” LLP;

“**S-K Rules**” means the Rules for Conducting of Procurement of Goods, Works and Services by Samruk-Kazyna and Entities 50 and More Percent of Voting Shares (Participatory Interests) in Which are Directly or Indirectly Owned by Samruk-Kazyna on the Basis of a Right of Ownership or Trust Management, adopted by Resolution № 126 of the board of directors of Samruk-Kazyna dated 28 January 2016 (as amended);

“**Southern Pipeline Network**” means the pipeline network running through the southern region of Kazakhstan from the Uzbekistan/Kazakhstan border to Almaty in Kazakhstan and operated by ICA;

“**Sovereign Wealth Fund Law**” means Law № 550=IV of the Republic of Kazakhstan “On Sovereign Wealth Fund” dated 1 February 2012 (as amended);

“**State**” means Kazakhstan;

“**State Procurement Law**” means Law № 434-V of the Republic of Kazakhstan “On State Procurement” dated 4 December 2015 (as amended);

“**State’s Pre-Emptive Right**” means the pre-emptive right of the State to acquire subsoil use rights in subsoil use projects in Kazakhstan or shares (participation interests) in the subsoil users or their controlling entities;

“**Statistics Committee**” means the Statistics Committee of Kazakhstan.

“**Subsoil Code**” means the Subsoil Code adopted by Parliament in December 2017, which will enter into force and replace the 2010 Subsoil Law on 29 June 2018.

“**Subsoil Use Agreement**” means a production and exploration licence and/or subsoil use contract (after 1999 subsoil operations are based on contracts only) or PSAs (as the case may be);

“**TCO**” means JV Tengizchevroil LLP;

“**Trunk Pipeline Law**” means Law № 20-V of the Republic of Kazakhstan “On Trunk Pipeline” dated 22 June 2012 (as amended);

“**UAS pipeline**” means Uzen-Atyrau-Samara pipeline, owned and operated by KTO;

“**UGL**” means Ural Group Limited;

“**UOG**” means Ural Oil and Gas LLP;

“**U.S.\$ or U.S. Dollar**” means the currency of the United States of America;

“**Uzen fields**” means the fields operated by JSC EmbaMunaiGas;

“**Western Pipeline Network**” means the pipeline network in western Kazakhstan that services Central Asia’s producing natural gas fields and which is operated by ICA; and

“**WPMP**” means TCO’s wellhead pressure management project.

## APPENDIX II - GLOSSARY OF MEASUREMENT AND TECHNICAL TERMS

### Certain Abbreviations and Related terms

<b>%</b> .....	percent
<b>bcm</b> .....	billion cubic metres
<b>bopd</b> .....	barrels of oil per day
<b>g</b> .....	gramme
<b>km</b> .....	kilometre
<b>km<sup>2</sup></b> .....	square kilometres
<b>m</b> .....	metre
<b>mcm</b> .....	million cubic metres
<b>mm</b> .....	millimetres
<b>mPa</b> .....	mega Pascal

### Certain Terminology

<b>2D seismic</b> .....	Geophysical data that depicts the subsoil strata in two dimensions.
<b>3D seismic</b> .....	Geophysical data that depict the subsoil strata in three dimensions. 3D seismic typically provides a more detailed and accurate interpretation of the subsoil strata than 2D seismic.
<b>API gravity</b> .....	The industry standard method of expressing specific gravity of crude oils. Higher American Petroleum Institute (“ <b>API</b> ”) gravities mean lower specific gravity and lighter oils.
<b>Dry gas</b> .....	Natural gas that does not contain dissolved liquid hydrocarbons.
<b>Exploration well</b> .....	A well drilled to find hydrocarbons in an unproved area or to extend significantly a known oil or natural gas reservoir.
<b>Formation</b> .....	A succession of sedimentary beds that were deposited under the same general geologic conditions.
<b>Gas condensate</b> .....	The heavier hydrocarbon fractions in a natural gas reservoir that condense into a liquid as they are produced. They are used as a chemical feedstock or for blending into gasoline.
<b>Hydrocarbons</b> .....	Compounds formed from the elements hydrogen (H) and carbon (C) and existing in solid, liquid or gaseous forms.
<b>Natural gas</b> .....	Hydrocarbons that are gaseous at one atmosphere of pressure at 20°C. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.

- Quality bank**..... An arrangement whereby oil companies that supply lower quality (heavy and sour) crude oil to a pipeline system pay more for the use of pipelines than those who supply higher quality crude oil. (Alternatively, suppliers of lower quality crude oil might directly compensate suppliers of higher quality crude oil for the deterioration in crude quality due to blending).
- Reservoir** ..... A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water filled rock layers.
- Seismic survey** ..... A method by which an image of the earth's subsoil is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can be done in two or three dimensional form.
- Vacuum distillation**..... Distillation under reduced pressure (less than atmospheric), which lowers the boiling temperature of the liquid being distilled. This technique with its relatively low temperatures prevents cracking or decomposition of the charge stock.
- Watercut**..... The proportion of water produced, along with crude oil, from extracted reservoir liquids, usually expressed as a percentage.
- Workover**..... A maintenance or repair operation on a well after it has commenced production. Usually undertaken to maintain or increase production from the well.

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**JSC “National Company “KazMunayGas”**

**Consolidated financial statements**

*For the year ended December 31, 2017  
with independent auditors' report*

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Independent auditors’ report

**Consolidated financial statements**

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## Independent auditor's report

To the Shareholders and Management of "National Company "KazMunayGas" JSC

### **Opinion**

We have audited the consolidated financial statements of National Company "KazMunayGas" JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



## Key audit matter

## How our audit addressed the key audit matter

### ***Impairment of non-current assets***

We considered this matter to be one of the most significance in the audit due to materiality of the balances of non-current assets, including upstream, exploration and evaluation, downstream assets and investments in upstream joint ventures and associates, to the consolidated financial statements, the high level of subjectivity in respect of assumptions underlying impairment analysis and significant judgements and estimates made by management. In addition, the combination of volatility in oil prices and Tenge, increased inflation and cost of debt and uncertainty about future economic growth affects the Group's business prospects and therefore triggers potential impairment of the Group's assets.

Significant assumptions included discount rates, oil and petroleum product prices forecasts and inflation and exchange rate forecasts. Significant estimates included production forecast, future capital expenditure and oil and gas reserves available for development and production.

Information on non-current assets and the impairment tests performed is disclosed in Note 4 to the consolidated financial statements.

### ***Discontinued operations***

On 15 December 2016, the Group signed a share sale and purchase agreement (the SPA) to sell a 51% interest in KMG International NV (KMGI) subsidiary of the Group.

In 2017, all conditions precedent indicated in the SPA were executed and on 15 December 2017, the Group signed an addendum to the SPA and a conditional act of transfer of shares with an expectation to complete the transaction in June 2018.

We involved our business valuation specialists in the testing of impairment analysis and calculation of recoverable amount performed by management. We analyzed the assumptions underlying management forecast. We compared oil and petroleum products prices used in the calculation of recoverable amounts to available market forecasts.

We compared the discount rates and long-term growth rates to general market indicators and other available evidence.

We tested the mathematical integrity of the impairment models and assessed the sensitivity analysis.

We focused on the analysis of criteria for the classification of assets as held for sale, and operations as discontinued. We examined the SPA and an addendum to the SPA and obtained managements' assessment of the status of execution of conditions precedent to the transaction. We analysed the management's assessment of the fair value less cost to sell of KMGI's assets and liabilities that is based on the terms of the SPA.

This area was one of the most significance in our audit because of the uncertainty of completion of the sale of 51% interest in KMGI and the judgement required to assess whether or not the sale is highly probable. Such assessment impacts the measurement and presentation of assets of KMGI classified as held for sale and liabilities directly associated with them, and the results from discontinued operations, that are material to the consolidated financial statements.

Information associated with discontinued operations is disclosed in Note 5 to the consolidated financial statements; a description of the accounting policy and key judgements and estimates is included in Notes 3 and 4 to the consolidated financial statements.

#### ***Compliance with loan covenants***

In accordance with the terms of certain financing arrangements, the Group should maintain and comply with certain financial and non-financial covenants. There is a higher likelihood that covenants impacted by trading volumes, revenue and profit may be breached particularly in subsidiaries impacted by volatility of oil prices and higher operating costs, therefore, we focused on this area during our audit. Breaching covenants could result in significant fines and penalties along with funding shortages. Cross default provisions are in place under the Group's financing arrangements. Compliance with the financing covenants is one of the matters of most significance in the audit since it can have a major impact on the going concern assumption used in the preparation of the consolidated financial statements, and on classification of interest-bearing liabilities in the consolidated statement of financial position.

Information on compliance with covenants is disclosed in Note 19 to the consolidated financial statements.

We examined the terms of financing arrangements. We compared data used in the calculations with the financial statements. We assessed arithmetic accuracy of financial covenants calculations.

### ***Other information included in the Group's 2017 annual report***

Other information consists of the information included in the Group's 2017 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

### ***Responsibilities of management and the Audit Committee for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's consolidated financial reporting process.

### ***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Gulmira Turmagambetova.

*Ernst & Young LLP*



Gulmira Turmagambetova  
Auditor / General Director  
Ernst and Young LLP



State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of finance of the Republic of Kazakhstan on July 15, 2005

050060, Republic of Kazakhstan, Almaty  
Al-Farabi ave., 77/7, Esentai Tower

12 March 2018

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>In thousands of tenge</i>	Note	As at December 31	
		2017	2016*
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	3,359,094,790	2,953,135,665
Exploration and evaluation assets	8	253,326,100	231,553,168
Investment property	9	27,423,225	29,480,044
Intangible assets	10	115,431,414	116,488,612
Long-term bank deposits	11	48,523,034	50,027,102
Investments in joint ventures and associates	12	3,810,351,341	3,706,276,810
Deferred income tax asset	31	65,135,777	71,909,033
VAT receivable		96,666,045	71,918,992
Advances for non-current assets		124,906,942	139,185,121
Loans and receivables due from related parties	15	672,448,689	565,994,497
Other financial assets	16	4,161,312	–
Other non-current assets		14,027,609	20,687,850
		<b>8,591,496,278</b>	<b>7,956,656,894</b>
<b>Current assets</b>			
Inventories	13	108,897,355	98,776,900
VAT receivable		68,245,090	68,719,671
Income tax prepaid		35,586,296	74,457,414
Trade accounts receivable	14	306,324,631	279,811,631
Short-term bank deposits	11	1,638,940,642	1,182,669,493
Loans and receivables due from related parties	15	169,501,500	135,673,233
Other current assets	14	167,916,249	149,079,608
Cash and cash equivalents	17	1,190,156,359	878,438,350
		<b>3,685,568,122</b>	<b>2,867,626,300</b>
Assets classified as held for sale	5	1,111,688,937	1,058,794,076
		<b>4,797,257,059</b>	<b>3,926,420,376</b>
<b>Total assets</b>		<b>13,388,753,337</b>	<b>11,883,077,270</b>

*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

<i>In thousands of tenge</i>	Note	As at December 31	
		2017	2016
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	18	709,344,505	696,376,625
Additional paid-in capital	18	243,876,410	243,655,405
Other equity		83,185	222,074
Currency translation reserve		1,298,442,284	1,372,771,521
Retained earnings		3,500,635,709	3,163,685,193
<b>Attributable to equity holders of the Parent Company</b>		<b>5,752,382,093</b>	<b>5,476,710,818</b>
Non-controlling interest	18	870,017,901	801,560,097
<b>Total equity</b>		<b>6,622,399,994</b>	<b>6,278,270,915</b>
<b>Non-current liabilities</b>			
Borrowings	19	3,399,487,735	2,706,101,321
Provisions	21	150,638,244	139,371,823
Deferred income tax liabilities	31	312,013,046	264,599,978
Financial guarantee		10,767,166	12,259,980
Prepayment on oil supply agreements	22	581,577,501	738,572,306
Other non-current liabilities		46,270,628	52,509,205
		<b>4,500,754,320</b>	<b>3,913,414,613</b>
<b>Current liabilities</b>			
Borrowings	19	763,955,792	366,438,649
Provisions	21	78,812,199	94,394,277
Income tax payable		7,705,079	2,301,839
Trade accounts payable	22	325,120,176	260,137,009
Other taxes payable	23	79,168,191	34,014,457
Financial guarantee		1,170,697	1,211,481
Prepayment on oil supply agreements	20	332,330,000	249,967,500
Other current liabilities	22	144,405,371	119,042,249
		<b>1,732,667,505</b>	<b>1,127,507,461</b>
Liabilities directly associated with the assets classified as held for sale	5	532,931,518	563,884,281
<b>Total liabilities</b>		<b>6,766,353,343</b>	<b>5,604,806,355</b>
<b>Total equity and liabilities</b>		<b>13,388,753,337</b>	<b>11,883,077,270</b>
<b>Book value per ordinary share</b>	18	<b>11,040</b>	<b>10,547</b>

\* Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2016 and reflect combination of notes made, refer to Note 2.

Executive vice-president – financial director

Vice-president – finance controller

Chief accountant



D.S. Karabayev



A.Zh. Beknazarova



Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<i>In thousands of tenge</i>	Note	For the years ended December 31	
		2017	2016
Revenue	24	2,458,835,090	1,857,435,356
Cost of sales	25	(2,379,902,871)	(1,561,746,019)
<b>Gross profit</b>		<b>78,932,219</b>	<b>295,689,337</b>
General and administrative expenses	26	(152,011,319)	(117,675,164)
Transportation and selling expenses	27	(288,527,270)	(198,473,083)
Impairment of property, plant and equipment, intangible assets	28	(25,641,552)	(3,282,679)
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		(3,814,867)	(5,620,831)
Other operating income		20,164,501	19,429,680
Other operating expenses		(30,093,073)	(14,821,567)
<b>Operating loss</b>		<b>(400,991,361)</b>	<b>(24,754,307)</b>
Net foreign exchange gain/(loss)		67,182,980	(12,894,441)
Finance income	29	121,735,274	167,891,688
Finance costs	29	(294,897,464)	(230,383,354)
Reversal/(impairment) of investments in joint ventures		14,845,359	(5,503,379)
Impairment of assets classified as held for sale		(67,594)	(92,601)
Impairment of loan given		–	(1,346,447)
Share in profit of joint ventures and associates, net	30	414,565,236	270,190,990
<b>(Loss)/profit before income tax</b>		<b>(77,627,570)</b>	<b>163,108,149</b>
Income tax expenses	31	(192,029,803)	(163,791,137)
<b>Loss for the year from continuing operations</b>		<b>(269,657,373)</b>	<b>(682,988)</b>
<b>Discontinued operations</b>			
Profit after income tax for the year from discontinued operations	5	789,183,404	360,854,031
<b>Net profit for the year</b>		<b>519,526,031</b>	<b>360,171,043</b>
<b>Net profit for the year attributable to:</b>			
Equity holders of the Parent Company		437,485,878	305,849,105
Non-controlling interest		82,040,153	54,321,938
		<b>519,526,031</b>	<b>360,171,043</b>

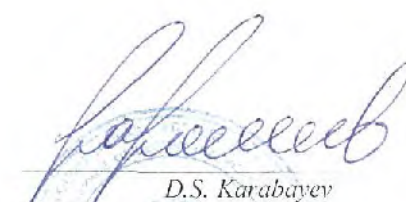
*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)**

<i>In thousands of tenge</i>	Note	For the years ended December 31	
		2017	2016
<b>Other comprehensive loss</b>			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of foreign operations		(74,167,162)	(38,081,340)
Accumulated differences on translation of disposal group		(423,776)	-
<b>Other comprehensive loss to be reclassified to profit or loss in the year</b>		<b>(74,590,938)</b>	<b>(38,081,340)</b>
<i>Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods</i>			
Actuarial (loss)/gain on defined benefit plans of the Group		(1,148,036)	3,775,606
Actuarial loss on defined benefit plans of joint ventures		(173,333)	(127,142)
Write-off of deferred tax assets		(150,746)	-
Tax effect		8,642	(807,240)
<b>Other comprehensive (loss)/income not to be reclassified to profit or loss in the year</b>		<b>(1,463,473)</b>	<b>2,841,224</b>
<b>Other comprehensive loss for the year</b>		<b>(76,054,411)</b>	<b>(35,240,116)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>443,471,620</b>	<b>324,930,927</b>
<b>Total comprehensive income for the year attributable to:</b>			
Equity holders of the Parent Company		361,870,465	275,618,617
Non-controlling interest		81,601,155	49,312,310
		<b>443,471,620</b>	<b>324,930,927</b>

Executive vice-president – financial director



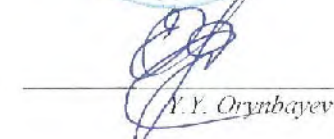
D.S. Karabayev

Vice-president – finance controller



A.Zh. Beknazarova

Chief accountant



Y.Y. Orynbayev

*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>in thousands of tenge</i>	For the years ended December 31	
	2017	2016 <sup>*</sup>
<b>Cash flows from operating activities</b>		
Receipts from customers	5,634,357,593	5,210,416,312
Payments to suppliers	(3,715,959,005)	(2,572,353,624)
Other taxes and payments	(914,413,795)	(781,008,413)
Income taxes paid	(112,604,740)	(106,406,440)
Interest received	104,803,503	61,212,114
Interest paid	(216,639,835)	(197,781,984)
Payments to employees	(369,717,122)	(336,491,364)
Taxes received from Tax authorities	79,392,887	31,066,631
Other payments	(89,330,944)	(32,472,306)
<b>Net cash flows from operating activities</b>	<b>399,888,542</b>	<b>1,276,180,926</b>
<b>Cash flows from investing activities</b>		
Placement of bank deposits, net	(457,272,356)	(269,568,073)
Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets	(464,352,881)	(464,811,894)
Proceeds from sale of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets	1,408,198	1,379,771
Proceeds from sale of subsidiaries (Note 6)	9,151,261	–
Cash acquired with subsidiaries	180,678	–
Dividends received from joint ventures and associates	271,782,500	118,607,550
Acquisition of and contribution to joint ventures	(2,625)	(160,057,189)
Refund of contribution to joint ventures	1,714,856	1,672,268
Repayment of loans due from related parties	336,957	125,002,452
Acquisition of debt securities (Note 16)	(332,401)	–
Note receivable from associate	118,367	6,889,431
Loans given to related parties	(184,707,890)	(222,725,040)
<b>Net cash flows used in investing activities</b>	<b>(821,975,336)</b>	<b>(863,610,724)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings (Note 19)	1,508,170,132	316,799,290
Repayment of borrowings (Note 19)	(689,074,491)	(530,514,370)
Distributions to Samruk-Kazyna	–	(2,202,898)
Dividends paid to Samruk-Kazyna and National Bank of RK (Note 18)	(45,877,517)	(90,853,335)
Dividends paid to non-controlling interests (Note 18)	(12,415,761)	(5,248,975)
Issue of shares (Note 18)	1	1
<b>Net cash flows from / (used in) financing activities</b>	<b>760,802,364</b>	<b>(312,020,287)</b>
Effects of exchange rate changes on cash and cash equivalents	22,436,734	(3,531,543)
<b>Net change in cash and cash equivalents</b>	<b>361,152,304</b>	<b>97,018,372</b>
Cash and cash equivalents, at the beginning of the year	905,452,511	808,434,139
<b>Cash and cash equivalents, at the end of the year</b>	<b>1,266,604,815</b>	<b>905,452,511</b>

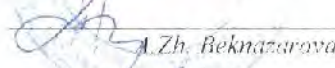
\* The Group changed method of presentation of consolidated statement of cash flows (Note 2).

Executive vice-president – financial director



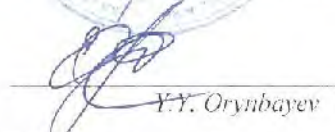
D.S. Karabayev

Vice-president – finance controller



A.Zh. Beknazarova

Chief accountant



Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<i>In thousands of tenge</i>	Attributable to equity holder of the Parent Company					Total	Non-controlling interest	Total
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings			
<b>As at December 31, 2015</b>	696,363,445	243,655,405	3,110,573	1,405,325,707	2,988,542,754	5,336,997,884	753,179,913	6,090,177,797
Net profit for the year	–	–	–	–	305,849,105	305,849,105	54,321,938	360,171,043
Other comprehensive income	–	–	–	(32,554,186)	2,323,698	(30,230,488)	(5,009,628)	(35,240,116)
<b>Total comprehensive income for the year</b>	–	–	–	(32,554,186)	308,172,803	275,618,617	49,312,310	324,930,927
Contribution to share capital	13,180	–	–	–	–	13,180	–	13,180
Dividends	–	–	–	–	(59,748,893)	(59,748,893)	(5,167,227)	(64,916,120)
Distributions to Samruk-Kazyna	–	–	–	–	(22,401,021)	(22,401,021)	–	(22,401,021)
Transactions with Samruk-Kazyna	–	–	–	–	(50,871,857)	(50,871,857)	–	(50,871,857)
Recognition of share-based payments	–	–	891,404	–	–	891,404	518,777	1,410,181
Execution of share-based payments	–	–	(3,740,318)	–	–	(3,740,318)	3,740,318	–
Forfeiture of share-based payments	–	–	(39,585)	–	–	(39,585)	(23,038)	(62,623)
Change of share in subsidiaries	–	–	–	–	(8,593)	(8,593)	(956)	(9,549)
<b>As at December 31, 2016</b>	696,376,625	243,655,405	222,074	1,372,771,521	3,163,685,193	5,476,710,818	801,560,097	6,278,270,915

*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

in thousands of tenge	Attributable to equity holder of the Parent Company						Non-controlling interest	Total
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total		
<b>As at December 31, 2016</b>	696,376,625	243,655,405	222,074	1,372,771,521	3,163,685,193	5,476,710,818	801,560,097	6,278,270,915
Net profit for the year	-	-	-	-	437,485,878	437,485,878	82,040,153	519,526,031
Other comprehensive income	-	-	-	(74,329,237)	(1,286,176)	(75,615,413)	(438,998)	(76,054,411)
<b>Total comprehensive income for the year</b>	-	-	-	(74,329,327)	436,199,702	361,870,465	81,601,155	443,471,620
Contribution to share capital (Note 18)	12,967,880	221,005	-	-	-	13,188,885	-	13,188,885
Dividends (Note 18)	-	-	-	-	(45,878,887)	(45,878,887)	(13,269,562)	(59,148,449)
Distributions to Samruk-Kazyna (Note 18)	-	-	-	-	(23,634,306)	(23,634,306)	-	(23,634,306)
Transactions with Samruk-Kazyna (Note 18)	-	-	-	-	(29,735,993)	(29,735,993)	-	(29,735,993)
Recognition of share-based payments	-	-	-	-	-	-	-	-
Execution of share-based payments	-	-	(130,900)	-	-	(130,900)	130,900	-
Forfeiture of share-based payments	-	-	(7,989)	-	-	(7,989)	(4,689)	(12,678)
Change of share in subsidiaries	-	-	-	-	-	-	-	-
<b>As at December 31, 2017</b>	<b>709,344,505</b>	<b>243,876,410</b>	<b>83,185</b>	<b>1,298,442,284</b>	<b>3,500,635,709</b>	<b>5,752,382,093</b>	<b>870,017,901</b>	<b>6,622,399,994</b>

Executive vice-president – financial director

Vice-president – finance controller

Chief accountant


  
D.S. Karabayev

A.Zh. Beknazarova


  
Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended December 31, 2017**

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**1. GENERAL**

JSC “National Company “KazMunayGas” (the “Company”, “KazMunayGas” or “Parent Company”) is a wholly owned state oil and gas enterprise of the Republic of Kazakhstan, which was established on February 27, 2002 as a closed joint stock company pursuant to the Decree No. 811 of the President of the Republic of Kazakhstan dated February 20, 2002 and the Resolution of the Government of the Republic of Kazakhstan (the “Government”) No. 248 dated February 25, 2002. The Company was formed as a result of the merger of National Oil and Gas Company Kazakhoil CJSC (“Kazakhoil”) and National Company Transport Nefti i Gaza CJSC (“TNG”). As the result of the merger, all assets and liabilities, including ownership interest in all entities owned by these companies, have been transferred to KazMunayGas. The Company was reregistered as a joint stock company in accordance with the legislation of the Republic of Kazakhstan in March 2004.

Starting from June 8, 2006, the sole shareholder of the Company was JSC “Kazakhstan Holding Company for State Assets Management “Samruk” (“Samruk”), which in October 2008 was merged with the state owned Sustainable Development Fund “Kazyna” and formed JSC “National Welfare Fund Samruk-Kazyna” (“Samruk-Kazyna”), now renamed to JSC “Sovereign Wealth Fund Samruk-Kazyna”. The Government is the sole shareholder of Samruk-Kazyna. On August 7, 2015 National Bank of Republic of Kazakhstan (“National Bank of RK”) purchased 10% plus one share of the Company from Samruk-Kazyna.

As at December 31, 2017, the Company has an interest in 52 operating companies (2016: 47) (jointly the “Group”).

The Company has its registered office in the Republic of Kazakhstan, Astana, Kabanbay Batyr avenue, 19.

The principal objective of the Group includes, but is not limited, to the following:

- participation in the Government activities relating to the oil and gas sector;
- representation of the state interests in subsoil use contracts through interest participation in those contracts; and
- corporate governance and monitoring of exploration, development, production, processing, transportation and sale of hydrocarbons and the designing, construction and maintenance of oil-and-gas pipeline and field infrastructure.

The consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries (*Note 34*).

These consolidated financial statements of the Group were approved for issue by the Executive vice-president – financial director, vice-president – financial controller and the Chief accountant on March 12, 2018.

**2. BASIS OF PREPARATION**

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. All values in these consolidated financial statements are rounded to the nearest thousands, except when otherwise indicated.

**Statement of compliance**

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”).

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in *Note 4*.

The Group changed method of presentation of consolidated cash flow statement from indirect method to direct method for the period of January 1, 2017 to December 31, 2017 since the Group believes direct method is more relevant to users of consolidated financial statements. The Group adopted a method of presenting the consolidated cash flows statement on a retrospective basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****2. BASIS OF PREPARATION (continued)****Comparative information**

Consolidated statement of financial position has been revised to combine certain items with similar nature.

Effect on consolidated statement of financial position as at December 31, 2017:

<i>In thousands of tenge</i>	As previously	Reclassifications	As reclassified
<b>Assets</b>			
<b>Non-current assets</b>			
Bonds receivable from Samruk-Kazyna	37,683,003	(37,683,003)	–
Note receivable from a shareholder of a joint venture	16,695,758	(16,695,758)	–
Note receivable from associate	34,837,804	(34,837,804)	–
Loans due from related parties	476,777,932	(476,777,932)	–
Loans and receivable due from related parties	–	565,994,497	565,994,497
<b>Current assets</b>			
Bonds receivable from Samruk-Kazyna	4,440,000	(4,440,000)	–
Note receivable from a shareholder of a joint venture	17,617,100	(17,617,100)	–
Loans due from related parties	113,616,133	(113,616,133)	–
Loans and receivable due from related parties	–	135,673,233	135,673,233

The above mentioned reclassifications did not have any impact on the consolidated financial statements of the Group. The management believes that such presentation is more transparent as they reflect the nature of such assets.

**Foreign currency translation***Functional and presentation currency*

Items included in the financial statements of each of the Group’s entities included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate (“the functional currency”). The consolidated financial statements are presented in Kazakhstan tenge (“tenge” or “KZT”), which is the Company’s functional currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group’s net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**2. BASIS OF PREPARATION (continued)****Foreign currency translation (continued)***Group Companies*

The results and financial position of all of the Group’s subsidiaries, joint ventures and associates (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at that reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of other comprehensive income.

*Exchange rates*

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange (“KASE”) are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE as at December 31, 2017 was 332.33 tenge to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in United States dollars (“US dollar”) as at December 31, 2017 (2016: 333.29 tenge to 1 US dollar). The currency exchange rate of KASE as at March 12, 2018 was 320.55 tenge to 1 US dollar.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****New and amended standards and interpretations**

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2016, except for the adoption of new standards and interpretations effective as of January 1, 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2017, they do not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

*Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in *Note 19*.

*Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application has no effect on the Group’s financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***Annual improvements 2014-2016 cycle*

*Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

*The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. This amendment does not have any impact on the Group.*

**Standards issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s consolidated financial statements are listed below, are those that the Group reasonably expects will have an impact on the disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards, if applicable, when they become effective.

- *IFRS 9 Financial Instruments (January 1, 2018);*
- *IFRS 15 Revenue from Contracts with Customers (January 1, 2018);*
- *IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (January 1, 2018);*
- *IFRS 16 Leases (January 1, 2019);*
- *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
- *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (January 1, 2018);*
- *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (January 1, 2019);*
- *IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters (January 1, 2018);*
- *IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (January 1, 2018);*
- *Transfers of Investment Property – Amendments to IAS 40*

**IFRS 9 Financial Instruments**

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

As at the reporting date the Group has not completed detailed impact assessment of all three aspects of IFRS 9. This assessment may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when IFRS 9 is fully adopted.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued but not yet effective (continued)*****IFRS 9 Financial Instruments (continued)****(a) Classification and measurement*

The Group expects to continue measuring at fair value all financial assets currently held at fair value. The Group continues assessment of the possible effect.

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

*(b) Impairment*

IFRS 9 requires the Group to record expected credit losses on all of loans, trade receivables, deposits, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group is currently developing unified approach for all the entities within the Group with respect to application of IFRS 9 and as at the date of these financial statements continues to analyze all available information in order to assess the effect of IFRS 9 adoption.

*(c) Hedge accounting*

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. During 2017, the Group performed a detailed analysis of IFRS 15 and decided to apply a modified retrospective application.

The Group operates in sale of crude oil, refined products, gas and other products and rendering of services, such as oil and gas transportation, refining and oil support services.

*(a) Sale of goods*

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any material impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on signing of act of acceptance.

*(b) Rendering of services*

The Group fulfills performance obligation on a monthly basis and recognizes revenue from rendering of oil and gas transportation services, based on the actual volumes of services rendered. Revenue from refining and oil support services is recognized over time given that the buyer simultaneously receives and consumes the benefits provided by the Group. It is expected that the application of IFRS 15 to service contracts will not affect the Group's revenue and profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued but not yet effective (continued)*****IFRS 15 Revenue from Contracts with Customers (continued)****(c) Presentation and disclosure requirements*

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will not be significant.

In 2017 the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee, and;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Profit or loss and each component of other comprehensive income are attributable to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income (“OCI”). If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Business combinations achieved in stages*

The acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

In a business combination achieved in stages the acquirer recognises goodwill as of the acquisition date measured as the excess of (a) over (b) below:

- (a) the aggregate of:
  - (i) the consideration transferred measured in accordance with this IFRS 3 *Business Combinations*, which generally requires acquisition-date fair value;
  - (ii) the amount of any non-controlling interest in the acquiree measured in accordance with this IFRS; and
  - (iii) the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree.
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Business combinations and goodwill (continued)***Acquisition of subsidiaries in accordance with the Shareholder instructions*

In acquisitions of subsidiaries from third parties made in accordance with the Shareholder instructions, the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed is recognised directly in equity as a distribution to the Parent Company.

*Acquisition of subsidiaries from parties under common control*

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interest method.

The assets and liabilities of the subsidiary transferred under common control are recorded in the consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill, if any, inherent in the Predecessor's original acquisition is also recorded in the consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to equity.

The consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

**Undivided interest in jointly controlled operations**

The Group has undivided interest in jointly controlled operations.

Upon acquisition the Group shall recognize in relation to its interest in joint operations its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly. Subsequently, the Group shall recognize its revenue from the sale of its share of the output arising from the joint operations; its share of the revenue from the sale of the output by the joint operations; and its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operations in accordance with its accounting policy.

When the Group does not share the joint control over joint operations, it follows the accounting of the parties that share control as discussed in next paragraphs.

**Investment in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but which does not comprise control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in a joint venture or an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture or associate since the acquisition date. Goodwill relating to the joint venture or associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Investment in associates and joint ventures (continued)**

The consolidated statement of comprehensive income reflects the Group’s share of the results of operations of the joint venture or associate, deducted by the amount of dividends declared from joint venture or associate to the Group. Any change in OCI of those investees is presented as part of the Group’s OCI. In addition, when there has been a change recognized directly in the equity of the joint venture or associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture or associate are eliminated to the extent of the interest in the joint venture or associate.

The aggregate of the Group’s share in profit or loss of a joint venture and an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interest in the subsidiaries of the joint venture or associate. The financial statements of the joint venture or associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its joint venture or associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture or associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss as ‘Impairment of investment in joint venture or associate’ in the statement of profit or loss.

Upon loss of joint control over the joint venture or significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture or associate upon loss of joint control or significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

**Current versus non-current classification**

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realized or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 (twelve) months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 (twelve) months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are always classified as non-current assets and liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Oil and natural gas exploration, evaluation and development expenditure***Costs incurred before obtaining subsoil use rights (licenses)*

Costs incurred before obtaining full subsoil use rights (licenses) are expensed in the period in which they are incurred, except when costs are incurred after signing preliminary agreements with the Government of the Republic of Kazakhstan, in such cases costs incurred after this date are capitalized.

*Subsoil use rights and property acquisition costs*

Exploration and production subsoil use rights and related property acquisition costs are capitalized within exploration and evaluation assets and subclassified as intangible assets. Each property under exploration and appraisal is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. If no future activity is planned, the carrying amount of the exploration subsoil use right and related property acquisition costs is written off. Upon determination of economically recoverable reserves (‘proved reserves’ or ‘commercial reserves’) and internal approval of development, the carrying amount of the subsoil use right and related property acquisition costs held on a field-by-field basis is aggregated with exploration and evaluation assets and transferred to oil and gas development assets.

*Exploration and evaluation costs*

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with exploration and appraisal wells are capitalized as exploration and evaluation intangible or tangible assets, according to the nature of the costs, until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration and evaluation asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially; the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbon reserves. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the assets are written off. When proved reserves of hydrocarbons are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas development assets after impairment is assessed and any resulting impairment loss is recognized.

*Development costs*

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells and unforeseen technical problems, is capitalized within oil and gas development assets.

**Oil and gas assets and other property, plant and equipment**

Oil and gas assets and other property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment (“DD&A”).

The initial cost of an asset comprises its purchase price or construction cost, borrowing cost for long-term construction or development project, if recognition criteria is met, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if there is any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas assets are depreciated using a unit-of-production method, whereas tangible assets are depreciated over proved developed reserves and intangible assets – over proved reserves. Certain oil and gas assets with useful lives less than the remaining life of the fields or term of the subsoil use contract are depreciated on a straight-line basis over useful lives of 4-10 years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Oil and gas assets and other property, plant and equipment (continued)**

Property, plant and equipment other than oil and gas assets principally comprise buildings, machinery and equipment which are depreciated on a straight-line basis over the expected remaining useful average lives as follows:

Refinery assets	4-100 years
Pipelines	2-30 years
Buildings and improvements	2-100 years
Machinery and equipment	2-30 years
Vehicles	3-35 years
Other	2-20 years

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is derecognized.

**Intangible assets**

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include expenditure on acquiring subsoil use rights for oil and natural gas exploration, evaluation and development, computer software and goodwill. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets, except for goodwill and subsoil use rights, are amortized on a straight-line basis over the expected remaining useful life. The expected useful lives of the assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Computer software costs have an estimated useful life of 3 to 7 years. The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

**Investment properties**

Investment property is initially measured at cost, including transaction costs. Transaction costs shall be included in the initial measurement.

Since the Group adopted cost model, after initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16 *Property, Plant and Equipment* – cost less accumulated depreciation and less accumulated impairment losses.

The depreciation is calculated based on straight line method basis over the expected remaining useful average life of 2-100 years.

At each reporting date, the Group determines the fair value of investment property and in the event that the fair value of the asset exceeds its fair value, the difference is recognized in profit and loss.

Investment property derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of investment property and recognised in profit or loss in the period of the retirement or disposal.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 5 (five) years. For longer periods, a long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of accumulated depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

**Impairment of exploration and evaluation assets**

Exploration and evaluation assets are tested for impairment when reclassified to oil and gas development tangible or intangible assets or whenever facts and circumstances indicate impairment. One or more of the following facts and circumstances indicate that the Group should test exploration and evaluation assets for impairment (the list is not exhaustive):

- the period for which the Group entity has the right to explore and appraise in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on the further exploration for and evaluation of hydrocarbon resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of hydrocarbon resources in the specific area have not led to the discovery of commercial viable quantities of hydrocarbon resources and the Group entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

**Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Non-current assets held for sale and discontinued operations (continued)**

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

**Asset retirement obligation (decommissioning)**

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of plant, property and equipment and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This asset is subsequently depreciated as part of the capital costs of the production and transportation facilities.

Changes in the measurement of an existing decommissioning provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or change in the discount rate, is accounted for so that:

- (a) changes in the provision are added to, or deducted from, the cost of the related asset in the current period;
- (b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of comprehensive income; and
- (c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

**Financial assets*****Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group financial assets include cash and cash equivalents, short-term bank deposits, bonds receivable from the Parent Company, note receivable from associate, note receivable from a shareholder of a joint venture, loans due from related parties and trade accounts receivable.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Subsequent measurement (continued)**Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as finance costs or finance income through profit or loss.

The consolidated statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in the consolidated statement of comprehensive income. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 is satisfied.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluated its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these investments cannot reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment of trade and other receivables are recognized in general and administrative expenses. The losses arising from impairment of loans receivable are recognized in finance costs.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income as finance costs.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Subsequent measurement (continued)**Available-for-sale financial investments*

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognised in other comprehensive income and credited in the available-for-sale revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale revaluation reserve to finance costs in the consolidated statement of comprehensive income. Interest earned whilst holding available-for-sale financial investments is reported as finance income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognised in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

*Derecognition*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Impairment of financial assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred ‘loss event’), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortized cost*

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in current period expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. The present value of the estimated future cash flows is discounted at the financial asset’s original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income – is removed from other comprehensive and recognised in profits or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Impairment of financial assets (continued)**Available-for-sale financial investments (continued)*

In the case of debt instruments classified as available-for-sale, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed through profits or loss.

**Inventories**

Inventories are stated at the lower of cost and net realizable value on a first-in first-out (“FIFO”) basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil and refined products is the cost of production, including the appropriate proportion of depreciation, depletion and amortization and overheads based on normal capacity. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale.

**Value added tax (VAT)**

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT receivable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

**Cash and cash equivalents**

Cash and cash equivalents include cash in bank and cash on hand, demand deposits with banks with original maturities of 3 (three) months or less.

**Financial liabilities***Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, bank overdraft, loans and borrowings and derivative financial instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)***Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

*Trade and other payables*

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the EIR.

*Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 (twelve) months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

*Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

*Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)***Fair value of financial instruments*

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

**Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

*Provision for obligations to the Government*

The Government assigns various sponsorship and financing obligations to the Group. Management of the Group believes that such Government's assignments represent constructive obligations of the Group and require recognition on the basis of respective resolution of the Government. Furthermore, as the Government is the ultimate controlling party of the Group, the expenditures on these assignments are recognized as other distributions to the Shareholder directly in the equity.

**Employee benefits***Pension scheme*

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state – managed retirement benefit schemes are dealt with as defined contribution plans where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit plan.

*Long-term employee benefits*

The Group provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Group entities and their employees. The collective agreement provides for certain one-off retirement payments, financial aid for employees' disability, anniversaries, funeral and other benefits. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments upon the end of employment. Actuarial gains and losses arising in the year are taken to other comprehensive income. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as finance costs. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Employee benefits (continued)***Long-term employee benefits (continued)*

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

**Revenue recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of goods*

Revenue from the sale of crude oil, refined products, gas and other products is recognized when delivery has taken place and risks and rewards of ownership of the goods have passed to the buyer.

*Rendering of services*

Revenue from rendering of services, such as transportation, refining and oil support services, is recognized when the services have been performed.

*Interest income*

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

**Expense recognition**

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate on an accrual basis.

**Income taxes**

Income tax for the year comprises current income tax, excess profit tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

Excess profit tax (“EPT”) is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation, the Group accrues and pays EPT in respect of each subsoil use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsoil use contract. The ratio of aggregate annual income to deductions in each tax year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsoil use contract in excess of 25% of the deductions attributable to each contract.

Deferred tax is calculated with respect to both corporate income tax (“CIT”) and EPT. Deferred EPT is calculated on temporary differences for assets allocated to subsoil use contracts at the expected rate of EPT to be paid under the contract.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Income taxes (continued)**

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

**Equity***Non-controlling interest*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the Company's owners. Total comprehensive income is attributed to the Company's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

*Share based payments*

Employees of some Group entities receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments of a subsidiary in which they are employed ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Equity (continued)***Share based payments (continued)*

The cost of equity-settled transactions is recognized, together with a corresponding increase in other equity reserves, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (‘the vesting date’). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

*Dividends*

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

*Other distributions to the Shareholder*

Expenditures incurred by the Group based on the respective resolution of the Government or decision and instructions of Samruk-Kazyna are accounted for as other distributions through equity. Such expenditures include costs associated with non-core activity of the Group (construction of social assets) and acquisitions of investments.

**Subsequent events**

The results of post-year-end events that provide evidence of conditions that existed at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Group’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities and assets, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Oil and gas reserves**

Oil and gas reserves are a material factor in the Group’s computation of depreciation, depletion and amortization expenses. The Group estimates its oil and gas reserves in accordance with the methodology of the Society of Petroleum Engineers (“SPE”). In estimating its reserves under SPE methodology, the Group uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Oil and gas reserves (continued)**

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for Depreciation Depletion & Amortization (DD&A) in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group's subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

**Recoverability of oil and gas assets, downstream, refining and other assets**

The Group assesses assets or CGU for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, operating performance (including production and sales volumes) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

As at December 31, 2017 the Group did not carry out an assessment due to absence of impairment or impairment reversal indicators.

As at December 31, 2017 further decreased levels of drilling services provided and increases in inflation rate and cost of capital indicated that Group's cash generating units may be impaired. Therefore, for the year ended December 31, 2017 management has carried out a formal assessment of the recoverable amount of its assets. An impairment loss of 23,309,760 thousand tenge (Note 7), mainly related to property, plant and equipment of Oil Transport Corporation (OTC) and PNHZ was recognized in the consolidated financial statements.

OTC calculates recoverable amount using a discounted cash flow model. The discount rate from 12.77% to 16.01% was derived from the CGU's pre-tax weighted average cost of capital. The five-year business plans, which are approved on an annual basis, are the primary source of information. They contain forecasts of transport services volumes, revenues, costs and capital expenditure. Various assumptions such as tariff for the service and cost inflation rates take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and variability. Most of the projections beyond the five-year period were inflated using available inflation estimates.

The Group performed its annual impairment test of Pavlodar oil chemistry refinery LLP (“PNHZ”) in December 2017 and 2016. The Group considers the forecast refinery margins and production volumes, among other factors, when reviewing for indicators of impairment. Before performing this test, the Group impaired specific work in progress that was not considered as part of PNHZ CGU (Note 10).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Recoverability of oil and gas assets, downstream, refining and other assets (continued)**

PNHZ calculates recoverable amount using a discounted cash flow model. The discount rate was calculated on the weighted average cost of capital before taxes. The weighted average cost of capital takes into account both borrowed and own capital. The cost of equity is derived from the expected return on investment. The cost of debt capital is based on interest-bearing loans that PNHZ is obliged to maintain. The inherent risk was included by applying an individual beta factor. The beta factor was estimated based on the publicly available market data. Forecasted cash flows till to 2036 were based on five-years business plan of PNHZ till 2021, which assumes current management estimates on potential changes in operating and capital costs. The significant part of those cash flows after 2021 was forecasted by applying expected inflation rate, excluding capital costs, which are based on the best estimate of management as of valuation date.

As of December 31, 2017 the Group has material goodwill related to acquisitions of PNHZ (*Note 10*).

As at December 31, 2017 recoverable amount of PNHZ CGU amounted to 432,622,355 thousand tenge (in 2016: 315,402,461 thousand tenge). It was calculated based on fair value less costs to sell. The fair value less costs to sell calculation is based on a discounted cash flow model. Cash flows assume the highest and best use of assets by independent market participants, i.e. other companies of the same industry in the existing economic environment. The discount rate applied to the cash flow projections is 13.25% (in 2016: 11.58%), and cash flows beyond the five-year period are extrapolated using a 2.78% growth rate (in 2016: 4.99%).

Based on the results of impairment test no impairment of PNHZ goodwill was identified in 2017.

*Key assumptions used in calculating fair value less costs to sell*

The key assumptions used in calculating fair value less costs to sell use for PNHZ are as follows:

- volumes of crude oil and oil products output;
- capital expenditures for 2018-2036;
- price of crude oil and oil products;
- discount rates.

Volumes of crude oil and oil products output

Volumes of crude oil and oil products output – are the forecasts of PNHZ with respect to the output of oil products during processing one ton of crude oil before and after modernization of PNHZ.

Capital expenditures

Capital expenditures – costs: a) on reconstruction and modernization of PNHZ; b) necessary to maintain the current condition of the asset.

Prices of Crude oil and oil products in the local market

Prices of crude oil and oil products in the local market – the prices which are based on the assessment of the management of the Group’s on purchase of crude oil from local oil producers and sales of oil products to local customers.

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the PNHZ and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by PNHZ investors. The cost of debt is based on the interest-bearing borrowings the PNHZ is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Recoverability of downstream, refining and other assets (continued)***Sensitivity to changes in assumptions*

Results of the assessment of recoverable amount of goodwill from acquisition of PNHZ are sensitive to changes in key assumptions, in particular, assumptions related to changes in WACC discount rates and target EBITDA in terminal period. Increase in discount rates by 1.0% from 13.25% to 14.25%, would result in recoverable amount of goodwill decrease by 40,369,592 thousand tenge. Decrease of target cash flow projections in terminal period by 5% from 23% to 18% would result in decrease of the recoverable value of goodwill for 3,993,727 thousand tenge.

**Assets retirement obligations***Oil and gas production facilities*

Under the terms of certain subsoil use contracts, legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group's obligation relates to the ongoing closure of all non-producing wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories, and also obligations to dismantle and remove tangible assets and restore territory at each production site. Since the subsoil use contract terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each subsoil use contract period. If the asset retirement obligations were to be settled at the end of the economic life of oil and gas field, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Group's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective subsoil use contracts and current legislation.

Where neither subsoil use contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the subsoil use contract term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

The Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market.

At each reporting date the Group reviews site restoration provisions, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in the consolidated statement of financial position across the Group entities at December 31, 2017 were in the range from 2.01% to 5.57% and from 5.17% to 10.00%, respectively (2016: from 2.04% to 6.7% and from 5.5% to 10.15%). Movements in the provision for asset retirement obligations are disclosed in *Note 21*.

*Major oil and gas pipelines*

According to the Law of the Republic of Kazakhstan *On Major Pipelines* which was made effective on July 4, 2012 mainly the Group's two subsidiaries, JSC KazTransOil and Intergas Central Asia JSC, the subsidiary of KazTransGaz JSC, have legal obligation to decommission its major oil pipelines at the end of their operating life and to restore the land to its original condition. Asset retirement obligation is calculated based on estimate of the work to decommission and rehabilitate. As at December 31, 2017 the carrying amounts of the Group's asset retirement obligations relating to decommissioning of pipelines and land were 65,139,689 thousand tenge (December 31, 2016: 59,539,785 thousand tenge) (*Note 21*).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Environmental remediation**

The Group also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan and Europe. The Group has classified this obligation as non-current except for the portion of costs, included in the annual budget for 2017. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Movements in the provision for environmental remediation obligations are disclosed in *Note 21*.

**Employee benefits**

The cost of defined long-term employee benefits before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

**Taxation**

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil use contracts, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for tax risks disclosed under other provisions or provisions for taxes in *Note 21*. Further uncertainties related to taxation are disclosed in *Note 35*.

Taxable income is computed in accordance with the tax legislation enacted as at January 1, 2017. Deferred tax is calculated with respect to both CIT and EPT. Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to subsoil use contracts at the expected rates that were enacted by the tax authorities as at December 31, 2017.

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets as at December 31, 2017 was 65,135,777 thousand tenge (2016: 71,909,033 thousand tenge). Further details are disclosed in *Note 31*.

**Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Further details are disclosed in *Note 33*.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Operating lease commitments – the Group as lessee**

The Group has entered into office space and car leases. The Group has determined that the lessor retains all the significant risks and rewards of ownership of office spaces and cars and so accounts for them as operating leases in the consolidated financial statements

**Useful lives of property, plant and equipment**

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for prospectively as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Fair values of assets and liabilities acquired in business combinations**

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

**Discontinued operations**

In September 2015, the Group developed a new privatization plan which was subsequently approved by the Government in December 2015. The new privatization plan envisages sale of certain assets including 51% share in KMG International N.V. group (KMG I). On December 15, 2016, following this plan the Group signed share sale and purchase agreement (the SPA) to sell a 51% interest in KMG I. During 2017 all conditions precedent indicated in SPA were executed. On December 15, 2017, in order to maintain the previously agreed terms of the deal with the buyer, the Group signed an addendum to SPA and conditional act of transfer of shares of KMG I with an expectation to complete the transaction in June 2018.

The Group estimated fair value of the 51% share in KMG I at 680,000 thousand US dollars (equivalent of 225,984,400 thousand tenge).

The Group considered the subsidiary to meet the criteria to be classified as discontinued operations for the following reasons:

- KMG I is available for immediate sale and can be sold in its current condition;
- the actions to complete the sale were initiated and expected to be completed within one year.

Additional disclosures are provided in *Note 5*.

**5. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE**

The assets and liabilities, classified as discontinued operations and assets classified as held for sale as at December 31, 2017 and the results for 2017 are as follows:

<i>In thousands of tenge</i>	<b>December 31, 2017</b>			
	<b>Assets classified as held for sale</b>	<b>Liabilities directly associated with the assets classified as held for sale</b>	<b>Net assets directly associated with the disposal group</b>	<b>Profit/(loss) after income tax for 2017 from discontinued operation</b>
KMG International N.V.	1,086,784,349	531,002,856	555,781,493	792,849,522
Other assets*	24,904,588	1,928,662	22,975,926	(3,666,118)
<b>Total</b>	<b>1,111,688,937</b>	<b>532,931,518</b>	<b>578,757,419</b>	<b>789,183,404</b>

\* Other assets include Kazakh British Technical University JSC (KBTU) and KMG Usturt LLP. The loss after tax include result from sale of 100% of shares of EurasiaAir JSC (Note 6).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE (continued)**

The assets and liabilities, classified as discontinued operations and assets classified as held for sale as at December 31, 2016 and the results for 2016 are as follows:

<i>In thousands of tenge</i>	December 31, 2016			
	Assets classified as held for sale	Liabilities directly associated with the assets classified as held for sale	Net assets directly associated with the disposal group	Profit/(loss) after income tax for 2016 from discontinued operation
KMG International N.V.	1,014,948,431	550,226,128	464,722,303	368,199,241
Other assets*	43,845,645	13,658,153	30,187,492	(7,345,210)
<b>Total</b>	<b>1,058,794,076</b>	<b>563,884,281</b>	<b>494,909,795</b>	<b>360,854,031</b>

\* Other assets include EurasiaAir JSC, Kazakh British Technical University JSC (KBTU) and AZPM LLP.

**KMG International N.V. (KMG I)**

The results of KMG I for the years ended December 31, 2017 and 2016 are presented below:

<i>In thousands of tenge</i>	2017		2016	
	Before elimination	After elimination*	Before elimination	After elimination*
Revenue	2,724,172,080	2,334,927,450	1,943,293,716	1,695,688,049
Cost of sales	(2,594,154,170)	(1,416,186,062)	(1,833,990,709)	(1,193,961,256)
<b>Gross profit</b>	<b>130,017,910</b>	<b>918,741,388</b>	109,303,007	501,726,793
General and administrative expenses	(48,422,585)	(48,422,585)	(50,098,705)	(50,098,705)
Transportation and selling expenses	(60,408,688)	(60,408,688)	(59,423,245)	(59,423,245)
Impairment recognized on the re-measurement to fair value less costs to sell	(5,921,976)	(5,921,976)	(10,327,447)	(10,327,447)
Reversal/(impairment) of property, plant and equipment and intangible assets, other than goodwill	981,997	981,997	(3,982,106)	(3,982,106)
Other operating losses	(3,502,338)	(3,502,337)	(2,204,976)	(2,204,976)
<b>Operating profit</b>	<b>12,744,320</b>	<b>801,467,799</b>	(16,733,472)	375,690,314
Net foreign exchange loss	(128,297)	(128,297)	(2,272,190)	(2,272,190)
Finance income	838,557	838,557	452,245	452,245
Finance costs	(11,457,926)	(11,457,926)	(10,436,587)	(10,436,587)
Share in profit of joint ventures and associates, net	384,575	384,574	1,175,613	1,175,613
<b>Profit/(loss) before income tax for the year from discontinued operations</b>	<b>2,381,229</b>	<b>791,104,707</b>	(27,814,391)	364,609,395
Income tax benefit	1,744,815	1,744,815	3,589,846	3,589,846
<b>Profit/(loss) after income tax for the year from discontinued operations</b>	<b>4,126,044</b>	<b>792,849,522</b>	(24,224,545)	368,199,241

\* The results are presented after eliminations of intergroup transactions (for 2017: 389,244,630 thousand tenge of revenue and 1,177,968,108 thousand tenge of cost of sales; for 2016: 247,605,667 thousand tenge of revenue and 640,029,453 thousand tenge of cost of sales).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE (continued)****KMG International N.V. (KMG I) (continued)**

The major classes of assets and liabilities of KMG I, classified as held for sale as at December 31, 2017 and 2016 are as follows:

<i>In thousands of tenge</i>	2017*	2016*
<b>Assets</b>		
Property, plant and equipment	559,864,830	585,545,785
Intangible assets	69,774,013	73,932,864
Investment in associate	13,278,245	12,644,023
Deferred tax asset	33,544,726	34,545,175
Inventories	141,471,552	115,234,684
Trade accounts receivable	161,542,624	128,944,234
Other non-current assets	3,373,814	2,949,283
Other current assets	30,103,448	36,148,634
Cash and cash equivalents	73,831,097	25,003,749
<b>Assets classified as held for sale</b>	<b>1,086,784,349</b>	<b>1,014,948,431</b>
<b>Liabilities</b>		
Borrowings	137,808,610	201,868,754
Deferred income tax liabilities	68,725,179	72,935,184
Provisions	53,136,243	50,706,074
Trade accounts payable	188,730,872	142,278,168
Other taxes payable	24,406,316	17,704,032
Other non-current liabilities	156,195	141,648
Other current liabilities	58,039,441	64,592,268
<b>Liabilities directly associated with the assets classified as held for sale</b>	<b>531,002,856</b>	<b>550,226,128</b>
<b>Net assets directly associated with the disposal group</b>	<b>555,781,493</b>	<b>464,722,303</b>

\* *Assets and liabilities are presented after eliminations of intergroup transactions.*

The net cash flows incurred by KMG I are as follows:

<i>In thousands of tenge</i>	2017*	2016*
Operating	145,378,203	57,998,062
Investing	(33,401,027)	(34,273,788)
Financing	(63,997,439)	(32,809,432)
<b>Net cash inflows/(outflows)</b>	<b>47,979,737</b>	<b>(9,085,158)</b>

\* *Cash flows are presented before eliminations of intergroup transactions.*

As at December 31, 2017, items of property, plant and equipment with the net book value of 346,416,024 thousand tenge related to discontinued operations (2016: 372,054,627 thousand tenge) were pledged as collateral to secure borrowings and payables of KMG I.

As at December 31, 2017 KMG I has pledged trade accounts receivable and inventory of approximately 58,115,548 thousand tenge and 111,843,564 thousand tenge, respectively, as a collateral under its borrowings (2016: 87,648,449 thousand tenge and 72,640,966 thousand tenge) related to discontinued operations.

As at December 31, 2017 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment were 201,459,026 thousand tenge (2016: 174,340,401 thousand tenge).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****6. LOSS OF CONTROL**

On November 8, 2017 Company completed the sale of 100% of shares of EurasiaAir JSC, which was classified as discontinued operations, for 11,850,000 thousand tenge.

At the date of loss of control net assets of EurasiaAir JSC were as follows:

<i>In thousands of tenge</i>	<b>Net assets at the date of disposal</b>
Property, plant and equipment	10,367,360
Intangible assets	41,901
Trade accounts receivable	2,824,184
Cash	3,339,751
Other current assets	706,204
	<b>17,279,400</b>
Deferred income tax liabilities	2,381,767
Trade accounts payable	2,306,514
Current liabilities	752,353
	<b>5,440,634</b>
<b>Net assets</b>	<b>11,838,766</b>

The resulting gain on disposal of investment amounted to 11,234 thousand tenge and was included into the profit from discontinued operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of tenge</i>	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
<b>Net book value as at December 31, 2015 (restated)</b>	879,613,848	606,283,140	247,532,399	184,750,124	260,127,436	76,049,925	23,825,549	383,160,263	2,661,342,684
Foreign currency translation	(10,971,334)	–	–	(1,432,872)	(417,878)	(750,283)	(285,909)	98,148	(13,760,128)
Change in estimate	(8,500,916)	(6,079,200)	–	(53,279)	–	–	–	–	(14,633,395)
Additions	83,804,363	2,590,183	692,596	2,288,823	6,554,473	2,536,240	5,060,421	422,448,504	525,975,603
Additions on finance lease	–	–	871,933	–	–	–	–	–	871,933
Disposals	(5,646,977)	(1,734,827)	(1,377,061)	(1,301,727)	(1,893,689)	(4,340,763)	(2,203,070)	(14,650,326)	(33,148,440)
Depreciation charge	(67,800,045)	(22,759,956)	(26,768,931)	(17,306,955)	(26,465,714)	(7,973,698)	(5,998,828)	–	(175,074,127)
Accumulated depreciation and impairment on disposals	5,587,411	1,665,595	917,594	611,453	1,707,023	4,159,902	1,965,237	3,252,309	19,866,524
(Impairment) / reversal of impairment (Note 28)	1,113,617	(1,206,581)	–	405,314	(641,489)	(918,887)	(544,666)	(1,457,438)	(3,250,130)
Transfers to discontinued operations	(84,640)	–	–	(4,203,451)	(926,578)	(150,232)	(2,018,896)	(4,135,805)	(11,519,602)
Transfers from inventory, net	15,838	489,059	155,774	1,246	81,689	30,694	19,292	1,297,315	2,090,907
Transfer to assets held for sale, net	(19,911)	–	(17,055)	(113,630)	(2,076)	(210,124)	(203)	–	(362,999)
Transfers (to)/from investment property (Note 9)	–	–	–	(200,042)	(363)	–	967	–	(199,438)
Transfers (to)/from intangible assets, net (Note 10)	1,915	–	–	–	–	–	–	(695,965)	(694,050)
Transfer to exploration and evaluation assets (Note 8)	(3,446,255)	–	–	–	–	–	–	(923,422)	(4,369,677)
Transfers and reclassifications	3,966,096	64,031,658	93,630,122	48,909,084	39,723,354	1,169,683	13,589,517	(265,019,514)	–
<b>Net book value as at December 31, 2016</b>	<b>877,633,010</b>	<b>643,279,071</b>	<b>315,637,371</b>	<b>212,354,088</b>	<b>277,846,188</b>	<b>69,602,457</b>	<b>33,409,411</b>	<b>523,374,069</b>	<b>2,953,135,665</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of tenge</i>	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
<b>Net book value as at December 31, 2016</b>	877,633,010	643,279,071	315,637,371	212,354,088	277,846,188	69,602,457	33,409,411	523,374,069	2,953,135,665
Foreign currency translation	(2,413,467)	–	–	(395,815)	413,356	(98,328)	192,521	(413,504)	(2,715,237)
Change in estimate	247,396	(199,915)	–	(4,855)	–	–	–	–	42,626
Additions	27,176,012	16,878,787	297,455	8,086,249	6,334,531	8,087,416	2,684,947	531,171,597	600,716,994
Disposals	(17,371,754)	(1,153,877)	(2,647,246)	(4,304,287)	(3,035,202)	(1,423,630)	(2,846,129)	(1,458,232)	(34,240,357)
Depreciation charge	(62,017,598)	(23,892,749)	(32,550,787)	(16,018,534)	(28,137,645)	(7,845,341)	(5,169,968)	–	(175,632,622)
Accumulated depreciation and impairment on disposals	14,880,689	858,685	2,517,354	4,033,279	2,433,160	1,259,612	2,671,583	760,282	29,414,644
Impairment (Note 28)	–	(1,321)	–	(1,343,255)	(1,431,137)	(1,907,846)	(947,310)	(17,678,891)	(23,309,760)
Transfers (to)/from inventory, net	(1,688)	(52,019)	13,086,516	1,060	34,440	240	1,278	166,149	13,235,976
Transfer to discontinued operations and assets held for sale, net	(170,291)	–	(3,908,276)	(3,553,089)	(242,126)	(123,814)	(97,736)	(60)	(8,095,392)
Transfers to investment property (Note 9)	–	–	–	(251,422)	(13,059)	–	(746)	(357,143)	(622,370)
Transfers (to)/from intangible assets, net (Note 10)	(210,414)	–	–	–	–	–	1,577	(1,507,120)	(1,715,957)
Transfer from exploration and evaluation assets (Note 8)	8,880,580	–	–	–	–	–	–	–	8,880,580
Transfers and reclassifications	82,273,967	104,461,699	194,362,603	14,756,917	98,323,465	5,664,728	3,352,591	(503,195,970)	–
<b>Net book value as at December 31, 2017</b>	<b>928,906,442</b>	<b>740,178,361</b>	<b>486,794,990</b>	<b>213,360,336</b>	<b>352,525,971</b>	<b>73,215,494</b>	<b>33,252,019</b>	<b>530,861,177</b>	<b>3,359,094,790</b>
At cost	1,895,494,619	897,214,797	670,697,037	361,025,155	567,043,377	172,744,554	82,087,998	572,214,596	5,218,522,133
Accumulated depreciation and impairment	(966,588,177)	(157,036,436)	(183,902,047)	(147,664,819)	(214,517,406)	(99,529,060)	(48,835,979)	(41,353,419)	(1,859,427,343)
<b>Net book value as at December 31, 2017</b>	<b>928,906,442</b>	<b>740,178,361</b>	<b>486,794,990</b>	<b>213,360,336</b>	<b>352,525,971</b>	<b>73,215,494</b>	<b>33,252,019</b>	<b>530,861,177</b>	<b>3,359,094,790</b>
At cost	1,796,687,457	776,793,501	473,343,599	350,113,598	466,840,617	161,145,408	79,902,688	547,812,419	4,652,639,287
Accumulated depreciation and impairment	(919,054,447)	(133,514,430)	(157,706,228)	(137,759,510)	(188,994,429)	(91,542,951)	(46,493,277)	(24,438,350)	(1,699,503,622)
<b>Net book value as at December 31, 2016</b>	<b>877,633,010</b>	<b>643,279,071</b>	<b>315,637,371</b>	<b>212,354,088</b>	<b>277,846,188</b>	<b>69,602,457</b>	<b>33,409,411</b>	<b>523,374,069</b>	<b>2,953,135,665</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****7. PROPERTY, PLANT AND EQUIPMENT (continued)**

In 2017, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 3.36% in the amount of 29,962,865 thousand tenge which are related to the construction of assets (2016: 28,515,460 thousand tenge at the average interest rate of 2.42%).

As at December 31, 2017, items of property, plant and equipment with the net book value of 594,020,576 thousand tenge (2016: 483,908,126 thousand tenge) were pledged as collateral to secure borrowings and payables of the Group.

Additions to capital work in progress are mainly related to capital repair of main gas pipelines of Intergas Central Asia JSC, the subsidiary of KTG, development drilling at Ozenmunaigas and Embamunaigas subsidiaries and modernization projects of the Group refineries located in Atyrau and Pavlodar.

As at December 31, 2017 the cost of fully depreciated but still in use property, plant and equipment were 88,901,167 thousand tenge (2016: 81,065,726 thousand tenge).

**Impairment of property, plant and equipment**

In 2017, the Group recorded net impairment loss of 23,309,760 thousand tenge, which is mainly attributable to impairment of capital work in progress of PNHZ in the amount of 15,226,880 thousand tenge associated with change in configuration of modernization project and impairment of property, plant and equipment of OTC in the amount of 5,039,820 thousand tenge (*Note 4*).

In 2016, the Group recorded net impairment loss of 3,250,130 thousand tenge, which is mainly attributable to impairment of property, plant and equipment of ANS in the amount of 3,036,355 thousand tenge.

**8. EXPLORATION AND EVALUATION ASSETS**

<i>In thousands of tenge</i>	<b>Tangible</b>	<b>Intangible</b>	<b>Total</b>
<b>Net book value as at December 31, 2015</b>	169,094,278	39,431,785	208,526,063
Foreign currency translation	(677,712)	(339,900)	(1,017,612)
Additions	21,130,985	3,484,421	24,615,406
Transfer from property, plant and equipment ( <i>Note 7</i> )	4,369,677	–	4,369,677
Disposals	(18,734)	(4,857,647)	(4,876,381)
Change in estimate	(63,985)	–	(63,985)
<b>Net book value as at December 31, 2016</b>	<b>193,834,509</b>	<b>37,718,659</b>	<b>231,553,168</b>
Foreign currency translation	(94,631)	(52,800)	(147,431)
Additions	33,075,420	344,512	33,419,932
Transfer to property, plant and equipment ( <i>Note 7</i> )	(8,880,580)	–	(8,880,580)
Disposals	(104,945)	(557,243)	(662,188)
Transfers to discontinued operations and assets held for sale, net	–	(1,030,477)	(1,030,477)
Impairment ( <i>Note 28</i> )	(802,687)	(10,761)	(813,448)
Change in estimate	(112,876)	–	(112,876)
Transfers and reclassifications	(1,261,185)	1,261,185	–
<b>Net book value as at December 31, 2017</b>	<b>215,653,025</b>	<b>37,673,075</b>	<b>253,326,100</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****8. EXPLORATION AND EVALUATION ASSETS (continued)**

As at December 31, 2017 and 2016 the exploration and evaluation assets are represented by the following projects:

<i>In thousands of tenge</i>	<b>2017</b>	2016
Project N	<b>85,093,174</b>	84,350,943
Pearls	<b>35,069,407</b>	34,328,596
Zhambyl	<b>33,396,110</b>	31,946,639
Urikhtau	<b>27,685,604</b>	30,326,087
Satpayev	<b>33,791,001</b>	14,653,706
Other	<b>38,290,804</b>	35,947,197
	<b>253,326,100</b>	231,553,168

Exploration costs on Pearls and Satpayev projects are financed by project partners other than the Group. Respective financial liabilities are recognized within borrowings (*Note 19*). The repayment of the financing for these projects depends on the identification of commercially recoverable reserves.

**9. INVESTMENT PROPERTY**

<i>In thousands of tenge</i>	<b>Total</b>
<b>Net book value as at December 31, 2015</b>	29,260,917
Additions	565,862
Depreciation charge	(722,174)
Disposals	(47)
Transfers from assets classified as held for sale	174,243
Transfer from property, plant and equipment ( <i>Note 7</i> )	199,438
Transfers from inventory	1,805
<b>Net book value as at December 31, 2016</b>	29,480,044
Depreciation charge	(703,010)
Disposals	(233,132)
Impairment ( <i>Note 28</i> )	(1,518,344)
Transfers to assets classified as held for sale	(224,703)
Transfer from property, plant and equipment ( <i>Note 7</i> )	622,370
<b>Net book value as at December 31, 2017</b>	<b>27,423,225</b>
At cost	<b>32,473,275</b>
Accumulated depreciation and impairment	(5,050,050)
<b>Net book value as at December 31, 2017</b>	<b>27,423,225</b>
At cost	32,589,798
Accumulated depreciation and impairment	(3,109,754)
<b>Net book value as at December 31, 2016</b>	29,480,044

Investment property is mainly represented by Emerald Quarter office building leased under operating lease terms. The management of the Group believes that as at December 31, 2017 the fair value of this building is 24,219,173 thousand tenge (2016: 26,723,865 thousand tenge). The fair value of investment property was based on the market price of the office property (*Note 33*).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****10. INTANGIBLE ASSETS**

<i>In thousands of tenge</i>	<b>Goodwill</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
<b>Net book value as at December 31, 2015</b>	90,003,639	11,013,606	18,928,126	119,945,371
Foreign currency translation	–	(1,164)	(1,396,052)	(1,397,216)
Additions	–	2,474,012	511,244	2,985,256
Disposals	–	(2,357,734)	(477,764)	(2,835,498)
Amortization charge	–	(3,620,391)	(1,936,237)	(5,556,628)
Accumulated amortization and impairment on disposals	–	2,343,001	452,278	2,795,279
Impairment	–	(32,549)	–	(32,549)
Transfer from property, plant and equipment, net ( <i>Note 7</i> )	–	691,448	2,602	694,050
Transfers to discontinued operations	–	(100,373)	(9,080)	(109,453)
Transfers and reclassifications	–	8,236	(8,236)	–
<b>Net book value as at December 31, 2016</b>	90,003,639	10,418,092	16,066,881	116,488,612
Foreign currency translation	–	(53,462)	125,676	72,214
Additions	–	2,296,273	728,041	3,024,314
Disposals	–	(830,439)	(208,287)	(1,038,726)
Amortization charge	–	(3,681,446)	(1,961,809)	(5,643,255)
Accumulated amortization and impairment on disposals	–	353,851	192,529	546,380
Transfers (to)/from inventory, net	–	(47)	265,965	265,918
Transfer from property, plant and equipment, net ( <i>Note 7</i> )	–	1,083,277	632,680	1,715,957
Transfers and reclassifications	–	91,996	(91,996)	–
<b>Net book value as at December 31, 2017</b>	90,003,639	9,678,095	15,749,680	115,431,414
At cost	125,324,547	37,842,270	23,833,222	187,000,039
Accumulated amortization and impairment	(35,320,908)	(28,164,175)	(8,083,542)	(71,568,625)
<b>Net book value as at December 31, 2017</b>	90,003,639	9,678,095	15,749,680	115,431,414
At cost	126,946,769	33,487,005	24,072,716	184,506,490
Accumulated amortization and impairment	(36,943,130)	(23,068,913)	(8,005,835)	(68,017,878)
<b>Net book value as at December 31, 2016</b>	90,003,639	10,418,092	16,066,881	116,488,612

Carrying amount of goodwill is allocated to each of the group of cash-generating units as follows:

<b>Cash-generating unit</b>	<b>2017</b>	2016
Cash-generating units of PNHZ	88,553,296	88,553,296
Gas stations	1,450,343	1,450,343
<b>Total goodwill</b>	<b>90,003,639</b>	90,003,639

**PNHZ**

In 2017 and 2016, based on the impairment test results, no impairment of PNHZ goodwill was recognized.

For the detailed discussion of testing goodwill for impairment refer to *Note 4*.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****11. BANK DEPOSITS**

<i>In thousands of tenge</i>	<b>2017</b>	2016
Denominated in US dollar	<b>1,656,762,879</b>	1,202,060,798
Denominated in tenge	<b>28,228,345</b>	28,256,972
Denominated in other currency	<b>2,472,452</b>	2,378,825
	<b>1,687,463,676</b>	1,232,696,595

As at December 31, 2017, the weighted average interest rate for long-term bank deposits was 1.07% in US dollars and 2.29% in tenge, respectively (2016: 1.16% in US dollars and 4.87% in tenge, respectively).

As at December 31, 2017, the weighted average interest rate for short-term bank deposits was 1.65% in US dollars, 7.51% in tenge and 0.65% in other foreign currencies, respectively (2016: 1.84% in US dollars, 12.13% in tenge and 0.36% in other foreign currencies, respectively).

<i>In thousands of tenge</i>	<b>2017</b>	2016
Maturities under 1 year	<b>1,638,940,642</b>	1,182,669,493
Maturities between 1 and 2 years	<b>835,902</b>	178,088
Maturities over 2 years	<b>47,687,132</b>	49,849,014
	<b>1,687,463,676</b>	1,232,696,595

As at December 31, 2017 bank deposits include mainly cash pledged as collateral of 62,072,850 thousand tenge (2016: 108,695,345 thousand tenge), which are represented mainly by 14,903,887 thousand tenge (2016: 63,718,200 thousand tenge) pledged with SB Sberbank Russia JSC until execution of obligations (March 1, 2018) by Atyrau Oil Refinery LLP (ANPZ) on loans received from this bank on construction of the deep oil processing plant at Atyrau Oil Refinery and 32,100,440 thousand tenge (2016: 33,276,000 thousand tenge) at restricted bank accounts designated as a liquidation fund per requirements of subsoil use contracts.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES**

<i>In thousands of tenge</i>	Main activity	Place of business	December 31, 2017		December 31, 2016	
			Carrying value	Percentage ownership	Carrying value	Percentage ownership
<b>Joint ventures</b>						
Kashagan B.V.	Oil and gas exploration and production	Kazakhstan	<b>1,743,495,073</b>	<b>50.00%</b>	1,759,152,117	50.00%
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	<b>1,353,084,254</b>	<b>20.00%</b>	1,154,183,137	20.00%
Mangistau Investments B.V.	Oil and gas development and production	Kazakhstan	<b>135,780,525</b>	<b>50.00%</b>	191,813,452	50.00%
Ural Group Limited BVI	Oil and gas exploration and production	Kazakhstan	<b>78,031,456</b>	<b>50.00%</b>	72,898,443	50.00%
KazGerMunay LLP	Oil and gas exploration and production	Kazakhstan	<b>47,537,370</b>	<b>50.00%</b>	71,109,842	50.00%
Valseira Holding BV	Oil refining	Kazakhstan	<b>36,736,906</b>	<b>50.00%</b>	27,044,986	<b>50.00%</b>
KazRosGas LLP	Processing and sale of natural gas and refined gas products	Kazakhstan	<b>33,760,512</b>	<b>50.00%</b>	79,658,348	50.00%
Kazakhoil-Aktobe LLP	Production of crude oil	Kazakhstan	<b>22,715,643</b>	<b>50.00%</b>	39,503,663	50.00%
Beineu-Shymkent Pipeline LLP	Construction and operation of the gas pipeline	Kazakhstan	<b>17,700,751</b>	<b>50.00%</b>	–	<b>50.00%</b>
Teniz Services LLP	Design, construction and operation of infrastructure facilities, support of offshore oil operations	Kazakhstan	<b>6,134,421</b>	<b>48.996%</b>	6,195,807	<b>48.996%</b>
Other			<b>22,648,911</b>		21,839,079	
<b>Associates</b>						
PetroKazakhstan Inc. (“PKI”)	Exploration, production and processing of oil and gas	Kazakhstan	<b>115,920,426</b>	<b>33.00%</b>	144,252,432	33.00%
Caspian Pipeline Consortium (CPC)	Transportation of liquid hydrocarbons	Kazakhstan / Russia	<b>195,094,592</b>	<b>20.75%</b>	137,035,180	20.75%
Other			<b>1,710,501</b>		1,590,324	
			<b>3,810,351,341</b>		<b>3,706,276,810</b>	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

All of the above joint ventures and associates are strategic for the Group’s business.

As at December 31, 2017, the Group’s share in unrecognized losses of joint ventures and associates was equal to 175,622,640 thousand tenge (December 31, 2016: 357,813,869 thousand tenge). The Group’s change in share of unrecognized losses of joint ventures and associates for 2017 was 182,191,229 thousand tenge (2016: 174,756,859 thousand tenge).

The following table summarizes the movements in the investments in 2017 and 2016:

<i>In thousands of tenge</i>	<b>2017</b>	2016
<b>At January 1</b>	<b>3,706,276,810</b>	3,422,939,745
Share in profits of joint ventures and associates, net ( <i>Note 30</i> )	<b>414,565,236</b>	270,190,990
Additional contributions without change in ownership	–	165,401,066
Refund of contributions without change in ownership	<b>(1,714,856)</b>	(1,925,543)
Dividends received	<b>(271,782,500)</b>	(118,607,550)
Change in dividends receivable	<b>(39,889,075)</b>	10,160,358
Adjustment of unrealized income*	<b>(20,722,048)</b>	–
Acquisitions	<b>2,625</b>	87
Reversal/(impairment) of investments	<b>14,845,359</b>	(5,503,379)
Other changes in the equity of the joint venture	<b>10,629,606</b>	8,475,525
Transfers to assets classified as held for sale	<b>(66,899)</b>	–
Foreign currency translation	<b>(1,792,917)</b>	(44,854,489)
<b>At December 31</b>	<b>3,810,351,341</b>	3,706,276,810

\* *Adjustment of unrealized income represents elimination of unrealized profit from sale of inventory from the Group to JV made by the Group when using the equity method.*

In 2016, additional contributions without change in ownership mainly relates to the cash calls for Kashagan project (159,758,211 thousand tenge or 469,556 thousand US dollars).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2017:

<i>In thousands of tenge</i>	<b>KMG Kashagan B.V.</b>	<b>Tengizchevroil LLP</b>	<b>Mangistau Investments B.V.</b>	<b>Ural Group Limited BVI</b>	<b>KazGerMunay LLP</b>	<b>Valsera Holding BV</b>
Non-current assets	4,181,690,783	8,719,901,854	393,188,438	219,833,754	131,809,168	417,762,488
Current assets, including	172,993,385	1,527,676,810	66,799,332	57,066	46,380,639	55,449,428
<i>Cash and cash equivalents</i>	49,409,827	748,523,476	3,090,429	46,894	37,913,868	17,662,733
Non-current liabilities, including	(563,262,794)	(2,507,495,652)	(66,129,352)	(63,640,210)	(28,691,378)	(210,750)
<i>Non-current financial liabilities</i>	–	(1,329,320,000)	–	(54,732,538)	–	–
Current liabilities, including	(304,431,229)	(974,661,744)	(122,297,369)	(187,698)	(54,423,690)	(399,527,354)
<i>Current financial liabilities</i>	(272,147,696)	(31,718,905)	–	–	–	(327,331,592)
<b>Equity</b>	<b>3,486,990,145</b>	<b>6,765,421,268</b>	<b>271,561,049</b>	<b>156,062,912</b>	<b>95,074,739</b>	<b>73,473,812</b>
Share of ownership	50%	20%	50%	50%	50%	50%
<b>Carrying amount of the investments as at December 31, 2017</b>	<b>1,743,495,073</b>	<b>1,353,084,254</b>	<b>135,780,525</b>	<b>78,031,456</b>	<b>47,537,370</b>	<b>36,736,906</b>
Revenue	183,119,424	4,357,947,405	635,902,730	7,806	184,616,262	60,807,978
Depreciation, depletion and amortization	(90,257,871)	(560,816,868)	(62,190,091)	(19,797)	(34,072,143)	(5,026,754)
Finance income	1,024,605	22,006,884	125,989	16,556	1,306,260	411,019
Finance costs	(36,556,637)	(127,134,154)	(5,787,751)	(1,890,789)	(1,014,422)	(65,961)
Income tax expense	(3,749,814)	(621,385,125)	(34,036,342)	(690,912)	(53,071,478)	(4,373,083)
<b>Profit/(loss) for the year from continuing operations</b>	<b>(20,416,709)</b>	<b>1,449,898,428</b>	<b>99,210,060</b>	<b>(3,754,422)</b>	<b>35,426,899</b>	<b>19,501,556</b>
Other comprehensive (loss)/income	(10,897,380)	7,517,157	(228,950)	(218,852)	(664,344)	(117,716)
<b>Total comprehensive income/(loss)</b>	<b>(31,314,089)</b>	<b>1,457,415,585</b>	<b>98,981,110</b>	<b>(3,973,274)</b>	<b>34,762,555</b>	<b>19,383,840</b>
Dividends received	–	79,694,300	105,523,482	–	40,445,243	2,377,123

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2017:

<i>In thousands of tenge</i>	KazRosGas LLP	Kazakhoil-Aktobe LLP	Beineu-Shymkent Pipeline LLP	TenizService LLP	Asia Gas Pipeline LLP (AGP)
Non-current assets	27,017,765	49,853,017	442,256,509	514,174,591	1,572,551,905
Current assets, including	150,968,308	19,768,150	139,271,512	72,382,243	519,332,547
<i>Cash and cash equivalents</i>	30,876,542	6,003,873	71,938,622	4,636,467	9,069,756
Non-current liabilities, including	–	(7,430,578)	(464,526,731)	(419,764,043)	(2,058,444,374)
<i>Non-current financial liabilities</i>	–	–	(457,760,112)	(12,536,470)	(2,015,735,146)
Current liabilities, including	(69,020,954)	(16,759,302)	(110,972,112)	(154,272,542)	(331,505,536)
<i>Current financial liabilities</i>	–	(6,847,436)	(91,094,674)	(7,290,228)	(297,653,555)
<b>Equity</b>	<b>108,965,119</b>	<b>45,431,287</b>	<b>6,029,178</b>	<b>12,520,249</b>	<b>(298,065,458)</b>
Share of ownership	50%	50%	50%	48.996%	50%
Accumulated unrecognized share of losses	–	–	–	–	149,032,729
Consolidation adjustments	(20,722,048)	–	14,686,162	–	–
<b>Carrying amount of the investments as at December 31, 2017</b>	<b>33,760,512</b>	<b>22,715,643</b>	<b>17,700,751</b>	<b>6,134,421</b>	<b>–</b>
Revenue	243,526,652	56,046,725	79,096,648	3,466,618	587,428,795
Depreciation, depletion and amortization	(638,139)	(17,062,183)	(13,235,308)	(378,038)	(64,332,618)
Finance income	2,488,969	212,438	20,952	38,606	3,757,049
Finance costs	(13,361,780)	(2,472,632)	(24,649,158)	(116,278)	(86,077,312)
Income tax expense	(11,906,811)	2,415,969	–	(645,283)	(89,287,214)
<b>Profit/(loss) for the year from continuing operations</b>	<b>17,244,090</b>	<b>(33,576,039)</b>	<b>38,484,528</b>	<b>3,374,702</b>	<b>269,647,198</b>
Other comprehensive (loss)/income	(1,939,339)	–	–	–	–
<b>Total comprehensive income/(loss)</b>	<b>15,304,751</b>	<b>(33,576,039)</b>	<b>38,484,528</b>	<b>3,374,702</b>	<b>269,647,198</b>
Change in unrecognized share of losses	–	–	19,910,964	–	134,823,599
Dividends received	18,647,418	–	–	–	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2016:

<i>In thousands of tenge</i>	<b>KMG Kashagan B.V.</b>	<b>Tengizchevroil LLP</b>	<b>Mangistau Investments B.V.</b>	<b>Ural Group Limited BVI</b>	<b>KazGerMunay LLP</b>	<b>Valsera Holding BV</b>
Non-current assets	4,272,763,806	6,865,450,041	395,489,866	215,892,000	152,790,499	236,339,155
Current assets, including	174,986,584	2,424,218,478	95,375,850	310,850	50,846,056	91,231,530
<i>Cash and cash equivalents</i>	86,451,093	1,795,549,215	3,870,651	297,396	39,694,839	76,650,503
Non-current liabilities, including	(601,418,805)	(2,456,711,253)	(65,632,702)	(68,663,338)	(27,510,090)	(227,305,975)
<i>Non-current financial liabilities</i>	(250,522,762)	(1,333,160,000)	–	(57,970,000)	–	–
Current liabilities, including	(328,027,351)	(1,062,041,583)	(41,606,110)	(1,742,626)	(33,906,781)	(46,174,738)
<i>Current financial liabilities</i>	(271,597,355)	(34,823,472)	–	–	–	–
<b>Equity</b>	<b>3,518,304,234</b>	<b>5,770,915,683</b>	<b>383,626,904</b>	<b>145,796,886</b>	<b>142,219,684</b>	<b>54,089,972</b>
Share of ownership	50%	20%	50%	50%	50%	50%
<b>Carrying amount of the investments as at December 31, 2016</b>	<b>1,759,152,117</b>	<b>1,154,183,137</b>	<b>191,813,452</b>	<b>72,898,443</b>	<b>71,109,842</b>	<b>27,044,986</b>
Revenue	16,419,924	3,568,833,894	532,016,705	39,899	157,268,631	52,340,852
Depreciation, depletion and amortization	(10,493,810)	(453,762,627)	(55,342,813)	(29,672)	(36,325,000)	(4,465,956)
Finance income	903,219	9,238,666	52,201	17,221	946,000	328,489
Finance costs	(40,494,823)	(172,523,889)	(4,942,864)	(1,652,398)	(1,231,000)	(46,426)
Income tax benefit/(expense)	58,587,222	(316,950,160)	(20,804,933)	(187,093)	(19,873,000)	(7,230,337)
<b>Profit/(loss) for the year from continuing operations</b>	<b>15,451,774</b>	<b>739,551,980</b>	<b>59,532,404</b>	<b>(3,155,114)</b>	<b>10,259,065</b>	<b>20,828,376</b>
Other comprehensive (loss)/income	(66,056,550)	(109,061,451)	(294,736)	(2,751,222)	(2,644,700)	40,452
<b>Total comprehensive (loss)/income</b>	<b>(50,604,776)</b>	<b>630,490,529</b>	<b>59,237,668</b>	<b>(5,906,336)</b>	<b>7,614,365</b>	<b>20,868,828</b>
Dividends received	–	–	44,347,360	–	27,514,925	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2016:

<i>In thousands of tenge</i>	<b>KazRosGas LLP</b>	<b>Kazakhoil-Aktobe LLP</b>	<b>Beineu-Shymkent Pipeline LLP</b>	<b>Tenizservice LLP</b>	<b>Asia Gas Pipeline LLP (AGP)</b>
Non-current assets	9,641,413	85,936,432	449,074,109	257,098,119	1,691,909,542
Current assets, including	244,478,957	28,462,628	115,813,128	31,907,475	529,037,901
<i>Cash and cash equivalents</i>	62,379,300	10,749,817	56,148,742	6,423,515	64,862,965
Non-current liabilities, including	(454,608)	(7,586,856)	(474,773,724)	(242,533,551)	(2,466,567,228)
<i>Non-current financial liabilities</i>	–	–	(467,117,974)	11,655,148	(2,433,422,400)
Current liabilities, including	(94,349,066)	(27,804,878)	(129,935,447)	(33,826,507)	(322,092,871)
<i>Current financial liabilities</i>	–	–	(11,384,051)	4,558,879	(281,792,538)
<b>Equity</b>	159,316,696	79,007,326	(39,821,934)	12,645,536	(567,712,656)
Share of ownership	50%	50%	50%	48.996%	50%
Accumulated unrecognized share of losses	–	–	19,910,968	–	283,856,328
<b>Carrying amount of the investments as at December 31, 2016</b>	79,658,348	39,503,663	–	6,195,807	–
Revenue	231,655,238	54,593,234	33,827,305	3,304,883	551,219,060
Depreciation, depletion and amortization	(717,333)	(16,043,932)	(9,378,998)	(385,920)	(59,269,618)
Finance income	6,256,417	524,548	24	17,777	3,949,093
Finance costs	(100,133)	(1,006,373)	(11,103,332)	(2,806)	(85,771,582)
Income tax benefit/(expense)	(14,443,039)	(12,179,837)	–	(479,326)	(80,881,044)
<b>Profit/(loss) for the year from continuing operations</b>	37,294,835	(23,070,957)	14,989,344	2,756,175	304,750,874
Other comprehensive (loss)/income	(285,886)	–	–	–	–
<b>Total comprehensive (loss)/income</b>	37,008,949	(23,070,957)	14,989,344	2,756,175	304,750,874
Change in unrecognized share of losses	–	–	10,947,110	–	152,375,437
Dividends received	36,252,976	6,734,600	–	–	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information about a material associates, based on its financial statements for 2017:

<i>In thousands of tenge</i>	<b>2017</b>	
	PKI	CPC
Non-current assets	356,151,959	2,042,156,419
Current assets	84,903,668	95,627,293
Non-current liabilities	(59,122,504)	(756,148,455)
Current liabilities	(30,659,104)	(595,179,435)
<b>Equity</b>	<b>351,274,019</b>	<b>786,455,822</b>
Share of ownership	33%	20.75%
Goodwill	–	31,905,009
<b>Carrying amount of the investment as at December 31</b>	<b>115,920,426</b>	<b>195,094,592</b>
Revenue	137,911,562	647,477,562
Profit for the year	21,920,516	263,450,520
Other comprehensive (loss)/income	(991,827)	16,353,875
<b>Total comprehensive income</b>	<b>20,928,689</b>	<b>279,804,395</b>
Dividends received	20,453,367	–

The following tables illustrate summarized financial information about a material associates, based on its financial statements for 2016:

<i>In thousands of tenge</i>	<b>2016</b>	
	PKI	CPC
Non-current assets	459,502,915	2,099,989,380
Current assets	97,178,710	86,254,119
Non-current liabilities	(99,253,349)	(1,139,220,549)
Current liabilities	(20,299,694)	(540,815,685)
<b>Equity</b>	<b>437,128,582</b>	<b>506,207,265</b>
Share of ownership	33%	20.75%
Goodwill	–	31,997,172
<b>Carrying amount of the investment as at December 31</b>	<b>144,252,432</b>	<b>137,035,180</b>
Revenue	128,809,187	546,965,806
(Loss)/profit for the year	(47,908,279)	390,880,208
Other comprehensive (loss)/income	(10,771,298)	79,529,104
<b>Total comprehensive (loss)/income</b>	<b>(58,679,577)</b>	<b>470,409,312</b>
Change in unrecognized share of losses	–	6,198,893

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate aggregate financial information of individually immaterial joint ventures (the Group’s proportional share):

<i>In thousands of tenge</i>	2017	2016
Non-current assets	125,404,236	137,412,947
Current assets	37,468,195	32,551,366
Non-current liabilities	(127,415,389)	(146,407,855)
Current liabilities	(35,006,253)	(51,571,034)
Goodwill	172,214	172,214
Impairment	(3,635,227)	(3,635,227)
Accumulated unrecognized share of losses	(25,661,135)	(53,316,668)
<b>Carrying amount of the investments as at December 31</b>	<b>22,648,911</b>	<b>21,839,079</b>
Profit for the year from continuing operations	18,233,038	12,463,584
Other comprehensive income/(losses)	497,482	(120,785)
Total comprehensive income	18,730,520	12,342,799
Unrecognized share of income	13,600,372	5,906,724

The following tables illustrate aggregate financial information of individually immaterial associates (the Group’s proportional share):

<i>In thousands of tenge</i>	2017	2016
Non-current assets	8,518,491	6,880,547
Current assets	1,663,030	2,707,872
Non-current liabilities	(5,599,325)	(4,848,556)
Current liabilities	(3,800,471)	(3,720,029)
Impairment	–	(159,415)
Accumulated unrecognized share of losses	(928,776)	(729,905)
<b>Carrying amount of the investments as at December 31</b>	<b>1,710,501</b>	<b>1,590,324</b>
Profit/losses for the year from continuing operations	51,773	(514,758)
<b>Total comprehensive income/(losses)</b>	<b>51,773</b>	<b>(514,758)</b>
Unrecognized share of losses	(198,871)	(671,305)

**13. INVENTORIES**

<i>In thousands of tenge</i>	2017	2016
Materials and supplies	58,212,821	61,605,528
Refined products	30,129,849	14,504,132
Gas products	15,689,458	20,579,927
Crude oil	12,237,322	8,525,374
Less: provision for obsolete inventory	(7,372,095)	(6,438,061)
	<b>108,897,355</b>	<b>98,776,900</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****14. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS**

<i>In thousands of tenge</i>	2017	2016
Advances paid and prepaid expenses	85,533,159	89,388,255
Taxes receivable, other than VAT	23,492,489	34,330,632
Dividends receivable	29,009,976	3,242,634
Restricted cash	13,056,590	1,380,977
Other current assets	34,738,931	27,208,178
Less: allowance for impairment	(17,914,896)	(6,471,068)
<b>Total other current assets</b>	<b>167,916,249</b>	<b>149,079,608</b>
Trade accounts receivable	317,477,806	290,199,726
Less: allowance for impairment	(11,153,175)	(10,388,095)
<b>Trade accounts receivable</b>	<b>306,324,631</b>	<b>279,811,631</b>

As at December 31, 2017 and 2016 the above assets were non-interest bearing.

In 2017 Specialized Interdistrict Economic Court of Astana approved settlement agreements related to the civil cases on the statement of claim of the Company, KazMunayGas–refining and marketing JSC and Delta Bank JSC (“Delta Bank”) on recovery of bank deposits and penalty interests, according to which Delta Bank had to make payments within six months. Due to the uncertainty regarding the payment from Delta Bank, the Group accrued 100% provision for impairment of the deposits in the total amount of 36,161 thousand US dollars (equivalent to 11,637,410 thousand tenge) (Note 29). In connection with the revocation of the Delta Bank license by National Bank of RK, the Group reclassified deposits in restricted cash.

Movements in the allowance for impairment of trade accounts receivable and other current assets were as follows:

<i>In thousands of tenge</i>	<b>Individually impaired</b>
<b>As at December 31, 2015</b>	13,602,754
Charge for the year	9,141,218
Recovered	(3,565,932)
Written off	(1,794,727)
Discontinued operations	(419,627)
Foreign currency translation	(104,523)
<b>As at December 31, 2016</b>	16,859,163
Charge for the year	7,812,444
Recovered	(6,519,114)
Written off	(977,097)
Transfers and reclassifications	11,855,869
Foreign currency translation	36,806
<b>As at December 31, 2017</b>	<b>29,068,071</b>

As at December 31, the ageing analysis of trade accounts receivable is as follows:

<i>In thousands of tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	61-90 days	91-120 days	>120 days
2017	306,324,631	231,716,027	6,164,625	36,318,632	15,059,406	1,533,783	15,532,158
2016	279,811,631	261,776,745	3,577,040	7,558,909	4,342,068	906,982	1,649,887

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****15. LOANS AND RECEIVABLES DUE FROM RELATED PARTIES**

<i>In thousands of tenge</i>	2017	2016
Loans due from related parties	<b>785,593,140</b>	640,650,266
Note receivable from a shareholder of a joint venture	<b>38,014,555</b>	34,312,858
Bonds receivable from Samruk-Kazyna	<b>18,342,494</b>	42,123,003
Less: allowance for impairment of loans to related parties	–	(15,418,397)
	<b>841,950,189</b>	701,667,730

<i>In thousands of tenge</i>	2017	2016
Loans due from related parties in tenge	<b>471,798,857</b>	403,380,730
Loans due from related parties in US dollars	<b>311,340,691</b>	220,434,656
Note receivable from a shareholder of a joint venture in US dollars	<b>38,014,555</b>	34,312,858
Bonds receivable from Samruk-Kazyna in tenge	<b>18,342,494</b>	42,123,003
Loans due from related parties in other foreign currencies	<b>2,453,592</b>	1,416,483
	<b>841,950,189</b>	701,667,730

<i>In thousands of tenge</i>	2017	2016
Current portion	<b>169,501,500</b>	135,673,233
Non-current portion	<b>672,448,689</b>	565,994,497
	<b>841,950,189</b>	701,667,730

Loans due from related parties are stated at amortized cost.

Since the Group acquired remaining 49% of interest in KS EP and it became a subsidiary, the balance of loan from KS EP, including the allowance for impairment was fully eliminated.

*Note receivable from a shareholder of a joint venture*

In 2007, the Group acquired a 50% interest in a jointly controlled entity, CITIC Canada Energy Limited (“CCEL”), whose investments are involved in oil and natural gas production in the Western Kazakhstan, from its co-investor, State Alliance Holdings Limited, a holding company ultimately belonging to CITIC Group (“CITIC”), and listed on the Hong Kong Stock Exchange.

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 KMG EP is contractually obliged to transfer any dividends received from CCEL, in excess of a guaranteed amount, to CITIC, up to the total maximum amount, which is equal to 508.8 million US dollars (169,101 million tenge) as at December 31, 2017 (2016: 512.3 million US dollars or 170,760 million tenge). The total maximum amount represents the balance of KMG EP’s share of the original purchase price funded by CITIC plus accrued interest. KMG EP has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Group recognizes in its consolidated statement of financial position only the right to receive dividends from CCEL in the guaranteed amount of 26.9 million US dollars which yields an effective interest rate of 15% per annum on an annual basis until 2020, plus the right to retain any dividends in excess of the total maximum guaranteed amount. The carrying amount of this receivable at December 31, 2017, was equal to 114 million US dollars (38,014,555 thousand tenge) (2016: 103 million US dollars or 34,312,858 thousand tenge).

In addition, KMG EP has the right, subject to certain conditions precedent, to exercise a put option and return the investment to CITIC in exchange for 150 million US dollars plus annual interest of 8% less the cumulative amount of the guaranteed payments received.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****16. OTHER FINANCIAL ASSETS**

In October 2017, the Group noted indicators of impairment on deposits and cash on current accounts held in Bank RBK JSC of 27,889,370 thousand tenge. Based on an analysis of the recoverability of the deposits, the Group recognised a loss on impairment on deposits of 6,972,343 thousand tenge (*Note 29*). As result, the carrying amount of deposits and cash on current accounts comprised 20,917,027 thousand tenge.

In November 2017, National Bank of RK jointly with the Government of the Republic of Kazakhstan and Kazakhmys Corporation LLC (KCC), a third party, signed a framework agreement on improving the conditions of Bank RBK JSC. Pursuant to a resolution of the government dated November 7, 2017, on December 29, 2017, the Group's deposits and cash on current accounts held in Bank RBK JSC with carrying amount of 27,889,370 thousand tenge were converted to 15 year coupon bonds at par value of 1 tenge each bearing 0.01% per annum. Under this framework agreement, KCC guaranteed to repay 7,666,949 thousand tenge at the end of five years. As a result, coupon bonds were initially recognised at a fair value of 4,161,312 thousand tenge. The fair value was determined by discounting future cash flows for the bonds using a discount rate of 13.0% and maturity date of five years. The difference between carrying amount of deposits and cash and the fair value of coupon bonds in the amount of 16,755,715 thousand tenge was recognised as a transaction with the shareholder by the Group in the consolidated statement of changes in equity (*Note 18*).

**17. CASH AND CASH EQUIVALENTS**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Term deposits with banks – US dollars	<b>790,300,142</b>	435,939,051
Term deposits with banks – tenge	<b>115,103,490</b>	180,075,718
Current accounts with banks – US dollars	<b>250,473,444</b>	245,711,146
Current accounts with banks – tenge	<b>30,272,279</b>	13,214,622
Current accounts with banks – other currencies	<b>2,139,505</b>	1,893,667
Term deposits with banks – other currencies	<b>43,535</b>	37,995
Cash-on-hand	<b>1,823,964</b>	1,566,151
	<b>1,190,156,359</b>	878,438,350
Cash and cash equivalents attributable to discontinued operations	<b>76,448,456</b>	27,014,161
	<b>1,266,604,815</b>	905,452,511

Term deposits with banks are made for various periods of between one day and three months, depending on the immediate cash requirements of the Group. As at December 31, 2017, the weighted average interest rate for time deposits with banks was 1.04% in US dollars and 7.85% in tenge, respectively (2016: 0.61% in US dollars and 8.15% in tenge, respectively).

As at December 31, 2017 and 2016 cash and cash equivalents were not pledged as collateral.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. EQUITY**

Total number of outstanding, issued and paid shares comprises:

	December 31, 2015	Issued in 2016	December 31, 2016	Issued in 2017	December 31, 2017
<b>Number of shares issued and paid, including</b>	584,207,465	5,272	584,212,737	5,187,152	589,399,889
Par value of 27,726.63 tenge	137,900	–	137,900	–	137,900
Par value of 5,000 tenge	59,707,029	–	59,707,029	–	59,707,029
Par value of 2,500 tenge	65,911,763	5,272	65,917,035	5,187,152	71,104,187
Par value of 2,451 tenge	1	–	1	–	1
Par value of 1,000 tenge	1	–	1	–	1
Par value of 921 tenge	1	–	1	–	1
Par value of 858 tenge	1	–	1	–	1
Par value of 838 tenge	1	–	1	–	1
Par value of 704 tenge	1	–	1	–	1
Par value of 592 tenge	1	–	1	–	1
Par value of 500 tenge	458,450,766	–	458,450,766	–	458,450,766
<b>Share capital (000'tenge), including</b>	696,363,445	13,180	696,376,625	12,967,880	709,344,505
Par value of 27,726.63 tenge	3,823,502	–	3,823,502	–	3,823,502
Par value of 5,000 tenge	298,535,145	–	298,535,145	–	298,535,145
Par value of 2,500 tenge	164,779,408	13,180	164,792,588	12,967,880	177,760,468
Par value of 2,451 tenge	2	–	2	–	2
Par value of 1,000 tenge	1	–	1	–	1
Par value of 921 tenge	1	–	1	–	1
Par value of 858 tenge	1	–	1	–	1
Par value of 838 tenge	1	–	1	–	1
Par value of 704 tenge	1	–	1	–	1
Par value of 592 tenge	1	–	1	–	1
Par value of 500 tenge	229,225,382	–	229,225,382	–	229,225,382

**Share capital**

In 2017 the Company issued 5,187,152 common shares. As consideration, the Company received high, medium and low pressure gas pipelines and associated facilities for 12,967,880 thousand tenge that were previously recognized as additional paid-in capital and cash for 1 thousand tenge.

In 2016 the Company issued 5,272 common shares. As consideration for these common shares the Company received building in Kyzylorda for 13,180 thousand tenge and cash for 1 thousand tenge.

As at December 31, 2017, 260,159,707 common shares were authorized, but not issued (2016: 265,346,859 common shares).

**Additional paid-in capital**

In 2017 the Group increased additional paid in capital in the amount of 13,188,885 thousand tenge, which represents the fair value of gas pipelines contributed by the Government on trust management terms, which serves as a short-term mechanism until the legal title for the pipelines transfers to the Group.

**Transactions with Samruk-Kazyna**

In 2017, Samruk-Kazyna changed conditions of the prospectus of the second bond issue, according to which the coupon on the bonds was reduced from 4.00% to 0.50%. In this regard, the Company recognized a modification of the debt and recognized the effect of modification of 24,019,820 thousand tenge through equity, at the new market rates.

In 2017 the Company provided interest free loan to Samruk-Kazyna, the difference between fair value and nominal value of the loan amounting 5,716,173 thousand tenge (2016: 50,871,857 thousand tenge) recognized as transaction with Samruk-Kazyna in the consolidated statement of changes in equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. EQUITY (continued)****Distributions to Samruk-Kazyna**

In 2017 distributions to Samruk-Kazyna includes: accrual of provision for construction of the Palace of martial arts in Astana city in the amount of 5,544,234 thousand tenge (2016: 14,275,013 thousand tenge), the results of operations of PSA LLP (subsidiary of the Group) in the total amount of 5,792,675 thousand tenge (2016: 5,852,146 thousand tenge) and the adjustment of the fair value of cost of gas pipelines received as a payment for the issued common shares of 514 thousand tenge.

In 2017 due to transferring obligations for reconstruction of the trade and exhibition center in Moscow to Corporate Fund “TVC Kazakhstan”, the Company reversed previously recognized provision of 4,458,832 thousand tenge.

As at December 31, 2017 the Group recognized the discount on purchased bonds of “Special financial company DSFK” LLP through retained earnings in the amount of 16,755,715 thousand tenge (*Note 16*).

**Dividends**

In 2017, based on the decision of Samruk-Kazyna and National Bank of RK, the Company declared and paid dividends for 2016 in the amount of 11.32 tenge per common share in the total amount of 6,672,007 thousand tenge and dividends for 2013 in the amount of 66.52 tenge per common share in the total amount of 39,206,880 thousand tenge.

In 2017 the Group declared dividends of 13,269,562 thousand tenge to the holders of non-controlling interest in KMG EP and KTO (subsidiaries of the Group). As at December 31, 2017 the dividends payable by the Group to the holders of non-controlling interest is 1,850,141 thousand tenge (as at December 31, 2016: 1,862,166 thousand tenge).

**Book value per share**

In accordance with the decision of KASE dated October 4, 2010 financial statements shall disclose book value per share (ordinary and preferred) as of the reporting date, calculated in accordance with the KASE rules.

<i>In thousands of tenge</i>	2017	2016
Total assets	13,388,753,337	11,883,077,270
Less: intangible assets	115,431,414	116,488,612
Less: total liabilities	6,766,353,343	5,604,806,355
<b>Net assets</b>	<b>6,506,968,580</b>	<b>6,161,782,303</b>
Number of ordinary shares	589,399,889	584,212,737
<b>Book value per ordinary share</b>	<b>11,040</b>	<b>10,547</b>

**Earnings per share**

<i>In thousand tenge</i>	2017	2016
Weighted average number of common shares for basic and diluted earnings per share	588,967,626	584,210,540
Basic and diluted share in net profit for the period	0.882	0.617
Basic and diluted share in loss from continuing operations	(0.458)	(0.001)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. EQUITY (continued)****Non-controlling interest**

The following tables illustrate information of subsidiaries in which the Group has significant non-controlling interests:

	Country of incorporation and operation	2017		2016	
		Share	Carrying value	Share	Carrying value
KazMunayGas Exploration Production JSC	Kazakhstan	<b>36.99%</b>	779,932,098	36.98%	715,007,274
Rompetrol Downstream S.R.L.	Romania	<b>45.37%</b>	46,577,301	45.37%	41,753,314
KazTransOil JSC	Kazakhstan	<b>10.00%</b>	42,861,526	10.00%	42,221,868
Rompetrol Petrochemicals S.R.L.	Romania	<b>45.37%</b>	8,698,505	45.37%	11,002,892
Rompetrol Rafinare S.A.	Romania	<b>45.37%</b>	705,953	45.37%	1,775,348
Rompetrol Vega	Romania	<b>45.37%</b>	(19,743,196)	45.37%	(20,763,577)
Other			10,985,714		10,562,978
			870,017,901		801,560,097

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. EQUITY (continued)****Non-controlling interest (continued)**

The following tables illustrate summarized financial information of subsidiaries on a stand-alone basis, in which the Group has significant non-controlling interests as at December 31, 2017 and for the year then ended:

<i>In thousands of tenge</i>	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetro Rafinare S.A.	Rompetro Downstream S.R.L.	Rompetro Vega	Rompetro Petrochemicals S.R.L.
<b>Summarized statement of financial position</b>						
Non-current assets	771,619,013	450,725,408	219,853,770	119,373,059	21,456,147	3,417,387
Current assets	1,562,165,394	99,864,145	213,572,571	121,460,853	9,847,562	25,180,684
Non-current liabilities	(53,790,289)	(60,818,542)	(50,695,215)	(13,368,325)	(24,447,296)	(2,679,868)
Current liabilities	(171,271,707)	(65,826,269)	(381,175,202)	(124,808,982)	(50,370,467)	(6,746,676)
<b>Total equity</b>	<b>2,108,722,411</b>	<b>423,944,742</b>	<b>1,555,924</b>	<b>102,656,605</b>	<b>(43,514,054)</b>	<b>19,171,527</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	1,328,790,313	381,083,216	849,971	56,079,304	(23,770,857)	10,473,022
Non-controlling interest	779,932,098	42,861,526	705,953	46,577,301	(19,743,197)	8,698,505
<b>Summarized statement of comprehensive income</b>						
Revenue	954,505,779	222,449,953	868,442,783	402,786,476	56,963,700	65,575,792
<b>Profit/(loss) for the year from continuing operations</b>	<b>195,361,299</b>	<b>65,889,883</b>	<b>(1,696,400)</b>	<b>10,744,848</b>	<b>2,060,006</b>	<b>(4,905,225)</b>
<b>Total comprehensive income/(loss) for the year, net of tax</b>	<b>194,983,214</b>	<b>66,003,468</b>	<b>(2,356,951)</b>	<b>10,632,091</b>	<b>2,248,922</b>	<b>(5,078,872)</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	122,875,728	59,403,121	(1,287,556)	5,808,104	1,228,541	(2,774,485)
Non-controlling interest	72,107,486	6,600,347	(1,069,395)	4,823,987	1,020,381	(2,304,387)
Dividends declared to non-controlling interests	(7,308,873)	(5,960,689)	–	–	–	–
<b>Summarized cash flow information</b>						
Operating activity	234,062,986	98,945,565	35,473,676	20,967,248	1,223,370	(1,227)
Investing activity	44,736,436	(67,271,259)	(36,389,078)	(2,622,275)	(1,216,751)	2
Financing activity	(18,905,604)	(59,617,355)	(660,692)	(17,790,242)	7,389	(268)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>259,551,871</b>	<b>(28,423,901)</b>	<b>(1,576,094)</b>	<b>554,731</b>	<b>14,008</b>	<b>(1,493)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. EQUITY (continued)****Non-controlling interest (continued)**

The following tables illustrate summarized financial information of subsidiaries on a stand-alone basis, in which the Group has significant non-controlling interests as at December 31, 2016 and for the year then ended:

<i>In thousands of tenge</i>	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetro Rafinare S.A.	Rompetro Downstream S.R.L.	Rompetro Vega	Rompetro Petrochemicals S.R.L.
<b>Summarized statement of financial position</b>						
Non-current assets	738,093,000	426,739,640	267,716,078	119,113,167	21,101,988	4,300,369
Current assets	1,372,383,000	112,883,363	137,535,233	80,502,620	7,633,039	22,852,248
Non-current liabilities	(49,282,000)	(57,652,505)	(74,068,991)	(57,160,652)	(22,265,502)	(2,828,719)
Current liabilities	(127,682,000)	(61,396,189)	(327,269,445)	(50,430,727)	(52,232,554)	(73,495)
<b>Total equity</b>	<b>1,933,512,000</b>	<b>420,574,309</b>	<b>3,912,875</b>	<b>92,024,408</b>	<b>(45,763,029)</b>	<b>24,250,403</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	1,218,504,726	378,352,441	2,137,527	50,271,094	(24,999,452)	13,247,511
Non-controlling interest	715,007,274	42,221,868	1,775,348	41,753,314	(20,763,577)	11,002,892
<b>Summarized statement of comprehensive income</b>						
Revenue	727,154,000	207,107,815	726,258,178	247,673,492	49,722,055	–
<b>Profit/(loss) for the year from continuing operations</b>	<b>131,576,000</b>	<b>67,615,565</b>	<b>(4,862,301)</b>	<b>12,978,277</b>	<b>12,529,909</b>	<b>(2,865,715)</b>
<b>Total comprehensive income/(loss) for the year, net of tax</b>	<b>120,368,000</b>	<b>67,963,961</b>	<b>(5,675,817)</b>	<b>2,344,256</b>	<b>4,486,614</b>	<b>(2,046,509)</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	76,087,439	61,167,565	(3,100,588)	1,280,620	2,450,950	(1,117,967)
Non-controlling interest	44,280,561	6,796,396	(2,575,229)	1,063,636	2,035,664	(928,542)
Dividends declared to non-controlling interests	(51,573)	(5,115,654)	–	–	–	–
<b>Summarized cash flow information</b>						
Operating activity	175,322,000	90,976,610	60,338,009	12,991,805	60,117	(29,683)
Investing activity	(252,679,000)	(20,217,330)	(25,786,852)	(4,953,041)	(61,321)	7
Financing activity	(2,265,000)	(51,166,084)	(31,812,694)	(7,598,919)	115	(495)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(75,219,000)</b>	<b>18,874,141</b>	<b>2,738,463</b>	<b>439,845</b>	<b>(1,089)</b>	<b>(30,171)</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. BORROWINGS**

<i>In thousands of tenge</i>	<b>2017</b>	2016
Fixed interest rate borrowings	<b>3,137,181,680</b>	2,099,674,818
Weighted average interest rates	<b>6.30%</b>	7.93%
Floating interest rate borrowings	<b>1,026,261,847</b>	972,865,152
Weighted average interest rates	<b>5.21%</b>	4.57%
	<b>4,163,443,527</b>	3,072,539,970

<i>In thousands of tenge</i>	<b>2017</b>	2016
US dollar – denominated borrowings	<b>3,942,714,607</b>	2,846,125,693
Tenge – denominated borrowings	<b>220,728,920</b>	226,414,277
	<b>4,163,443,527</b>	3,072,539,970

<i>In thousands of tenge</i>	<b>2017</b>	2016
Current portion	<b>763,955,792</b>	366,438,649
Non-current portion	<b>3,399,487,735</b>	2,706,101,321
	<b>4,163,443,527</b>	3,072,539,970

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. BORROWINGS (continued)**

As at December 31, 2017 and 2016, the debt securities issued and loans comprised:

<b>Bonds</b>	<b>Issuance amount</b>	<b>Redemption date</b>	<b>Interest</b>	<b>As at December 31</b>	
				<b>2017</b>	<b>2016</b>
Bonds LSE 2008	1.6 billion USD	2018	9.125%	<b>530,055,240</b>	529,821,083
Bonds LSE 2010	1.5 billion USD	2020	7.00%	<b>454,158,285</b>	453,732,442
Bonds LSE 2010	1.25 billion USD	2021	6.375%	<b>374,885,399</b>	375,026,800
Bonds LSE 2013	2 billion USD	2043	5.75%	<b>166,367,016</b>	166,991,558
Bonds LSE 2013	1 billion USD	2023	4.4%	<b>133,839,108</b>	134,371,387
Bonds LSE 2014	1 billion USD	2044	6.00%	<b>9,682,106</b>	9,736,418
Bonds LSE 2014	0.5 billion USD	2025	4.875%	<b>40,464,693</b>	40,558,524
Bonds ISE 2017	0.750 billion USD	2027	4.375%	<b>251,244,525</b>	–
Bonds LSE 2017	0.5 billion USD	2022	3.875%	<b>166,818,793</b>	–
Bonds LSE 2017	1 billion USD	2027	4.75%	<b>332,127,939</b>	–
Bonds LSE 2017	1.25 billion USD	2047	5.75%	<b>412,643,834</b>	–
Bonds KASE 2009	120 billion KZT	2019	6M Libor+8.5%	<b>73,636,569</b>	110,551,375
Bonds KASE 2010	100 billion KZT	2017	7%	–	94,483,326
Bonds LSE 2007	600 million USD	2017	6.375%	–	42,929,372
Others				<b>13,276,427</b>	13,193,743
<b>Total</b>				<b>2,959,199,934</b>	1,971,396,028

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. BORROWINGS (continued)**

Loans	Issuance amount	Redemption date	Interest	As at December 31	
				2017	2016
Development bank of Kazakhstan JSC	1.1 billion USD	2023-2025	4% + 6M Libor – 7.72%	<b>294,631,602</b>	319,055,961
The Export-Import Bank of China	1 billion USD	2027	6M Libor + 4.1%	<b>340,200,397</b>	245,894,740
Sberbank Russia	400 million USD	2024	12M Libor + 3.5%	<b>134,039,138</b>	134,557,235
Development bank of Kazakhstan JSC	140 billion KZT	2022-2027	7%-10.2%	<b>115,480,135</b>	103,733,280
Loan from partners (Project Pearl)	Financing for share of costs KMT in execution of subsoil use contract	From beginning of commercial exploration	6M Libor + 1%	<b>87,370,787</b>	84,876,946
The Syndicate of banks	200 million USD	revolving line of credit	1 M Libor + 2.0 %	–	53,541,383
European Bank for Reconstruction and Development	68 billion KZT	2023	3 M CPI + 3.15%	<b>65,373,153</b>	46,322,433
Japan Bank for International Cooperation	298 million USD	2025	6M Libor + 1.10% - 4.64%	<b>62,386,497</b>	42,632,934
Loan from partners (Project Satpayev)	Financing for share of costs KMT in execution of subsoil use contract	From beginning of commercial exploration	12M Libor + 1.5%	<b>51,214,229</b>	28,128,262
Halyk bank JSC	70 million USD	2018	5%	<b>23,315,765</b>	23,393,933
Halyk bank JSC	5 billion KZT	2018	13%-15%	<b>3,137,832</b>	5,018,872
Other	–	–	–	<b>27,094,058</b>	13,987,963
<b>Total</b>				<b>1,204,243,593</b>	1,101,143,942

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. BORROWINGS (continued)**

On April 19, 2017, the Company completed the placement of the Eurobonds under the 10.5 billion US dollars Global Medium Term Notes Programme established by the Company and KazMunayGaz Finance Sub B.V. (subsidiary of the Company), in an aggregate principal amount of 2.75 billion US dollars (equivalent to 854,315,237 thousand tenge). The Eurobonds were issued in three series, comprising (i) 500,000 thousand US dollars 3.875% Notes due 2022; (ii) 1,000,000 thousand US dollars 4.75% Notes due 2027; and (iii) US 1,250,000 thousand US dollars 5.75% Notes due 2047.

On September 26, 2017 KazTransGas (“KTG”) placed Eurobonds for a total amount of 750 million US dollars (equivalent to: 254,760,086 thousand tenge) with a rate of 4.375% per annum.

On May 10, 2017 Intergas Central Asia JSC (“ICA”), the subsidiary of KTG, executed full redemption of Eurobonds in the amount of 131,875 thousand US dollars (equivalent to 41,948,009 thousand tenge), including accrued interest.

In accordance with loan agreement in July 2017 KTG received a loan from Citibank NA, VTB Bank and ING Bank in the amount of 750,000 thousand US dollars (equivalent to 245,670,000 thousand tenge) and fully repaid it on September 29, 2017.

In accordance with the loan agreement in May 2017 ICA received a loan from the European Bank for Reconstruction and Development in the amount of 25,254,400 thousand tenge (equivalent to 80,000 thousand US dollars).

In 2017 Atyrau Refinery LLP (“ANPZ”) received a loan from Halyk bank JSC for refinancing loan from Development Bank of Kazakhstan JSC (“DBK”) in the amount of 70,000 thousand US dollars (equivalent to 22,929,200 thousand tenge) and fully repaid the currying amount as at December 31, 2016.

In 2017 the Group received borrowings from DBK in the total amount of 32,133,178 thousand tenge and redeemed borrowings in the total amount of 68,117,408 thousand tenge, including interest. Additionally, the Group made a partial repayment of issued bonds held by DBK in the amount of 44,100,170 thousand tenge, including interest.

**Changing in liabilities arising from financing activities**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
On January 1	<b>3,072,539,970</b>	3,228,868,689
Received by cash	<b>1,486,657,266</b>	282,825,891
Repayment of debt related to letter of credit	<b>135,393,336</b>	131,700,644
Interest paid	<b>(206,445,230)</b>	(187,876,330)
Repayment of principal	<b>(596,156,305)</b>	(470,450,822)
Interest accrued	<b>199,568,750</b>	171,351,678
Interest capitalized	<b>26,532,343</b>	26,165,707
Discount	<b>(15,551,555)</b>	–
Amortization of discount	<b>10,927,921</b>	14,933,481
Derecognition of liabilities	–	(62,513,395)
Foreign currency translation	<b>53,658,844</b>	(50,593,081)
Other	<b>(3,681,813)</b>	(11,872,492)
<b>On December 31</b>	<b>4,163,443,527</b>	3,072,539,970
Current portion	<b>763,955,792</b>	366,438,649
Non-current portion	<b>3,399,487,735</b>	2,706,101,321

In 2016, the Company acquired 27% share in project Zhambyl from KC Kazakh B.V. Wherein, based on the agreement, the loan received from KC Kazakh B.V. on financing Company’s share in project Zhambyl was written-off. As the result, the Group recognized income in the amount of 62,513,395 thousand tenge (*Note 29*).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**19. BORROWINGS (continued)****Covenants**

The Group has limitations in terms of the acceptance of debt obligations according to the documentation of international bonds issues. Thus, the debt increase is limited to the need to comply with a financial ratio, which is defined as the ratio of consolidated net debt to the total amount of the consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) with a threshold value of 3.5. As of December 31, 2017 and December 31, 2016, the Group complies with this restrictive condition.

Also, the Group is required to ensure execution of the financial and non-financial covenants under the terms of the loan agreements. Failure to comply with financial covenants gives the lenders the right to demand early repayment of loans. As of December 31, 2017 and December 31, 2016, the Group complied with all financial and non-financial covenants.

**Hedge of net investment in the foreign operations**

As at December 31, 2017 certain borrowings denominated in foreign currency were designated as hedge instrument for the net investment in the foreign operations. In 2017, income of 67,150,614 thousand tenge (2016: income of 37,952,320 thousand tenge) on the translation of these borrowings were transferred to other comprehensive income and offset the loss on translation of foreign operations.

**20. OIL SUPPLY AGREEMENT**

In 2016 the Group entered into long-term crude oil and liquefied petroleum gas (“LPG”) supply agreement, which involve the prepayment. The total minimum delivery volume approximates 38 million tons of crude oil and 1 million tons of LPG in the period from the date of the contract to March 2021.

As part of this transaction in 2017, the Group received prepayment of 488,536 thousand US dollars (equivalent of 159,301,819 thousand tenge at the date of transaction) (2016: 2,966,005 thousand US dollars or 1,012,020,000 thousand tenge) net of transaction costs.

The agreement stipulates pricing calculation with reference to market quotes and prepayments are settled through physical deliveries of crude oil and LPG.

The Group considers this agreement to be regular way agreement to deliver non-financial items in accordance with the Group’s expected sale requirements.

As of December 31, 2017 the Group has partially settled the prepayments by oil supply in the total amount of 750,000 thousand US dollars.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****21. PROVISIONS**

<i>In thousands of tenge</i>	<b>Asset retirement obligations</b>	<b>Provision for environmental obligation</b>	<b>Provision for taxes</b>	<b>Provision for gas transportation</b>	<b>Employee benefit obligations</b>	<b>Other</b>	<b>Total</b>
As at December 31, 2015	104,129,250	17,756,301	63,228,322	24,813,178	35,072,962	21,936,762	266,936,775
Foreign currency translation	(365,138)	–	(9,212)	–	–	(3,740)	(378,090)
Change in estimate	(18,428,561)	(3,365,970)	–	–	–	–	(21,794,531)
Unwinding of discount	8,158,788	1,251,920	–	–	2,608,255	39,655	12,058,618
Provision for the year	1,044,732	10,187	9,274,588	–	(2,491,391)	15,584,607	23,422,723
Recovered	(1,167,110)	–	(20,989,376)	(451,720)	–	(930,923)	(23,539,129)
Unused amounts reversed	(48,750)	–	–	–	–	–	(48,750)
Use of provision	(1,779,270)	(1,273,771)	(3,457,469)	–	(2,811,727)	(13,569,279)	(22,891,516)
<b>As at December 31, 2016</b>	<b>91,543,941</b>	<b>14,378,667</b>	<b>48,046,853</b>	<b>24,361,458</b>	<b>32,378,099</b>	<b>23,057,082</b>	<b>233,766,100</b>
Foreign currency translation	11,125	–	15,139	–	–	(11,503)	14,761
Change in estimate	(1,248,282)	(458,178)	–	(70,170)	–	62,521	(1,714,109)
Unwinding of discount	8,332,664	1,608,777	–	–	3,039,887	68,786	13,050,114
Provision for the year	3,488,113	8,688,672	7,305,466	–	3,452,764	10,149,672	33,084,687
Recovered	(678,001)	–	(16,528,169)	–	–	(4,840,286)	(22,046,456)
Use of provision	(903,225)	(1,163,683)	(11,161,919)	–	(3,090,513)	(10,294,174)	(26,613,514)
Transfers and reclassifications	–	(33,258)	–	–	–	(57,882)	(91,140)
<b>As at December 31, 2017</b>	<b>100,546,335</b>	<b>23,020,997</b>	<b>27,677,370</b>	<b>24,291,288</b>	<b>35,780,237</b>	<b>18,134,216</b>	<b>229,450,443</b>

As at December 31, 2017 other provisions include provision for construction of the Palace of martial arts in the amount 11,155,740 thousand tenge (2016: 11,303,508 thousand tenge).

Provision for gas transportation relates to the Group’s commitment on reimbursement of losses incurred by PetroChina. Under the agreement on gas borrowing the Group has commitments to PetroChina to reimburse the supported costs and losses incurred by PetroChina due to gas borrowing and its return.

As at December 31, 2017 asset retirements obligations include asset retirement obligations relating to decommissioning of pipelines and land of JSC KazTransOil and Intergas Central Asia JSC in the total amount of 65,139,689 thousand tenge (2016: 59,539,785 thousand tenge) (*Note 4*).

Current portion and long-term portion are segregated as follows:

<i>In thousands of tenge</i>	<b>Asset retirement obligations</b>	<b>Provision for environmental obligation</b>	<b>Provision for taxes</b>	<b>Provision for gas transportation</b>	<b>Employee benefit obligations</b>	<b>Other</b>	<b>Total</b>
<b>As at December 31, 2017</b>							
Current portion	1,543,004	5,921,263	27,677,370	24,291,288	2,688,942	16,690,332	78,812,199
Long-term portion	99,003,331	17,099,734	–	–	33,091,295	1,443,884	150,638,244
<b>Provision as at December 31, 2017</b>	<b>100,546,335</b>	<b>23,020,997</b>	<b>27,677,370</b>	<b>24,291,288</b>	<b>35,780,237</b>	<b>18,134,216</b>	<b>229,450,443</b>
<b>As at December 31, 2016</b>							
Current portion	819,946	487,031	48,046,853	24,361,458	2,380,419	18,298,570	94,394,277
Long-term portion	90,723,995	13,891,636	–	–	29,997,680	4,758,512	139,371,823
<b>As at December 31, 2016</b>	<b>91,543,941</b>	<b>14,378,667</b>	<b>48,046,853</b>	<b>24,361,458</b>	<b>32,378,099</b>	<b>23,057,082</b>	<b>233,766,100</b>

A description of significant provisions, including critical estimates and judgments used, is included in *Note 4*.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****22. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Advances received	<b>48,632,581</b>	30,463,723
Due to employees	<b>54,428,090</b>	46,867,358
Dividends payable	<b>1,851,512</b>	1,862,166
Other	<b>39,493,188</b>	39,849,002
<b>Total other current liabilities</b>	<b>144,405,371</b>	119,042,249
<b>Trade accounts payable</b>	<b>325,120,176</b>	260,137,009

Trade accounts payable is denominated in the following currencies as of December 31:

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Tenge	<b>218,724,670</b>	210,992,037
US dollars	<b>100,999,516</b>	36,935,083
Euro	<b>672,143</b>	219,061
Other currency	<b>4,723,847</b>	11,990,828
<b>Total</b>	<b>325,120,176</b>	260,137,009

As at December 31, 2017 and 2016, trade accounts payable and other current liabilities were not interest bearing.

**23. OTHER TAXES PAYABLE**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Rent tax on crude oil export	<b>27,365,236</b>	5,189,479
Mineral extraction tax	<b>26,160,637</b>	4,488,819
Individual income tax	<b>6,580,681</b>	5,936,494
Withholding tax from non-residents	<b>4,545,294</b>	4,418,027
VAT	<b>3,974,550</b>	4,375,978
Excise tax	<b>174,445</b>	107,067
Other	<b>10,367,348</b>	9,498,593
	<b>79,168,191</b>	34,014,457

**24. REVENUE**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Sales of crude oil, gas and gas products	<b>1,568,121,307</b>	1,040,462,377
Transportation fee	<b>332,325,696</b>	322,341,649
Sales of refined products	<b>307,968,038</b>	293,076,283
Refining of oil and oil products	<b>129,066,720</b>	99,137,367
Quality bank for crude oil	<b>(21,523,472)</b>	(19,864,051)
Other revenue	<b>142,876,801</b>	122,281,731
	<b>2,458,835,090</b>	1,857,435,356

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****25. COST OF SALES**

<i>In thousands of tenge</i>	<b>2017</b>	2016
Crude oil, gas and gas products	<b>1,316,053,757</b>	684,684,553
Payroll	<b>293,258,611</b>	281,672,842
Depreciation, depletion and amortization	<b>161,529,007</b>	167,171,547
Materials and supplies	<b>132,338,829</b>	102,086,971
Transportation costs	<b>107,145,222</b>	47,654,973
Mineral extraction tax	<b>93,568,542</b>	40,676,527
Other taxes	<b>58,901,234</b>	53,593,187
Electricity	<b>39,834,721</b>	37,924,337
Repair and maintenance	<b>38,342,873</b>	32,546,598
Other	<b>138,930,075</b>	113,734,484
	<b>2,379,902,871</b>	1,561,746,019

**26. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of tenge</i>	<b>2017</b>	2016
Payroll	<b>60,493,943</b>	55,055,626
Social payments, out of payroll	<b>27,846,328</b>	6,249,461
Consulting services	<b>14,189,627</b>	11,969,388
Depreciation and amortization	<b>13,181,361</b>	6,748,431
Other taxes	<b>12,707,667</b>	8,195,559
VAT that cannot be offset	<b>7,922,727</b>	1,252,092
Charitable donations and sponsorship	<b>1,086,187</b>	1,544,528
Allowance for impairment of trade accounts receivable	<b>1,413,805</b>	3,614,402
Allowance for impairment of long term advances	<b>1,187,695</b>	2,000,000
(Reversal of)/allowance for impairment of other current assets	<b>(120,475)</b>	1,867,627
Allowance for obsolete inventories	<b>1,498,700</b>	1,058,595
Reversal of impairment of VAT receivable	<b>(24,157,581)</b>	(3,417,616)
Reversal of allowance for fines, penalties and tax provisions	<b>(4,212,497)</b>	(10,849,789)
Other	<b>38,973,832</b>	32,386,860
	<b>152,011,319</b>	117,675,164

**27. TRANSPORTATION AND SELLING EXPENSES**

<i>In thousands of tenge</i>	<b>2017</b>	2016
Customs duty	<b>105,302,356</b>	84,119,112
Rent tax on crude oil export	<b>83,182,715</b>	19,981,204
Transportation	<b>74,717,067</b>	67,903,136
Payroll	<b>6,364,942</b>	6,834,599
Depreciation and amortization	<b>4,457,466</b>	6,408,306
Other	<b>14,502,724</b>	13,226,726
	<b>288,527,270</b>	198,473,083

**28. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL, NET**

<i>In thousands of tenge</i>	<b>2017</b>	2016
Property, plant and equipment (Note 7)	<b>23,309,760</b>	3,250,130
Exploration and evaluation assets (Note 8)	<b>813,448</b>	–
Investment property (Note 9)	<b>1,518,344</b>	–
Intangible assets (Note 10)	<b>–</b>	32,549
	<b>25,641,552</b>	3,282,679



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****29. FINANCE INCOME / FINANCE COST****Finance income**

<i>In thousands of tenge</i>	<b>2017</b>	2016
Interest income on bank deposits, loans and bonds	<b>79,062,673</b>	75,638,208
Amortization of discount on loans due from related parties	<b>39,159,971</b>	21,378,184
Derecognition of liabilities	–	62,513,395
Other	<b>3,512,630</b>	8,361,901
	<b>121,735,274</b>	167,891,688

**Finance costs**

<i>In thousands of tenge</i>	<b>2017</b>	2016
Interest on loans and debt securities issued	<b>199,568,750</b>	171,351,678
Impairment of bank deposits ( <i>Notes 14 and 16</i> )	<b>18,609,753</b>	–
Interest under oil supply agreement	<b>26,473,457</b>	18,628,247
Unwinding of discount on asset retirement obligations and provision for environmental obligation	<b>9,941,441</b>	9,410,708
Amortization of discount on loans and debt securities issued	<b>10,927,921</b>	14,933,481
Discount on assets with non-market interest rate	<b>6,155,426</b>	4,077,354
Other	<b>23,220,716</b>	11,981,886
	<b>294,897,464</b>	230,383,354

**30. SHARE IN PROFIT OF JOINT VENTURES AND ASSOCIATES, NET**

<i>In thousands of tenge</i>	<b>2017</b>	2016
Tengizchevroil LLP	<b>289,979,686</b>	147,910,396
Caspian Pipeline Consortium	<b>54,665,983</b>	74,908,750
Mangistau Investments B.V.	<b>49,605,030</b>	29,766,202
KazGerMunay LLP	<b>17,713,450</b>	5,129,532
Valsera Holdings B.V.	<b>9,750,778</b>	10,414,188
KazRosGas LLP	<b>8,622,045</b>	18,647,418
PetroKazakhstan Inc.	<b>7,233,770</b>	(15,809,732)
Kazakhoil-Aktobe LLP	<b>(16,788,020)</b>	(11,535,479)
Kashagan B.V.	<b>(10,208,354)</b>	7,725,887
Ural Group Limited	<b>(1,877,211)</b>	(1,577,557)
Beineu-Shymkent Pipeline	<b>(668,700)</b>	(3,452,438)
Share in (loss)/profit of other joint ventures and associates	<b>6,536,779</b>	8,063,823
	<b>414,565,236</b>	270,190,990

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****31. INCOME TAX EXPENSES**

As at December 31, 2017 income taxes prepaid of 35,586,296 thousand tenge (2016: 74,457,414 thousand tenge) are represented by corporate income tax. As at December 31, 2017 income taxes payable in the amount of 7,705,079 thousand tenge (2016: 2,301,839 thousand tenge) are represented mainly by corporate income tax.

Income tax expense comprised the following for the years ended December 31:

<i>In thousands of tenge</i>	<b>2017</b>	2016
<b>Current income tax</b>		
Corporate income tax	<b>110,916,307</b>	80,090,378
Excess profit tax	<b>5,136,675</b>	(1,128,184)
Withholding tax on dividends and interest income	<b>21,967,459</b>	4,637,262
<b>Deferred income tax</b>		
Corporate income tax	<b>25,449,497</b>	45,733,941
Excess profit tax	<b>(1,275,303)</b>	15,543,024
Withholding tax on dividends and interest income	<b>29,835,168</b>	18,914,716
<b>Income tax expenses</b>	<b>192,029,803</b>	163,791,137

According to the 2006 amendments to the tax legislation, which were effective starting from the fiscal years beginning on January 1, 2007, dividends received from Kazakhstan taxpayers were exempt from income tax withheld at the source of payment. Therefore, in 2006 the Group reversed the deferred tax liability on undistributed profits of subsidiaries, joint ventures and associates registered in the Republic of Kazakhstan, which was recognized in prior years. However, during 2007-2017 the Group was receiving dividends from Tengizchevroil LLP (20% joint venture of the Group, a Kazakhstan taxpayer) net of withholding tax since there is uncertainty whether the withholding tax exemption is applicable for the stable tax regime of Tengizchevroil LLP. The Group was challenging withholding of the tax on those dividends, but has not managed to convince Tengizchevroil LLP and the tax authorities that withholding tax should not be applied. Therefore, Management of the Group recognizes the deferred income tax withholding on its interest in undistributed retained earnings of Tengizchevroil LLP as its current best estimate is that the Group will continue to receive dividends net of withholding tax in future years.

A reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate (20% in 2017 and 2016) to income tax expenses was as follows for the years ended December 31:

<i>In thousands of tenge</i>	<b>2017</b>	2016
(Loss)/profit before income tax from continuing operations	<b>(77,627,570)</b>	163,108,149
Profit before income tax from discontinued operations	<b>787,700,098</b>	357,713,188
Statutory tax rate	<b>20%</b>	20%
<b>Income tax expense on accounting profit</b>	<b>142,014,506</b>	104,164,267
Share in profit of joint ventures and associates non-taxable or taxable at different rates	<b>(39,416,094)</b>	(31,851,639)
Other non-deductible expenses and non-taxable income	<b>118,322,604</b>	71,705,991
Excess profit tax	<b>3,861,372</b>	14,414,840
Effect of different corporate income tax rates	<b>4,403,939</b>	3,133,154
Change in unrecognized deferred tax assets	<b>(38,639,830)</b>	(916,319)
	<b>190,546,497</b>	160,650,294
Income tax expenses reported in the consolidated statement of comprehensive income	<b>192,029,803</b>	163,791,137
Income tax benefit attributable to discontinued operations	<b>(1,483,306)</b>	(3,140,843)
	<b>190,546,497</b>	160,650,294

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****31. INCOME TAX EXPENSES (continued)**

Deferred tax balances, calculated by applying the statutory tax rates effective at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at December 31:

<i>In thousands of tenge</i>	2017 Corporate income tax	2017 Excess profit tax	2017 Withholding tax	2017 Total	2016 Corporate income tax	2016 Excess profit tax	2016 Withholding tax	2016 Total
<b>Deferred tax assets</b>								
Property, plant and equipment	39,746,752	(2,213,776)	–	37,532,976	37,366,506	(1,899,726)	–	35,466,780
Tax loss carryforward	445,661,327	–	–	445,661,327	430,057,756	–	–	430,057,756
Employee related accruals	7,016,794	233,019	–	7,249,813	6,801,380	46,020	–	6,847,400
Impairment of financial assets	4,177	–	–	4,177	–	–	–	–
Environmental liability	4,249,110	217,257	–	4,466,367	3,563,499	245	–	3,563,744
Other	36,961,737	1,344,719	–	38,306,456	27,424,474	162,597	–	27,587,071
Less: unrecognized deferred tax assets	(443,527,871)	–	–	(443,527,871)	(404,888,041)	–	–	(404,888,041)
Less: deferred tax assets offset with deferred tax liabilities	(24,557,468)	–	–	(24,557,468)	(26,725,677)	–	–	(26,725,677)
<b>Deferred tax assets</b>	<b>65,554,558</b>	<b>(418,781)</b>	<b>–</b>	<b>65,135,777</b>	<b>73,599,897</b>	<b>(1,690,864)</b>	<b>–</b>	<b>71,909,033</b>
<b>Deferred tax liabilities</b>								
Property, plant and equipment	117,769,984	15,712,243	–	133,482,227	102,407,438	15,716,011	–	118,123,449
Undistributed earnings of joint venture	–	–	202,962,639	202,962,639	–	–	173,127,471	173,127,471
Other	125,648	–	–	125,648	74,735	–	–	74,735
Less: deferred tax assets offset with deferred tax liabilities	(24,557,468)	–	–	(24,557,468)	(26,725,677)	–	–	(26,725,677)
<b>Deferred tax liabilities</b>	<b>93,338,164</b>	<b>15,712,243</b>	<b>202,962,639</b>	<b>312,013,046</b>	<b>75,756,496</b>	<b>15,716,011</b>	<b>173,127,471</b>	<b>264,599,978</b>
<b>Net deferred tax liability</b>	<b>27,783,606</b>	<b>16,131,024</b>	<b>202,962,639</b>	<b>246,877,269</b>	<b>2,156,599</b>	<b>17,406,875</b>	<b>173,127,471</b>	<b>192,690,945</b>

Deferred corporate income tax and excess profit tax are determined with reference to individual subsoil use contracts. Deferred corporate income tax is also determined for activities outside of the scope of subsoil use contracts. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset arising mainly from tax losses carry forward amounted to 443,527,871 thousand tenge as at December 31, 2017 (2016: 404,888,041 thousand tenge).

Tax losses carry forward as at December 31, 2017 in the Republic of Kazakhstan expire for tax purposes ten years from the date they are incurred.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****31. INCOME TAX EXPENSES (continued)**

The movements in the deferred tax liability/(asset) were as follows:

<i>In thousands of tenge</i>	2017 Corporate income tax	2017 Excess profit tax	2017 Withholding tax	2017 total	2016 Corporate income tax	2016 Excess profit tax	2016 Withholding tax	2016 total
<b>Net deferred tax liability/(asset) as at January 1</b>	<b>2,156,599</b>	<b>17,406,875</b>	<b>173,127,471</b>	<b>192,690,945</b>	(44,648,144)	1,863,851	154,212,755	111,428,462
Foreign currency translation	35,406	(548)	–	34,858	258,403	–	–	258,403
Discontinued operations	–	–	–	–	5,159	–	–	5,159
Charge to the consolidated statement of comprehensive income	25,591,601	(1,275,303)	29,835,168	54,151,466	46,541,181	15,543,024	18,914,716	80,998,921
<b>Net deferred tax liability/(asset) as at December 31</b>	<b>27,783,606</b>	<b>16,131,024</b>	<b>202,962,639</b>	<b>246,877,269</b>	2,156,599	17,406,875	173,127,471	192,690,945

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. RELATED PARTY DISCLOSURES**

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following table provides the balances of transactions with related parties as at December 31, 2017 and 2016:

<i>In thousands of tenge</i>		Due from related parties	Due to related parties	Cash and deposits placed with related parties	Borrowings payable to related parties
Samruk-Kazyna entities	<b>2017</b>	<b>289,084,327</b>	<b>1,703,093</b>	<b>53,959</b>	–
	2016	250,189,225	1,755,168	227,330	–
Associates	<b>2017</b>	<b>154,953,597</b>	<b>3,747,640</b>	–	–
	2016	196,364,723	6,519,184	–	–
Other state-controlled parties	<b>2017</b>	–	<b>8,752,609</b>	<b>2,675,566</b>	<b>489,948,733</b>
	2016	–	8,783,316	308,652	539,518,308
Joint ventures in which the Group is a venturer	<b>2017</b>	<b>556,563,795</b>	<b>194,182,312</b>	–	–
	2016	426,310,101	148,065,653	–	–

**Due from related parties**

In 2017 the Company provided the additional interest free loan to the Samruk-Kazyna in the amount of 47,019,835 thousand tenge. The difference between fair value and nominal value of the loan amounting 5,716,173 thousand tenge recognized as transaction with Samruk-Kazyna in the consolidated statement of changes in equity.

As at December 31, 2017 changes in due from associates mainly related to the repayment of interest of the right to claim payments under “Kazakhstan Note” in the amount of 35,142,983 thousand tenge.

As at December 31, 2017 increase in due from joint ventures mainly due to providing additional interest free loan to the BeineuShymkent Pipelines LLP in the amount of 136,962,378 thousand tenge and decreasing of trade accounts receivable for goods and services of Tengizchevroil LLP and Asia Gas Pipeline LLP in the amount of 14,765,262 thousand tenge and 1,528,599 thousand tenge, respectively.

**Due to related parties**

As at December 31, 2017 changes of due to joint ventures mainly include increasing of trade payable for goods and services to Asia Gas Pipeline LLP, Tengizchevroil LLP, Mangistaumunaigaz JSC and BeineuShymkent Pipelines LLP in the amount of 13,877,072 thousand tenge, 13,456,982 thousand tenge, 3,445,528 thousand tenge and 10,415,360 thousand tenge, respectively (2016: 13,277,218 thousand tenge, 14,256,155 thousand tenge, 39,831 thousand tenge и 46,509,577 thousand tenge, respectively).

**Borrowings payable to related parties**

In 2017 the Group redeemed bonds and loans payable to DBK in the total amount of 112,217,578 thousand tenge including interest.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. RELATED PARTY DISCLOSURES (continued)**

The following table provides the total amount of transactions, which have been entered into with related parties during 2017 and 2016:

<i>In thousands of tenge</i>		<b>Sales to related parties</b>	<b>Purchases from related parties</b>	<b>Interest earned from related parties</b>	<b>Interest incurred to related parties</b>
Samruk-Kazyna entities	<b>2017</b>	<b>66,161,168</b>	<b>29,896,957</b>	<b>28,364,559</b>	–
	2016	64,283,484	28,166,784	14,325,455	4,089,541
Associates	<b>2017</b>	<b>9,597,880</b>	<b>38,647,833</b>	<b>10,413,919</b>	–
	2016	25,429,144	61,467,268	13,417,271	4,379,044
Other state-controlled parties	<b>2017</b>	–	<b>2,942,341</b>	–	<b>25,694,310</b>
	2016	–	4,764,444	–	25,424,702
Joint ventures in which the Group is a venturer	<b>2017</b>	<b>318,154,537</b>	<b>1,000,163,766</b>	<b>25,869,046</b>	<b>10,769,061</b>
	2016	303,010,916	624,153,438	26,462,248	4,917,734

Purchase transactions with Samruk-Kazyna, other state-controlled entities and joint ventures are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC (railway services), NC Kazakhtelecom JSC (telecommunication services), NAC Kazatomprom JSC (energy services), KEGOC JSC (energy supply), Kazpost JSC (postal services) and Samruk-Energo JSC (energy supply). In addition, the Group sells and purchases crude oil and natural gas, refined products and provides transportation services to and from Samruk-Kazyna entities, associates and joint ventures.

**Key management employee compensation**

Total compensation to key management personnel, including key management personnel of subsidiaries, included in general and administrative expenses in the accompanying consolidated statement of comprehensive income was equal to 9,022,125 thousand tenge and 9,797,411 thousand tenge for the years ended December 31, 2017 and 2016, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

**33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES**

The Group’s principal financial instruments mainly consist of borrowings, cash and cash equivalents, short term bank deposits as well as accounts receivable and accounts payable. The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

**Market risk**

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate margin and collateral requirements.

The sensitivity analyses in the following sections relate to the position as of December 31, 2017 and 2016.

*Foreign currency risk*

As a result of significant borrowings and accounts payable denominated in the US dollars, the Group’s consolidated statement of financial position can be affected significantly by movement in the US dollar / tenge exchange rates. The Group also has transactional currency exposures. Such exposure arises from revenues in the US dollars.

The Group has a policy on managing its foreign currency risk in US dollar by matching US dollar denominated financial assets with US dollar denominated financial liabilities and/or by designating hedge between non-financial assets and financial liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Market risk (continued)***Foreign currency risk (continued)*

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group’s profit before income tax (due to changes in the fair value of monetary assets and liabilities). The sensitivity of possible the changes in exchange rates for other currencies are not considered due to its insignificance to the consolidated financial results of Group’s operations.

<i>In thousands of tenge</i>	<b>Increase/ decrease in tenge to US dollar exchange rate</b>	<b>Effect on profit before tax</b>
<b>2017</b>	<b>+10%</b>	<b>(96,952,960)</b>
	<b>-10%</b>	<b>96,952,960</b>
<b>2016</b>	<b>+13%</b>	<b>(118,409,921)</b>
	<b>-13%</b>	<b>118,409,921</b>

*Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s long-term borrowings with floating interest rates.

The Group’s policy is to manage its interest rate cost using a mix of fixed and variable rate borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group’s profit before income tax (through the impact on floating rate borrowings) and equity. There is no significant impact on the Group’s equity.

<i>In thousands of tenge</i>	<b>Increase/ decrease in basis points</b>	<b>Effect on profit before tax</b>
<b>2017</b>		
LIBOR	<b>+0.70</b>	<b>(6,775,665)</b>
	<b>-0.08</b>	<b>762,459</b>
<b>2016</b>		
LIBOR	<b>+0.60</b>	<b>(5,598,880)</b>
	<b>-0.08</b>	<b>746,405</b>

**Credit risk**

The Group trades only with recognized, creditworthy parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group’s exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 17*. There are no significant concentrations of credit risk within the Group.

With respect to credit risks arising on other financial assets of the Group, which comprise cash and cash equivalents, bank deposits, trade accounts receivable, bonds receivable, loans and notes receivable and other financial assets, the Group’s exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Credit risk (continued)**

The table below shows the balances of major subsidiaries’ cash and cash equivalents, short-term and long-term deposits (Notes 11 and 17) held in banks at the reporting date using the Standard and Poor’s and Fitch’s credit ratings.

Banks	Location	Rating <sup>1</sup>		2017	2016
		2017	2016		
Halyk Bank	Kazakhstan	BB (stable)	BB (negative)	<b>622,826,562</b>	716,187,314
Bank of Tokyo-Mitsubishi UFJ	Japan	A (stable)	A (stable)	<b>464,530,245</b>	–
Mizuho Bank Ltd	Japan	A (stable)	A (stable)	<b>373,029,697</b>	–
Sumitomo Mitsui Banking Corporation	Japan	A (positive)	A (positive)	–	287,848,285
HSBC	United Kingdom	AA- (stable)	AA- (negative)	<b>113,090,248</b>	166,649,716
BNP Paribas	United Kingdom	BB+ (stable)	A (stable)	<b>161,740,102</b>	166,295,295
Kazkommertsbank	Kazakhstan	B+ (negative)	B- (negative)	<b>78,656,996</b>	165,771,106
Societe Generale	Switzerland	A (stable)	A (stable)	<b>164,779,167</b>	162,461,529
Societe Generale	United Kingdom	A (stable)	A (stable)	<b>314,733,898</b>	–
ING Bank	The Netherlands	A+ (stable)	A (stable)	<b>170,353,494</b>	161,907,378
Sberbank of Russia	Kazakhstan	BB+ (positive)	BBB-	<b>23,148,486</b>	63,718,200
Altyn Bank	Kazakhstan	BB (positive)	BB (negative)	<b>21,965,792</b>	45,247,477
RBK Bank	Kazakhstan	CCC+ (negative)	B- (stable)	<b>10</b>	29,919,368
Credit Suisse	British Virgin Islands	A (stable)	A (stable)	<b>39,338,017</b>	25,472,932
Citibank	United Kingdom	A+ (stable)	A (stable)	<b>46,678,682</b>	19,984,012
Citibank	Kazakhstan	A+(stable)	A+(stable)	<b>2,032,358</b>	12,509,234
Citibank	United Arab Emirates	A+(stable)	A (stable)	<b>50,034,359</b>	–
Delta Bank	Kazakhstan	D	(developing)	–	11,984,344
Deutsche Bank	the Netherlands and the				
	United Kingdom	A- (negative)	BBB+ (positive)	<b>88,990,995</b>	10,935,579
Rabobank	The Netherlands	A+ (positive)	A+ (stable)	<b>81,922,668</b>	21,905,818
ABN Amro Bank	The Netherlands	A (positive)	A (stable)	<b>33,354,442</b>	–
ATF Bank	Kazakhstan	B (negative)	B (negative)	<b>5,301,656</b>	9,707,001
Tsesnabank	Kazakhstan	B+ (negative)	B+ (negative)	<b>1,140,857</b>	2,818,521
Forte Bank	Kazakhstan	B (positive)	B (stable)	<b>3,723,436</b>	2,166,169
BankCenterCredit	Kazakhstan	B (stable)	B (stable)	<b>1,946</b>	1,289,220
Eurasian Bank	Kazakhstan	B (negative)	B (stable)	<b>40,845</b>	614,348
Other banks				<b>14,381,113</b>	24,175,948
				<b>2,875,796,071</b>	2,109,568,794

Continued support by the state bodies of the Republic of Kazakhstan is a key assumption in management’s conclusions that no impairment allowance is required, and is based on management’s review of all available information at the date of approval of the consolidated financial statements.

<sup>1</sup> Source: Interfax – Kazakhstan, Factivia, official sites of the banks as at December 31 of the respective year.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarises the maturity profile of the Group’s financial liabilities at December 31, 2017 and 2016 based on contractual undiscounted payments.

<i>In thousands of tenge</i>	On demand	Due later than one month but not later than three months	Due later than three months but not later than one year	Due later than one year but not later than five years	Due after 5 years*	Total
<b>As at December 31, 2017</b>						
Borrowings	64,747,057	80,704,232	866,153,813	2,199,515,008	2,809,218,719	6,020,338,829
Financial guarantee	–	1,422,943	4,268,829	35,591,168	64,859,263	106,142,203
Trade accounts payable	82,376,645	168,111,759	82,358,616	–	–	332,847,020
	<b>147,123,702</b>	<b>250,238,934</b>	<b>952,781,258</b>	<b>2,235,106,176</b>	<b>2,874,077,982</b>	<b>6,459,328,052</b>
<b>As at December 31, 2016</b>						
Borrowings	77,329,131	7,427,151	401,808,523	2,659,303,198	1,148,165,669	4,294,033,672
Financial guarantee	–	–	5,692,025	91,072,398	142,300,622	239,065,044
Trade accounts payable	119,638,134	118,852,271	40,736,206	–	–	279,226,611
	<b>196,967,265</b>	<b>126,279,422</b>	<b>448,236,754</b>	<b>2,750,375,596</b>	<b>1,290,466,291</b>	<b>4,812,325,327</b>

\*The Group excludes from maturity profile table the loans payable to project partners under the carry-in financing agreements (*Note 19*), due to the uncertainty of maturity of these loans.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Fair values of financial instruments and investment property**

The carrying amount of the Group financial instruments as at December 31, 2017 and 2016 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

	2017				
	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
<i>In thousands of tenge</i>					
Bonds receivable from Samruk-Kazyna	18,342,494	21,807,281	–	21,807,281	–
Fixed interest rate borrowings	3,137,181,680	3,230,351,979	2,996,477,908	233,874,071	–
Financial guarantee	11,937,863	11,937,863	–	11,937,863	–
Investment property	27,423,225	30,263,855	–	30,263,855	–

	2016				
	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
<i>In thousands of tenge</i>					
Bonds receivable from Samruk-Kazyna	42,123,003	63,663,823	–	63,663,823	–
Fixed interest rate borrowings	2,099,674,818	2,250,517,072	1,945,130,199	305,386,873	–
Financial guarantee	13,471,461	13,471,461	–	13,471,461	–
Investment property	29,480,044	29,987,922	–	29,987,922	–

The fair value of bonds receivable from the Samruk-Kazyna and fixed-rate borrowings have been calculated by discounting the expected future cash flows at market interest rates.

During the reporting period no transfers between Level 1 and Level 2 of the fair value assessment were made.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. CONSOLIDATION**

The following direct significant subsidiaries have been included in these consolidated financial statements:

Significant entities	Main activity	Country of incorporation	Percentage ownership	
			2017	2016
KazMunayGas Exploration Production JSC (“KMG EP”)	Exploration and production	Kazakhstan	<b>63.01%</b>	63.02%
KazTransGas JSC (“KTG”)	Gas transportation	Kazakhstan	<b>100.00%</b>	100.00%
KazTransOil JSC (“KTO”)	Oil transportation	Kazakhstan	<b>90.00%</b>	90.00%
KazMunayGas – refining and marketing JSC (“KMG RM”)	Refinery and marketing of oil products	Kazakhstan	–	100.00%
Atyrau Refinery LLP	Refinery	Kazakhstan	<b>99.53%</b>	–
Pavlodar oil chemistry refinery LLP	Refinery	Kazakhstan	<b>100.00%</b>	–
KazMunayGas Onimdery LLP	Marketing of oil products	Kazakhstan	<b>100.00%</b>	–
KazMunayTeniz LLP (“KMT”)	Exploration and production	Kazakhstan	<b>100.00%</b>	100.00%
KazMunayGas-Service LLP (“KMGS”)	Service projects	Kazakhstan	<b>100.00%</b>	100.00%
Cooperative KazMunayGas PKI U.A.	Refinery and marketing of oil products	Netherlands	<b>100.00%</b>	100.00%
KMG International N.V. (“KMG I”)	Refinery and marketing of oil products	Romania	<b>100.00%</b>	100.00%
KMG Karachaganak LLP	Exploration and production	Kazakhstan	<b>100.00%</b>	100.00%
KazMorTransFlot LLP	Oil transportation and construction	Kazakhstan	<b>100.00%</b>	100.00%
KMG Drilling&Services LLP	Drilling services	Kazakhstan	<b>100.00%</b>	100.00%

In December, 2017 in accordance with the Resolution of the Government of RK the Company reorganized KMG RM through the merger with the Company.

**35. CONTINGENT LIABILITIES AND COMMITMENTS****Operating environment**

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

**Commodity price risk**

The Group generates most of its revenue from the sale of commodities, primarily crude oil and oil products. Historically, the prices of these products have been volatile and have fluctuated widely in response to changes in supply and demand, market uncertainty, the performance of the global or regional economies and cyclicalities in industries.

Prices may also be affected by government actions, including the imposition of tariffs and import duties, speculative trades, an increase in capacity or an oversupply of the Group’s products in its main markets. These external factors and the volatility of the commodity markets make it difficult to estimate future prices.

A substantial or extended decline in commodity prices would materially and adversely affect the Group’s business and the consolidated financial results and cash flows of operations. The Group does not hedge significantly its exposure to the risk of fluctuations in the price of its products.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Taxation**

Kazakhstan’s tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan’s tax laws are severe. Due to uncertainties associated with Kazakhstan’s tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2017.

As at December 31, 2017, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

*2009-2012 Comprehensive tax audit of KMG EP*

On December 11, 2017 the final decision of the Supreme Court related to the Company’s appeal of the tax audit results for 2009 to 2012 tax years was issued and final assessment amounted to 6,534,000 thousand tenge that includes principal, fines and penalties. Accordingly, the tax provision in the amount of 7,031,000 thousand tenge was reversed in these consolidated financial statement.

*Value-added-tax (VAT) recoverability of KMG EP*

In May and June 2017 EmbaMunaiGas JSC and OzenMunaiGas JSC received acts of tax audits for the period 2012 to 2015 that confirmed the Company’s right to reimburse VAT receivable for the amounts of 4,033,000 thousand tenge and 26,073,000 thousand tenge, respectively. The tax acts also confirmed that 2,053,000 thousand tenge and 2,006,000 thousand tenge of VAT were not recoverable for EmbaMunaiGas JSC and OzenMunaiGas JSC, respectively.

In these consolidated financial statements, the Group has reversed 30,106,000 thousand tenge of previously accrued VAT allowance. Total remaining VAT allowance as at December 31, 2017 is 10,668,000 thousand tenge.

**Transfer pricing control**

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the arm’s length principle.

The new law on transfer pricing came into effect in Kazakhstan from January 1, 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group’s position, which could result in additional taxes, fines and interest at December 31, 2017.

As at December 31, 2017 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group’s positions with regard to transfer pricing will be sustained.

**Cost recovery audits**

Under the base principles of the production sharing agreements, the Government transferred to contractors the exclusive rights to conduct activities in the subsurface use area, but did not transfer rights to this subsurface use area either to ownership or lease. Thus, all extracted and processed oil (i.e. the hydrocarbons produced) are the property of the Government. Works are carried out on the basis of compensation and the Government pays the contractors not in cash but in the form of the portion of oil production, thereby allowing the contractors to recover their costs and earn profit.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Cost recovery audits (continued)**

In accordance with the production sharing agreements not all costs incurred by the contractors could be reimbursed. Certain expenditures need to be approved by the authorized bodies. The authorized bodies conduct the cost recovery audits. In accordance with the costs recovery audits completed prior to December 31, 2017 certain amounts of the costs incurred by contractors were assessed as non-recoverable. The parties to the production sharing agreements are in negotiations with respect to the recoverability of those costs.

As of December 31, 2017 the Group’s share in the total disputed amounts of costs is 242,915,341 thousand tenge (2016: 201,091,569 thousand tenge). The Group and its partners under the production sharing agreements are in negotiation with the Government with respect to the recoverability of these costs.

**KMG Drilling & Services LLP (KMG D&S) litigations with Consortium of companies Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP**

KMG D&S (subsidiary of the Group) is involved in arbitration proceedings with Consortium of companies Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP (further – “Consortium”) according to purchase contract on construction of JUDR, which is handled by the London Court of International Arbitration. Operative part of the Statement of case includes the following Claimant’s demands:

- Declaration of project change in consequence of changes in the requirements of regulatory bodies, increase of Contract price due to such changes, compensation of consequential damages;
- Extension of JUDR delivery date due to permissible delays;
- Declaration by KMG D&S of delay of signing the works acceptance certificates and payment of key stages 5,6,7 of JUDR construction and recovery of damages in respect of delayed payments;
- Damage compensation resulting from increase of Contract price, breach of Contract, as well as exchange rate adjustments and Consortium’s additional charges.

In 2017 Consortium increased the amount of claim up to 192,114 thousand US dollars (equivalent to 63,845,287 thousand tenge).

The Group does not agree with the claim and upon completion of the analysis of the case will start to develop the defence’s arguments. Legal and technical consultants, independent experts are involved for protection the Group’s corporate interests.

There is uncertainty about the result of judicial proceedings. As of December 31, 2017 the Group didn’t recognize the provision for given claim.

**Kazakhstan local market obligation**

The Government requires oil companies in the Republic of Kazakhstan to supply a portion of the products to meet the Kazakhstan domestic energy requirement on an annual basis, mainly to maintain oil products supply balance on the local market and to support agricultural producers during the spring and autumn sowing and harvest campaigns.

Kazakhstan local market oil prices are significantly lower than export prices and even lower than the normal domestic market prices determined in an arm-length transaction. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Group, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Group’s business, prospects, consolidated financial position and results of operations.

In 2017, in accordance with its obligations, the Group delivered 5,407,526 tons of crude oil (2016: 3,236,644 tons), including joint ventures, to the Kazakhstan market.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Commitments under subsoil use contracts**

As at December 31, 2017 the Group had the following commitments related to minimal working program in accordance with terms of licenses, production sharing agreements and subsoil use contracts, signed with the Government:

Year	Capital expenditures	Operational expenditures
2018	152,970,780	11,025,197
2019	17,589,628	5,460,210
2020	7,379,090	5,810,346
2021	3,001,137	4,144,631
2022-2048	9,805,472	15,386,914
<b>Total</b>	<b>190,746,107</b>	<b>41,827,298</b>

**Oil supply commitments**

As of December 31, 2017 the Group had commitments under the oil supply agreements in the total amount of 28.7 million ton (as at December 31, 2016: 28.1 million ton), including joint venture.

**Other contractual commitments**

As at December 31, 2017, the Group, including joint ventures, had other capital commitments of approximately 684,856,470 thousand tenge (2016: 1,100,442,105 thousand tenge), related to acquisition and construction of property, plant and equipment.

As at December 31, 2017, the Group had commitments in the total amount of 125,333,073 thousand tenge (2016: 151,079,503 thousand tenge) under the investment programs approved by the joint order of Ministry of Energy of RK and Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of RK and aimed at capital construction/reconstruction/overhaul/diagnostic of production facilities.

**Non-financial guarantees**

As of December 31, 2017 and 2016, the Group has outstanding performance guarantees issued in favour of third parties whereas it provides guarantee should its subsidiary, joint venture or associate fail to perform their obligations under the natural gas purchase-sale, transportation and other agreements.

As of the reporting date the management of the Group believes that there were no cases of non-performance from the guaranteed parties and, accordingly, no obligations related to the above stated non-financial contingencies were recognized.

**36. SEGMENT REPORTING**

Management of the Group analyzes the segment information based on IFRS numbers. Segment profits are considered based on gross profit and net profit results.

The Group’s operating segments have their own structure and management according to the type of the produced goods and services provided. Moreover, all segments are strategic directions of the business which offer different types of the goods and serve different markets.

The Group’s activity consists of four main operating segments: exploration and production of oil and gas, transportation of oil, transportation of gas, refining and trading of crude oil and refined products. The remaining operating segments have been aggregated and presented as other operating segment due to their insignificance.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****36. SEGMENT REPORTING (continued)**

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2017:

<i>In thousands of tenge</i>	Exploration and production of oil and gas and trading of own refined products	Oil transportation	Gas trading and transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	114,153,662	199,081,114	522,205,420	1,525,574,911	97,819,983	–	2,458,835,090
Revenues from sales to other segments	981,455,736	50,139,885	30,382,814	378,119,454	44,584,007	(1,484,681,896)	–
<b>Total revenue</b>	<b>1,095,609,398</b>	<b>249,220,999</b>	<b>552,588,234</b>	<b>1,903,694,365</b>	<b>142,403,990</b>	<b>(1,484,681,896)</b>	<b>2,458,835,090</b>
<b>Gross profit</b>	<b>581,444,903</b>	<b>102,296,291</b>	<b>126,241,522</b>	<b>126,823,754</b>	<b>(2,647,908)</b>	<b>(855,226,343)</b>	<b>78,932,219</b>
Finance income	30,635,494	7,050,351	15,710,022	52,357,842	102,854,450	(86,872,885)	121,735,274
Finance costs	(15,996,844)	(5,241,821)	(35,846,120)	(88,515,042)	(224,664,707)	75,367,070	(294,897,464)
Depreciation, depletion and amortization	(69,207,237)	(31,696,855)	(30,456,725)	(37,973,497)	(12,544,828)	–	(181,879,142)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill	(1,463,939)	(51,710)	(326,705)	(15,339,255)	(8,459,943)	–	(25,641,552)
Share in profit of joint ventures and associates, net	337,552,519	57,373,362	7,988,655	10,338,986	1,311,714	–	414,565,236
Income tax expenses	(107,279,249)	(19,633,566)	(24,678,324)	(17,926,627)	(22,512,037)	–	(192,029,803)
<b>Net profit for the year</b>	<b>295,007,049</b>	<b>124,319,958</b>	<b>46,797,287</b>	<b>125,666,735</b>	<b>(77,130,767)</b>	<b>4,865,769</b>	<b>519,526,031</b>
<b>Other segment information</b>							
Investments in joint ventures and associates	3,503,893,511	208,816,622	52,561,936	41,381,920	3,697,352	–	3,810,351,341
Capital expenditures	135,198,715	74,873,446	140,487,481	260,039,531	26,594,379	–	637,193,552
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(4,390,424)	(4,288,838)	(9,231,998)	(5,327,690)	(13,201,216)	–	(36,440,166)
<b>Assets of the segment</b>	<b>6,542,104,710</b>	<b>904,925,698</b>	<b>1,444,619,613</b>	<b>3,624,699,943</b>	<b>2,363,946,296</b>	<b>(1,491,542,923)</b>	<b>13,388,753,337</b>
<b>Liabilities of the segment</b>	<b>629,755,726</b>	<b>186,128,956</b>	<b>760,480,222</b>	<b>2,743,729,400</b>	<b>3,878,415,567</b>	<b>(1,432,156,528)</b>	<b>6,766,353,343</b>

Eliminations represent the exclusion of intra-group turnovers.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****36. SEGMENT REPORTING (continued)**

Inter-segment transactions were made on terms agreed to between the segments that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties. The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2016:

<i>In thousands of tenge</i>	Exploration and production of oil and gas and trading of own refined products	Oil transportation	Gas trading and transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	112,656,378	188,176,142	483,593,658	992,583,481	80,425,697	–	1,857,435,356
Revenues from sales to other segments	739,286,768	45,849,567	18,364,837	58,996,031	42,593,080	(905,090,283)	–
Total revenue	851,943,146	234,025,709	501,958,495	1,051,579,512	123,018,777	(905,090,283)	1,857,435,356
Gross profit	419,643,185	97,474,945	153,714,720	132,766,007	(10,017,778)	(497,891,742)	295,689,337
Finance income	33,625,179	9,138,097	14,200,584	31,912,152	137,722,140	(58,706,464)	167,891,688
Finance costs	(13,229,134)	(4,829,755)	(27,210,248)	(45,814,320)	(194,230,327)	54,930,430	(230,383,354)
Depreciation, depletion and amortization	(77,003,750)	(31,799,193)	(28,652,432)	(34,080,013)	(9,057,477)	–	(180,592,865)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill	(1,134,659)	(679,061)	1,575,152	(51)	(3,044,060)	–	(3,282,679)
Share in profit of joint ventures and associates, net	163,204,602	79,407,009	15,191,245	10,839,301	1,548,833	–	270,190,990
Income tax expenses	(76,672,148)	(13,941,937)	(26,531,702)	(19,297,752)	(27,347,598)	–	(163,791,137)
Net profit for the year	285,204,844	149,302,835	95,731,109	564,774,494	(697,184,832)	(37,657,407)	360,171,043
Other segment information							
Investments in joint ventures and associates	3,440,284,418	149,567,256	80,723,711	31,350,162	4,351,263	–	3,706,276,810
Capital expenditures	147,284,800	42,612,060	88,851,035	233,253,447	42,140,785	–	554,142,127
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(19,786,389)	(2,470,383)	(8,329,262)	(5,933,387)	(2,196,200)	–	(38,715,621)
Assets of the segment	6,210,069,721	831,909,870	1,295,190,723	3,459,862,728	1,682,382,885	(1,596,338,657)	11,883,077,270
Liabilities of the segment	529,270,606	164,038,032	663,338,007	2,693,298,363	3,089,738,401	(1,534,877,054)	5,604,806,355



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**37. SUBSEQUENT EVENTS**

On December 8, 2017 KMG EP announced the launch of a conditional tender offer (the “Tender Offer”) to repurchase all of its outstanding GDRs at a price of 14.00 US Dollars per GDR. According to the result on extraordinary general meeting held on January 22, 2018 the Tender Offer became unconditional in all respects. On January 23, 2018 KMG EP announced the launch of an unconditional offer to repurchase all of its Common Shares (the “Share Offer”) placed on KASE at a price of 84.00 US dollars per Common Share payable in tenge. On February 19, 2018, the Share Offer was effected, as a result of which KMG EP has repurchased a total of 72,788,984 GDR on the over-the-counter basis, 61,281,070 GDRs on the Kazakhstan Stock Exchange and 320,688 common shares. Also, KMG EP repurchased 95,761 preferred shares from preferred shareholders, which from December 8, 2017 to January 8, 2018 exercised the Put Option Right which arose on the announcement of the Tender Offer. Thus, the Company and KMG EP own 47,194,539 common shares and 134,781,116 GDRs, which is approximately 99.2% of the issued common shares, as well as 2,168,908 preferred shares.

On January 19, 2018 the Company made a partial repayment of issued bonds held by Development Bank of Kazakhstan JSC in the amount of 17,197,293 thousand tenge.

On January 26, 2018 KazRosGaz LLP paid dividends to the Company in the amount of 14.180.747 thousand tenge.

On January 22, 2018 ANPZ paid principal and interest on loans received from DBK in the amount of 20.641.777 thousand tenge and 8.727.381 thousand tenge, respectively.

**JSC “National Company “KazMunayGas”**

**Consolidated financial statements**

*For the year ended December 31, 2016  
with independent auditors' report*

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Independent auditors' report

**Consolidated financial statements**

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## Independent auditor's report

To the Shareholders and Management of "National Company "KazMunayGas" JSC

### **Opinion**

We have audited the consolidated financial statements of National Company "KazMunayGas" JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### ***Impairment of non-current assets***

We considered this matter to be one of most significance in the audit due to materiality of the balances of non-current assets, including upstream, exploration and evaluation, downstream assets and investments in upstream joint ventures and associates, to the consolidated financial statements, the high level of subjectivity in respect of assumptions underlying impairment analysis and significant judgements and estimates made by the management. In addition, the combination of recent drop in oil prices, devaluation of the Tenge, increased inflation and cost of debt and uncertainty about future economic growth affects the Group's business prospects and therefore triggers potential impairment of the Group's assets.

Significant assumptions included discount rates, oil and petroleum product prices forecasts and inflation and exchange rate forecasts. Significant estimates included production forecast, future capital expenditure and oil and gas reserves available for development and production.

We involved our business valuation specialists in the testing of impairment analysis and calculation of recoverable amount performed by the management. We analyzed the assumptions underlying management forecast. We compared oil and petroleum products prices used in the calculation of recoverable amounts to available market forecasts.

We compared the discount rates and long term growth rates to general market indicators and other available evidence.

We tested the mathematical integrity of the impairment models and assessed the sensitivity analysis.

Information on non-current assets and the impairment tests performed is disclosed in Note 4 to the consolidated financial statements.

### ***Discontinued operations***

On 15 December 2016, the Group signed a share sale and purchase agreement (SPA) to sell a 51% interest in KMG International NV (KMGI) subsidiary of the Group. The completion of SPA is subject to satisfaction of certain conditions precedent until 31 May 2017. If conditions are not satisfied prior to this date but that satisfaction is reasonably likely to occur within a reasonable period after this date, the parties may extend such date. We focused on this area because of the uncertainty of completion of the sale of 51% interest in KMGI and the judgement required to assess whether or not the sale is highly probable. Such assessment impacts the measurement and presentation of assets of KMGI classified as held for sale and liabilities directly associated with them, and the results from discontinued operations, that are material to the consolidated financial statements.

We focused on the analysis of criteria for the classification of assets as held for sale, and operations as discontinued. We examined the SPA and obtained managements' assessment of the status of satisfaction of conditions precedent to the transaction. We tested the management's assessment of the fair value less cost to sell of KMGI's assets and liabilities that is based on the terms of the SPA.

Information associated with discontinued operations is disclosed in Note 5 to the consolidated financial statements; a description of the accounting policy and key judgements and estimates is included in Notes 3 and 4 to the consolidated financial statements.

### ***Compliance with loan covenants***

In accordance with the terms of certain borrowings and bonds issued, the Group should maintain and comply with certain financial and non-financial covenants. There is a higher likelihood that covenants impacted by trading volumes, revenue and profit may be breached particularly in subsidiaries impacted by the low oil prices and higher operating costs, therefore, we focused on this area during our audit. Breaching covenants could result in significant fines and penalties along with funding shortages. Cross default provisions are in place under the Group's financing arrangements with credit institutions and the documentation of bonds issuance. Compliance with the financing covenants is one of the matters of most significance in the audit since it can have a major impact on the going concern assumption used in the preparation of the consolidated financial statements, and on classification of interest-bearing liabilities in the consolidated statement of financial position.

We have examined the terms of financing arrangements with credit institutions and the documentation of bonds issuance and tested the financial covenants compliance calculations.

Information on compliance with covenants is disclosed in Note 20 to the consolidated financial statements.

### ***Other information included in the Group's 2016 annual report***

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

### ***Responsibilities of management and the Audit Committee for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's consolidated financial reporting process.

### ***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Gulmira Turmagambetova.

*Ernst & Young LLP*



Gulmira Turmagambetova  
Auditor / General Director  
Ernst and Young LLP

Auditor qualification certificate  
No. 0000374 dated 21 February 1998

Kazakhstan 050060, Almaty  
Al-Farabi Ave., 77/7

10 March 2017



State audit license for audit activities on the  
territory of the Republic of Kazakhstan: series  
МФЮ-2 No. 0000003 issued by the Ministry of  
finance of the Republic of Kazakhstan on  
July 15, 2005



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>In thousands of tenge</i>	Note	As at December 31	
		2016	2015 (Restated)*
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	2,953,135,665	2,661,342,684
Exploration and evaluation assets	9	231,553,168	208,526,063
Investment property	10	29,480,044	29,260,917
Intangible assets	11	116,488,612	119,945,371
Long-term bank deposits	12	50,027,102	48,808,421
Investments in joint ventures and associates	13	3,706,276,810	3,422,939,745
Deferred income tax asset	32	71,909,033	107,481,291
VAT receivable		71,918,992	42,455,417
Advances for non-current assets		139,185,121	133,734,033
Bonds receivable from Samruk-Kazyna		37,683,003	37,400,972
Note receivable from a shareholder of a joint venture	14	16,695,758	21,602,249
Note receivable from associate		34,837,804	42,319,688
Loans and receivable due from related parties	17	476,777,932	433,410,880
Other non-current assets		20,687,850	26,259,148
		<b>7,956,656,894</b>	<b>7,335,486,879</b>
<b>Current assets</b>			
Inventories	15	98,776,900	125,709,383
VAT receivable		68,719,671	88,931,793
Income tax prepaid	32	74,457,414	60,482,541
Trade accounts receivable	16	279,811,631	95,499,391
Short-term bank deposits	12	1,182,669,493	947,909,540
Bonds receivable from Samruk-Kazyna		4,440,000	4,440,000
Loans and receivable due from related parties	17	113,616,133	113,045,841
Note receivable from a shareholder of a joint venture	14	17,617,100	8,821,698
Other current assets	16	149,079,608	93,123,601
Cash and cash equivalents	18	878,438,350	770,003,517
		<b>2,867,626,300</b>	<b>2,307,967,305</b>
Assets classified as held for sale	5	1,058,794,076	1,066,203,474
		<b>3,926,420,376</b>	<b>3,374,170,779</b>
<b>Total assets</b>		<b>11,883,077,270</b>	<b>10,709,657,658</b>

*The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

<i>In thousands of tenge</i>	Note	As at December 31	
		2016	2015 (Restated)*
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	19	696,376,625	696,363,445
Additional paid-in capital	19	243,655,405	243,655,405
Other equity		222,074	3,110,573
Currency translation reserve	19	1,372,771,521	1,405,325,707
Retained earnings		3,163,685,193	2,988,542,754
<b>Attributable to equity holders of the Parent Company</b>		<b>5,476,710,818</b>	<b>5,336,997,884</b>
Non-controlling interest	19	801,560,097	753,179,913
<b>Total equity</b>		<b>6,278,270,915</b>	<b>6,090,177,797</b>
<b>Non-current liabilities</b>			
Borrowings	20	2,706,101,321	2,932,323,037
Provisions	22	139,371,823	150,427,821
Deferred income tax liabilities	32	264,599,978	218,909,753
Financial guarantee		12,259,980	8,038,985
Prepayment on oil supply agreements	21	738,572,306	-
Other non-current liabilities		52,509,205	23,226,111
		<b>3,913,414,613</b>	<b>3,332,925,707</b>
<b>Current liabilities</b>			
Borrowings	20	366,438,649	296,545,652
Provisions	22	94,394,277	116,508,954
Income tax payable	32	2,301,839	4,114,767
Trade accounts payable	23	260,137,009	174,237,185
Other taxes payable	24	34,014,457	40,015,053
Financial guarantee		1,211,481	1,121,173
Prepayment on oil supply agreements	21	249,967,500	-
Other current liabilities	23	119,042,249	145,204,352
		<b>1,127,507,461</b>	<b>777,747,136</b>
Liabilities directly associated with the assets classified as held for sale	5	563,884,281	508,807,018
<b>Total liabilities</b>		<b>5,604,806,355</b>	<b>4,619,479,861</b>
<b>Total equity and liabilities</b>		<b>11,883,077,270</b>	<b>10,709,657,658</b>
<b>Book value per ordinary share</b>	19	<b>10,547</b>	10,219

\* Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2015 and reflect adjustments made, refer to Note 6.

Executive vice-president – financial director

Chief accountant



D.S. Karabayev



Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<i>In thousands of tenge</i>	Note	For the years ended December 31	
		2016	2015 (Restated)*
Revenue	25	1,857,435,356	1,093,805,922
Cost of sales	26	(1,561,746,019)	(1,090,380,226)
<b>Gross profit</b>		<b>295,689,337</b>	<b>3,425,696</b>
General and administrative expenses	27	(117,675,164)	(211,223,843)
Transportation and selling expenses	28	(198,473,083)	(195,320,579)
Impairment of property, plant and equipment, intangible assets	29	(3,282,679)	(67,125,848)
Impairment of goodwill	29	-	(11,922,192)
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		(5,620,831)	(3,580,092)
Other operating income		19,429,680	21,692,072
Other operating expenses		(14,821,567)	(19,529,597)
<b>Operating loss</b>		<b>(24,754,307)</b>	<b>(483,584,383)</b>
Net foreign exchange (loss)/gain		(12,894,441)	469,508,889
Finance income	30	167,891,688	172,979,474
Finance costs	30	(230,383,354)	(198,337,046)
Impairment of investments in joint ventures	13	(5,503,379)	(9,342,198)
Impairment of assets classified as held for sale		(92,601)	(85,744)
Impairment of loan given	17	(1,346,447)	(10,969,792)
Share in profit of joint ventures and associates, net	31	270,190,990	112,807,416
<b>Profit before income tax</b>		<b>163,108,149</b>	<b>52,976,616</b>
Income tax expenses	32	(163,791,137)	(231,527,690)
<b>Loss for the year from continuing operations</b>		<b>(682,988)</b>	<b>(178,551,074)</b>
<b>Discontinued operations</b>			
Profit after income tax for the year from discontinued operations	5	360,854,031	673,234,095
<b>Net profit for the year</b>		<b>360,171,043</b>	<b>494,683,021</b>
<b>Net profit for the year attributable to:</b>			
Equity holders of the Parent Company		305,849,105	398,325,954
Non-controlling interest		54,321,938	96,357,067
		<b>360,171,043</b>	<b>494,683,021</b>

*The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)**

<i>In thousands of tenge</i>	Note	For the years ended December 31	
		2016	2015 (Restated)*
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of foreign operations		(38,081,340)	1,180,868,321
Accumulated differences on translation of disposal group		-	(106,930,994)
<b>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</b>		<b>(38,081,340)</b>	<b>1,073,937,327</b>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Actuarial gain\ (loss) on defined benefit plans of the Group		3,775,606	(1,760,276)
Actuarial (loss) gain on defined benefit plans of joint ventures		(127,142)	10,098
Tax effect		(807,240)	365,421
<b>Other comprehensive income\ (loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>2,841,224</b>	<b>(1,384,757)</b>
<b>Other comprehensive (loss)/income for the year</b>		<b>(35,240,116)</b>	<b>1,072,552,570</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>324,930,927</b>	<b>1,567,235,591</b>
<b>Total comprehensive income for the year attributable to:</b>			
Equity holders of the Parent Company		275,618,617	1,353,725,956
Non-controlling interest		49,312,310	213,509,635
		<b>324,930,927</b>	<b>1,567,235,591</b>

\* Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2015 and reflect adjustments made, refer to Note 6.

Executive vice-president – financial director



D.S. Karabayev

Chief accountant

Y.Y. Orynbayev

*The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>In thousands of tenge</i>	Note	For the years ended December 31	
		2016	2015* (Restated)
<b>Cash flows from operating activities</b>			
Profit before income tax from continuing operations		163,108,149	52,976,616
Profit before income tax from discontinued operations		357,713,189	653,693,071
<b>Profit before income tax</b>		<b>520,821,338</b>	<b>706,669,687</b>
<b>Adjustments for:</b>			
Depreciation, depletion and amortization		181,273,147	141,483,857
Depreciation, depletion and amortization from discontinued operation		38,939,596	41,694,853
Share in profit of joint ventures and associates, net	31	(270,190,990)	(112,807,416)
Share in profit of joint ventures and associates from discontinued operation, net		(1,175,613)	(160,800)
Finance costs	30	230,383,354	198,337,046
Finance costs from discontinued operation		10,613,369	19,377,394
Finance income	30	(167,891,688)	(172,979,474)
Finance income from discontinued operation		(1,249,393)	(2,633,900)
Unrealized losses from derivatives on petroleum products		341,709	2,543,060
Realized losses from derivatives on petroleum products		728,846	241,176
Impairment of property, plant and equipment, intangible assets and goodwill		3,282,679	79,048,040
Impairment of property, plant and equipment, intangible assets and goodwill from discontinued operation	5	3,982,106	6,490,037
Adjustment on the re-measurement to fair value less costs to sell (Reversal)/impairment of VAT receivable	5 27	16,337,163 (3,417,616)	160,035,211 51,548,508
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		5,620,831	3,580,092
Impairment of investments in joint ventures	13	5,503,379	9,342,198
Impairment of assets classified as held for sale		92,601	85,744
Impairment of loans due from related parties	17	1,346,447	10,969,792
Gain on sale of subsidiary	7	-	(427,840,668)
Loss on sale of joint ventures	13	-	6,151,234
Provisions		13,106,165	99,695,140
Allowance for impairment of trade accounts receivable and other current and non-current assets	27	7,482,029	3,158,635
Allowance for impairment of trade accounts receivable and other current assets from discontinued operation		9,999,997	8,319,118
Provision for obsolete and slow-moving inventories	27	1,058,595	1,391,281
Provision for obsolete and slow-moving inventories from discontinued operation		4,259,577	(5,875,841)
Recognition of share based payments		1,347,558	1,589,628
Change of share in subsidiaries		(9,550)	-
Unrealized foreign exchange gain		(18,888,571)	(321,841,594)
<b>Operating profit before working capital changes</b>		<b>593,697,065</b>	<b>507,612,038</b>
Change in inventory		23,309,510	57,113,535
Change in VAT receivable		(6,666,694)	(1,186,992)
Change in trade accounts receivable and other assets		(199,108,793)	(110,105,376)
Change in other taxes payable		(39,469,136)	(47,542,464)
Change in prepayment on oil supply agreements	21	1,012,020,000	-
Change in trade accounts payable		132,824,726	39,745,815
Change in other liabilities		2,220,436	(24,663,004)
<b>Cash generated from operations</b>		<b>1,518,827,114</b>	<b>420,973,552</b>
Income taxes paid		(106,406,440)	(187,135,282)
Interest received		61,212,115	118,778,446
Interest paid		(197,781,983)	(212,864,705)
Cash received from derivatives, net		330,120	6,694,868
<b>Net cash flow from operating activities</b>		<b>1,276,180,926</b>	<b>146,446,879</b>

*The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

<i>In thousands of tenge</i>	Note	For the years ended December 31	
		2016	2015* (Restated)
<b>Cash flows from investing activities</b>			
Withdrawal of bank deposits, net		(269,568,073)	313,189,387
Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets		(464,811,894)	(557,448,149)
Proceeds from sale of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets		1,379,771	22,350,510
Proceeds from sale of subsidiaries		-	1,372,498,443
Dividends received from joint ventures and associates, net of income tax		118,607,550	172,719,434
Acquisition of and contribution to joint ventures		(160,057,189)	(41,435,041)
Refund of contribution to joint ventures		1,672,268	-
Repayment of loans and receivable due from related parties		125,002,452	43,942,748
Note receivable from associate		6,889,431	8,450,131
Loans given to related parties		(222,725,040)	(111,332,668)
<b>Net cash flow from / (used in) investing activities</b>		<b>(863,610,724)</b>	<b>1,222,934,795</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		316,799,290	281,752,106
Repayment of borrowings		(530,514,370)	(1,902,374,221)
Distributions to Samruk-Kazyna		(2,202,898)	-
Dividends paid to Samruk-Kazyna and National Bank of RK	33	(90,853,335)	(6,768,531)
Dividends paid to non-controlling interests		(5,248,975)	(15,851,249)
Issue of shares		1	12,700,436
<b>Net cash flow used in financing activities</b>		<b>(312,020,287)</b>	<b>(1,630,541,459)</b>
Effects of exchange rate changes on cash and cash equivalents		(3,531,543)	243,150,206
<b>Net change in cash and cash equivalents</b>		<b>97,018,372</b>	<b>(18,009,579)</b>
Cash and cash equivalents at the beginning of the year		808,434,139	826,443,718
<b>Cash and cash equivalents at the end of the year</b>		<b>905,452,511</b>	<b>808,434,139</b>

\* Certain numbers shown here do not correspond to the consolidated financial statements for year ended December 31, 2015 and reflect adjustments made, refer to Note 6.

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

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**NON-CASH AND OTHER TRANSACTIONS: SUPPLEMENTAL DISCLOSURE**

The following significant non-cash transactions and other transactions were excluded from the consolidated statement of cash flows:

**Capitalization of borrowing costs**

In 2016 the Group capitalized in the carrying amount of property, plant and equipment borrowing costs in the amount of 28,515,460 thousand tenge (2015: 22,911,733 thousand tenge) (*Note 5*).

**Accounts payable for non-current assets**

In 2016 accounts payable for purchases of property, plant and equipment decreased by 14,933,835 thousand tenge (2015: decreased by 30,482,682 thousand tenge).

**Advances paid for non-current assets**

In 2016 advances paid for non-current assets increased by 14,475,666 thousand tenge (in 2015: increased by 33,877,621 thousand tenge).

**Purchases of non-current assets**

In 2016 purchases of property, plant and equipment was paid with the use of the loans from The Export-Import Bank of China and Japan Bank for International Cooper in the total amount 131,700,644 thousand tenge (2015: 85,487,835 thousand tenge).

**Hedge of income (loss) on translation of borrowings denominated in US dollar**

In 2016 the Group utilized hedging of net investments in certain subsidiaries classified as foreign operations against selected borrowings denominated in US dollar (*Note 12*). Effect of income hedging was equal to 37,952,320 thousand tenge which was reclassified from profits and losses to other comprehensive income, under exchange differences on translation of foreign operations (effect of loss hedging in 2015: 1,586,801,249 thousand tenge).

Executive vice-president – financial director

Chief accountant



D.S. Karabayev

Y.Y. Orynbayev

*The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<i>In thousands of tenge</i>	Attributable to equity holder of the Parent Company					Total	Non-controlling interest	Total
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings			
<b>As at December 31, 2014</b>	557,072,340	226,761,347	2,105,737	448,739,927	2,627,270,657	3,861,950,008	555,162,424	4,417,112,432
Net profit for the year	-	-	-	-	398,325,954	398,325,954	96,357,067	494,683,021
Other comprehensive income	-	-	-	956,585,780	(1,185,778)	955,400,002	117,152,568	1,072,552,570
<b>Total comprehensive income for the year</b>	-	-	-	956,585,780	397,140,176	1,353,725,956	213,509,635	1,567,235,591
Contribution to share capital (Note 19)	139,291,105	16,894,058	-	-	-	156,185,163	-	156,185,163
Dividends (Note 19)	-	-	-	-	(24,335,911)	(24,335,911)	(15,790,408)	(40,126,319)
Distributions to the Samruk-Kazyna (Note 19)	-	-	-	-	(6,771,791)	(6,771,791)	-	(6,771,791)
Recognition of share based payments at subsidiaries	-	-	1,004,836	-	-	1,004,836	584,792	1,589,628
Transactions with the Samruk-Kazyna (Note 19)	-	-	-	-	(4,760,377)	(4,760,377)	-	(4,760,377)
Disposal of subsidiary	-	-	-	-	-	-	(286,530)	(286,530)
<b>As at December 31, 2015</b>	696,363,445	243,655,405	3,110,573	1,405,325,707	2,988,542,754	5,336,997,884	753,179,913	6,090,177,797

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**

<i>In thousands of tenge</i>	Attributable to equity holder of the Parent Company					Total	Non-controlling interest	Total
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings			
<b>As at December 31, 2015</b>	696,363,445	243,655,405	3,110,573	1,405,325,707	2,988,542,754	5,336,997,884	753,179,913	6,090,177,797
Net profit for the year	–	–	–	–	305,849,105	305,849,105	54,321,938	360,171,043
Other comprehensive income	–	–	–	(32,554,186)	2,323,698	(30,230,488)	(5,009,628)	(35,240,116)
<b>Total comprehensive income for the year</b>	–	–	–	(32,554,186)	308,172,803	275,618,617	49,312,310	324,930,927
Contribution to share capital (Note 19)	13,180	–	–	–	–	13,180	–	13,180
Dividends (Note 19)	–	–	–	–	(59,748,893)	(59,748,893)	(5,167,227)	(64,916,120)
Distributions to the Samruk-Kazyna (Note 19)	–	–	–	–	(22,401,021)	(22,401,021)	–	(22,401,021)
Transactions with the Samruk-Kazyna (Note 19)	–	–	–	–	(50,871,857)	(50,871,857)	–	(50,871,857)
Recognition of share-based payments	–	–	891,404	–	–	891,404	518,777	1,410,181
Execution of share-based payments	–	–	(3,740,318)	–	–	(3,740,318)	3,740,318	–
Forfeiture of share-based payments	–	–	(39,585)	–	–	(39,585)	(23,038)	(62,623)
Change of share in subsidiaries	–	–	–	–	(8,593)	(8,593)	(956)	(9,549)
<b>As at December 31, 2016</b>	<b>696,376,625</b>	<b>243,655,405</b>	<b>222,074</b>	<b>1,372,771,521</b>	<b>3,163,685,193</b>	<b>5,476,710,818</b>	<b>801,560,097</b>	<b>6,278,270,915</b>

Executive vice-president – financial director



D.S. Karabayev

Y.Y. Orynbayev

Chief accountant

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended December 31, 2016**

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**1. GENERAL**

JSC “National Company “KazMunayGas” (the “Company”, “KazMunayGas” or “Parent Company”) is a wholly owned state oil and gas enterprise of the Republic of Kazakhstan, which was established on February 27, 2002 as a closed joint stock company pursuant to the Decree No. 811 of the President of the Republic of Kazakhstan dated February 20, 2002 and the Resolution of the Government of the Republic of Kazakhstan (the “Government”) No. 248 dated February 25, 2002. The Company was formed as a result of the merger of National Oil and Gas Company Kazakhoil CJSC (“Kazakhoil”) and National Company Transport Nefti i Gaza CJSC (“TNG”). As the result of the merger, all assets and liabilities, including ownership interest in all entities owned by these companies, have been transferred to KazMunayGas. The Company was reregistered as a joint stock company in accordance with the legislation of the Republic of Kazakhstan in March 2004.

Starting from June 8, 2006, the sole shareholder of the Company was JSC “Kazakhstan Holding Company for State Assets Management “Samruk” (“Samruk”), which in October 2008 was merged with the state owned Sustainable Development Fund “Kazyna” and formed JSC “National Welfare Fund Samruk-Kazyna” (“Samruk-Kazyna”), now renamed to JSC “Sovereign Wealth Fund Samruk-Kazyna”. The Government is the sole shareholder of Samruk-Kazyna. On August 7, 2015 National Bank of Republic of Kazakhstan (“National Bank of RK”) purchased 10% plus one share of the Company from Samruk-Kazyna.

As at December 31, 2016, the Company has an interest in 42 operating companies (2015: 37) (jointly the “Group”).

The Company has its registered office in the Republic of Kazakhstan, Astana, Kabanbay Batyr avenue, 19.

The principal objective of the Group includes, but is not limited, to the following:

- participation in the Government activities relating to the oil and gas sector;
- representation of the state interests in subsoil use contracts through interest participation in those contracts; and
- corporate governance and monitoring of exploration, development, production, processing, transportation and sale of hydrocarbons and the designing, construction and maintenance of oil-and-gas pipeline and field infrastructure.

The consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries (*Note 35*).

These consolidated financial statements of the Group were approved for issue by the Executive vice-president – financial director and the Chief accountant on March 10, 2017.

**2. BASIS OF PREPARATION**

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. All values in these consolidated financial statements are rounded to the nearest thousands, except when otherwise indicated.

**Statement of compliance**

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”).

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in *Note 4*.

**Foreign currency translation***Functional and presentation currency*

Items included in the financial statements of each of the Group’s entities included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate (“the functional currency”). The consolidated financial statements are presented in Kazakhstan tenge (“tenge” or “KZT”), which is the Company’s functional currency.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**2. BASIS OF PREPARATION (continued)****Foreign currency translation (continued)***Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group’s net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

*Group Companies*

The results and financial position of all of the Group’s subsidiaries, joint ventures and associates (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at that reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of other comprehensive income.

*Exchange rates*

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange (“KASE”) are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE as at December 31, 2016 was 333.29 tenge to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in United States dollars (“US dollar”) as at December 31, 2016 (2015: 340.01 tenge to 1 US dollar). The currency exchange rate of KASE as at March 10, 2017 was 317.97 tenge to 1 US dollar.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****New and amended standards and interpretations**

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of new standards and interpretations effective as of January 1, 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***IFRS 14 Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after January 1, 2016. The Group is an existing IFRS preparer and does not apply this standard.

*Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

*Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

*Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016. These amendments do not have any impact to the Group as the Group does not have any bearer plants.

*Amendments to IAS 27 Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after January 1, 2016. These amendments do not have any impact on the annual consolidated financial statements of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***Annual improvements 2012-2014 cycle*

These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operation*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

*IFRS 7 Financial Instruments: Disclosures**(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

*(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

*IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

*IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***Annual improvements 2012-2014 cycle (continued)**Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact on the Group.

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards and interpretations issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. The Group plans to adopt the new standard on the required effective date. Overall, the Group expects no significant impact of new requirements on its.

*(a) Classification and measurement*

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

*(b) Impairment*

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to the unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

*Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on the consolidated financial statements of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards and interpretations issued but not yet effective (continued)***IAS 7 Disclosure Initiative – Amendments to IAS 7*

The amendments to IAS 7 Statement of Cash Flows are part of the IASB’s Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of the amendments will result in additional disclosures provided by the Group.

*IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

*IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards and interpretations issued but not yet effective (continued)***IFRS 16 Leases (continued)*

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17.

Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee, and;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Profit or loss and each component of other comprehensive income are attributable to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income (“OCI”). If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Business combinations achieved in stages*

The acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

In a business combination achieved in stages the acquirer recognises goodwill as of the acquisition date measured as the excess of (a) over (b) below:

- (a) the aggregate of:
  - (i) the consideration transferred measured in accordance with this IFRS 3 *Business Combinations*, which generally requires acquisition-date fair value;
  - (ii) the amount of any non-controlling interest in the acquiree measured in accordance with this IFRS; and
  - (iii) the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree.
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Business combinations and goodwill (continued)***Acquisition of subsidiaries in accordance with the Shareholder instructions*

In acquisitions of subsidiaries from third parties made in accordance with the Shareholder instructions, the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed is recognised directly in equity as a distribution to the Parent Company.

*Acquisition of subsidiaries from parties under common control*

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interest method.

The assets and liabilities of the subsidiary transferred under common control are recorded in the consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill, if any, inherent in the Predecessor's original acquisition is also recorded in the consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to equity.

The consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

**Undivided interest in jointly controlled operations**

The Group has undivided interest in jointly controlled operations.

Upon acquisition the Group shall recognize in relation to its interest in joint operations its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly. Subsequently, the Group shall recognize its revenue from the sale of its share of the output arising from the joint operations; its share of the revenue from the sale of the output by the joint operations; and its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operations in accordance with its accounting policy.

When the Group does not share the joint control over joint operations, it follows the accounting of the parties that share control as discussed in next paragraphs.

**Investment in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but which does not comprise control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in a joint venture or an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture or associate since the acquisition date. Goodwill relating to the joint venture or associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the joint venture or associate, deducted by the amount of dividends declared from joint venture or associate to the Group. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture or associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture or associate are eliminated to the extent of the interest in the joint venture or associate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Investment in associates and joint ventures (continued)**

The aggregate of the Group’s share in profit or loss of a joint venture and an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interest in the subsidiaries of the joint venture or associate. The financial statements of the joint venture or associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its joint venture or associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture or associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as ‘Impairment of investment in joint venture or associate’ in the statement of profit or loss.

Upon loss of joint control over the joint venture or significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture or associate upon loss of joint control or significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

**Current versus non-current classification**

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within 12 (twelve) months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 (twelve) months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are always classified as non-current assets and liabilities.

**Oil and natural gas exploration, evaluation and development expenditure***Costs incurred before obtaining subsoil use rights (licenses)*

Costs incurred before obtaining full subsoil use rights (licenses) are expensed in the period in which they are incurred, except when costs are incurred after signing preliminary agreements with the Government of the Republic of Kazakhstan, in such cases costs incurred after this date are capitalized.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Oil and natural gas exploration, evaluation and development expenditure (continued)***Subsoil use rights and property acquisition costs*

Exploration and production subsoil use rights and related property acquisition costs are capitalized within exploration and evaluation assets and subclassified as intangible assets. Each property under exploration and appraisal is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. If no future activity is planned, the carrying amount of the exploration subsoil use right and related property acquisition costs is written off. Upon determination of economically recoverable reserves (‘proved reserves’ or ‘commercial reserves’) and internal approval of development, the carrying amount of the subsoil use right and related property acquisition costs held on a field-by-field basis is aggregated with exploration and evaluation assets and transferred to oil and gas development assets.

*Exploration and evaluation costs*

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with exploration and appraisal wells are capitalized as exploration and evaluation intangible or tangible assets, according to the nature of the costs, until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration and evaluation asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially; the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbon reserves. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the assets are written off. When proved reserves of hydrocarbons are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas development assets after impairment is assessed and any resulting impairment loss is recognized.

*Development costs*

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells and unforeseen technical problems, is capitalized within oil and gas development assets.

**Oil and gas assets and other property, plant and equipment**

Oil and gas assets and other property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment (“DD&A”).

The initial cost of an asset comprises its purchase price or construction cost, borrowing cost for long-term construction or development project, if recognition criteria is met, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if there is any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas assets are depreciated using a unit-of-production method, whereas tangible assets are depreciated over proved developed reserves and intangible assets – over proved reserves. Certain oil and gas assets with useful lives less than the remaining life of the fields or term of the subsoil use contract are depreciated on a straight-line basis over useful lives of 4-10 years.

Property, plant and equipment other than oil and gas assets principally comprise buildings, machinery and equipment which are depreciated on a straight-line basis over the expected remaining useful average lives as follows:

Refinery assets	4-100 years
Pipelines	2-30 years
Buildings and improvements	2-100 years
Machinery and equipment	2-30 years
Vehicles	3-35 years
Other	2-20 years

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Oil and gas assets and other property, plant and equipment (continued)**

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is derecognized.

**Intangible assets**

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include expenditure on acquiring subsoil use rights for oil and natural gas exploration, evaluation and development, computer software and goodwill. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets, except for goodwill and subsoil use rights, are amortized on a straight-line basis over the expected remaining useful life. The expected useful lives of the assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Computer software costs have an estimated useful life of 3 to 7 years. The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

**Investment properties**

Investment property is initially measured at cost, including transaction costs. Transaction costs shall be included in the initial measurement.

Since the Group adopted cost model, after initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16 *Property, Plant and Equipment* – cost less accumulated depreciation and less accumulated impairment losses.

The depreciation is calculated based on straight line method basis over the expected remaining useful average life of 2-100 years.

At each reporting date, the Group determines the fair value of investment property and in the event that the fair value of the asset exceeds its fair value, the difference is recognized in profit and loss.

Investment property derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of investment property and recognised in profit or loss in the period of the retirement or disposal.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 5 (five) years. For longer periods, a long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of accumulated depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

**Impairment of exploration and evaluation assets**

Exploration and evaluation assets are tested for impairment when reclassified to oil and gas development tangible or intangible assets or whenever facts and circumstances indicate impairment. One or more of the following facts and circumstances indicate that the Group should test exploration and evaluation assets for impairment (the list is not exhaustive):

- the period for which the Group entity has the right to explore and appraise in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on the further exploration for and evaluation of hydrocarbon resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of hydrocarbon resources in the specific area have not led to the discovery of commercial viable quantities of hydrocarbon resources and the Group entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

**Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Non-current assets held for sale and discontinued operations (continued)**

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

**Asset retirement obligation (decommissioning)**

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of plant, property and equipment and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This asset is subsequently depreciated as part of the capital costs of the production and transportation facilities.

Changes in the measurement of an existing decommissioning provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or change in the discount rate, is accounted for so that:

- (a) changes in the provision are added to, or deducted from, the cost of the related asset in the current period;
- (b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of comprehensive income; and
- (c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

**Financial assets*****Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group financial assets include cash and cash equivalents, short-term bank deposits, bonds receivable from the Parent Company, note receivable from associate, note receivable from a shareholder of a joint venture, loans due from related parties and trade accounts receivable.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Subsequent measurement (continued)**Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as finance costs or finance income through profit or loss.

The consolidated statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in the consolidated statement of comprehensive income. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 is satisfied.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluated its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these investments cannot reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment of trade and other receivables are recognized in general and administrative expenses. The losses arising from impairment of loans receivable are recognized in finance costs.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income as finance costs.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Subsequent measurement (continued)**Available-for-sale financial investments*

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognised in other comprehensive income and credited in the available-for-sale revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale revaluation reserve to finance costs in the consolidated statement of comprehensive income. Interest earned whilst holding available-for-sale financial investments is reported as finance income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognised in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

***Derecognition***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Impairment of financial assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred ‘loss event’), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortized cost*

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in current period expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. The present value of the estimated future cash flows is discounted at the financial asset’s original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income – is removed from other comprehensive and recognised in profits or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed through profits or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Inventories**

Inventories are stated at the lower of cost and net realizable value on a first-in first-out (“FIFO”) basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil and refined products is the cost of production, including the appropriate proportion of depreciation, depletion and amortization and overheads based on normal capacity. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale.

**Value added tax (VAT)**

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT receivable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

**Cash and cash equivalents**

Cash and cash equivalents include cash in bank and cash on hand, demand deposits with banks with original maturities of 3 (three) months or less.

**Financial liabilities*****Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, bank overdraft, loans and borrowings and derivative financial instruments.

***Subsequent measurement***

The measurement of financial liabilities depends on their classification as follows:

***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

***Trade and other payables***

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the EIR.

***Loans and borrowings***

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance costs.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)***Subsequent measurement (continued)**Loans and borrowings (continued)*

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 (twelve) months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

***Derecognition***

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

***Fair value of financial instruments***

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

**Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Provisions (continued)***Provision for obligations to the Government*

The Government assigns various sponsorship and financing obligations to the Group. Management of the Group believes that such Government’s assignments represent constructive obligations of the Group and require recognition on the basis of respective resolution of the Government. Furthermore, as the Government is the ultimate controlling party of the Group, the expenditures on these assignments are recognized as other distributions to the Shareholder directly in the equity.

**Employee benefits***Pension scheme*

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state – managed retirement benefit schemes are dealt with as defined contribution plans where the Group’s obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit plan.

*Long-term employee benefits*

The Group provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Group entities and their employees. The collective agreement provides for certain one-off retirement payments, financial aid for employees’ disability, anniversaries, funeral and other benefits. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments upon the end of employment. Actuarial gains and losses arising in the year are taken to other comprehensive income. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as finance costs. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

**Revenue recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of goods*

Revenue from the sale of crude oil, refined products, gas and other products is recognized when delivery has taken place and risks and rewards of ownership of the goods have passed to the buyer.

*Rendering of services*

Revenue from rendering of services, such as transportation, refining and oil support services, is recognized when the services have been performed.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue recognition (continued)***Interest income*

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

**Expense recognition**

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate on an accrual basis.

**Income taxes**

Income tax for the year comprises current income tax, excess profit tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

Excess profit tax (“EPT”) is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation, the Group accrues and pays EPT in respect of each subsoil use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsoil use contract. The ratio of aggregate annual income to deductions in each tax year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsoil use contract in excess of 25% of the deductions attributable to each contract.

Deferred tax is calculated with respect to both corporate income tax (“CIT”) and EPT. Deferred EPT is calculated on temporary differences for assets allocated to subsoil use contracts at the expected rate of EPT to be paid under the contract.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Income taxes (continued)**

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

**Equity***Non-controlling interest*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the Company's owners. Total comprehensive income is attributed to the Company's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

*Share based payments*

Employees of some Group entities receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments of a subsidiary in which they are employed ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other equity reserves, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

*Dividends*

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Equity (continued)***Other distributions to the Shareholder*

Expenditures incurred by the Group based on the respective resolution of the Government or decision and instructions of Samruk-Kazyna are accounted for as other distributions through equity. Such expenditures include costs associated with non-core activity of the Group (construction of social assets) and acquisitions of investments.

**Subsequent events**

The results of post-year-end events that provide evidence of conditions that existed at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Group’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities and assets, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Oil and gas reserves**

Oil and gas reserves are a material factor in the Group’s computation of depreciation, depletion and amortization expenses. The Group estimates its oil and gas reserves in accordance with the methodology of the Society of Petroleum Engineers (“SPE”). In estimating its reserves under SPE methodology, the Group uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for Depreciation Depletion & Amortization (DD&A) in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group’s subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property’s book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Recoverability of oil and gas assets**

The Group assesses assets or CGU for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, operating performance (including production and sales volumes) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

As at December 31, 2016 further volatility in crude oil prices, decreased levels of drilling services provided and increases in inflation rate and cost of capital indicated that Group’s cash generating units may be impaired. Therefore, for the year ended December 31, 2016 management has carried out a formal assessment of the recoverable amount of its assets. An impairment loss of 3,250,130 thousand tenge (Note 8), mainly related to property, plant and equipment of ANS was recognized in the consolidated financial statements.

As at December 31, 2016 KMG EP carried out an assessment due to several indicators that the previous impairment loss for JSC “Ozenmunaigas” (KMG EP subsidiary) may have decreased. Various values for the recoverable amount of JSC “Ozenmunaigas” were reviewed and calculated on the basis of estimating the future cash flows adjusted for the risks specific to JSC “Ozenmunaigas” and discontinued using either a pre-tax or post-tax discount rate of 12.5% and 10%, respectively. The resulting recoverable amount was higher than the carrying value of the assets in all of the calculations, which also was the case when taking into consideration changes to the models’ assumptions. Management did not reverse impairment recognized in prior years due to the significant uncertainty surrounding the assumptions used in the model. Changes in assumptions, primarily, stem from macroeconomic factors such as export and domestic oil prices, taxation, foreign exchange rates and price inflation.

ANS calculates recoverable amount using a discounted cash flow model. The discount rate from 12.77% to 16.01% was derived from the CGU’s post-tax weighted average cost of capital. The five-year business plans, which are approved on an annual basis, are the primary source of information. They contain forecasts of drilling services volumes, revenues, costs and capital expenditure. Various assumptions such as tariff for the service and cost inflation rates take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and variability. Most of the projections beyond the five-year period were inflated using available inflation estimates.

The key assumptions required for the recoverable amount estimation are the oil prices, production volumes, the foreign exchange rate and discount rate.

**Recoverability of downstream, refining and other assets**

The Group performed its annual impairment test in December 2016 and 2015. The Group considers the forecast refinery margins and production volumes, among other factors, when reviewing for indicators of impairment. Decline in market forecasts indicated a potential impairment of goodwill and assets of refining, downstream and other segments.

As of December 31, 2016 the Group has material goodwill related to past acquisitions of Pavlodar Oil Chemical Plant JSC (“PNHZ”) (Note 11).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Recoverability of downstream, refining and other assets (continued)*****PNHZ***

As at December 31, 2016 recoverable amount of PNHZ CGU amounted to 172,520,000 thousand tenge (in 2015: 210,053,000 thousand tenge). It was calculated based on fair value less costs to sell. The fair value less costs to sell calculation is based on a discounted cash flow model. Cash flows assume the highest and best use of assets by independent market participants, i.e. other companies of the same industry in the existing economic environment. The discount rate applied to the cash flow projections is 11.58% (in 2015: 13%), and cash flows beyond the five-year period are extrapolated using a 4.99% growth rate (in 2015: 4.99%).

Based on the results of impairment test no impairment of PNHZ goodwill was identified in 2016.

*Key assumptions used in calculating fair value less costs of disposal*

The key assumptions used in calculating fair value less costs of disposal use for PNHZ are as follows:

- volumes of crude oil and oil products output;
- capital expenditures for 2017-2021;
- discount rates.

Volumes of crude oil and oil products output – are the forecasts of the Group with respect to the output of oil products during processing 1 ton of crude oil before and after modernization of PNHZ.

Capital expenditures

Capital expenditures – costs: a) on reconstruction and modernization of PNHZ; b) necessary to maintain the current condition of the asset.

Prices of Crude oil in the local market

Prices of Crude oil in the local market – the prices which are based on the assessment of the management of the Group’s on purchase of crude oil from local oil producers.

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the PNHZ and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by PNHZ investors. The cost of debt is based on the interest-bearing borrowings the PNHZ is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

*Sensitivity to changes in assumptions*

Results of assessment of recoverable amount of PNHZ are sensitive to changes in key assumptions, in particular, assumptions related to changes in exchange rate of tenge, WACC discount rates and target EBITDA in terminal period. Increase in discount rates by 3.4% from 11.6% to 15%, would result in recoverable amount of goodwill decrease by 39,222,890 thousand tenge. Decrease of target cash flow projections in terminal period by 6% from 55.4% to 49.8% would result in decrease of the recoverable value of goodwill for 3,914,842 thousand tenge.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Recoverability of downstream, refining and other assets (continued)****Assets retirement obligations***Oil and gas production facilities*

Under the terms of certain subsoil use contracts, legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group’s obligation relates to the ongoing closure of all non-producing wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories, and also obligations to dismantle and remove tangible assets and restore territory at each production site. Since the subsoil use contract terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each subsoil use contract period. If the asset retirement obligations were to be settled at the end of the economic life of oil and gas field, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Group’s obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective subsoil use contracts and current legislation.

Where neither subsoil use contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the subsoil use contract term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management’s assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

The Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market.

At each reporting date the Group reviews site restoration provisions, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group’s estimate can be affected by changes in asset removal technologies, costs and industry practice. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in the consolidated statement of financial position across the Group entities at December 31, 2016 were in the range from 2.04% to 6.7% and from 5.5% to 10.15% respectively (2015: from 2.10% to 6% and from 5.88% to 10.09%). Movements in the provision for asset retirement obligations are disclosed in *Note 22*.

*Major oil and gas pipelines*

According to the Law of the Republic of Kazakhstan *On Major Pipelines* which was made effective on July 4, 2014 mainly the Group’s two subsidiaries, JSC KazTransOil and Intergas Central Asia JSC the subsidiary of KazTransGaz JSC, have legal obligation to decommission its major oil pipelines at the end of their operating life and to restore the land to its original condition. Asset retirement obligation is calculated based on estimate of the work to decommission and rehabilitate. As at December 31, 2016 the carrying amounts of the Group’s asset retirement obligations relating to decommissioning of pipelines and land were 59,539,785 thousand tenge (December 31, 2015: 61,349,603 thousand tenge) (*Note 22*).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Environmental remediation**

The Group also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan and Europe. The Group has classified this obligation as non-current except for the portion of costs, included in the annual budget for 2016. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Further uncertainties related to environmental remediation obligations are detailed in *Note 36*. Movements in the provision for environmental remediation obligations are disclosed in *Note 22*.

**Employee benefits**

The cost of defined long-term employee benefits before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

**Taxation**

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil use contracts, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for tax risks disclosed under other provisions or provisions for taxes in *Note 22*. Further uncertainties related to taxation are disclosed in *Note 36*.

Taxable income is computed in accordance with the tax legislation enacted as at January 1, 2016. Deferred tax is calculated with respect to both CIT and EPT. Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to subsoil use contracts at the expected rates that were enacted by the tax authorities as at December 31, 2016.

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets as at December 31, 2016 was 71,909,033 thousand tenge (2015: 107,481,291 thousand tenge). Further details are disclosed in *Note 32*.

**Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Further details are disclosed in *Note 34*.

**Operating lease commitments – the Group as lessee**

The Group has entered into office space and car leases. The Group has determined that the lessor retains all the significant risks and rewards of ownership of office spaces and cars and so accounts for them as operating leases in the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Useful lives of property, plant and equipment**

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for prospectively as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Fair values of assets and liabilities acquired in business combinations**

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

**Discontinued operations**

In September 2015, the Group developed a new privatization plan which was subsequently approved by the Government in December 2015. The new privatization plan envisages sale of certain assets including 51% share in KMG International N.V. group (KMG I). On December 15, 2016, following this plan the Group signed share sale and purchase agreement (SPA) to sell a 51% interest in KMG I. The Group estimated fair value of the 51% share in KMG I at 680,000 thousand US dollars (equivalent of 226,637,200 thousand tenge).

The Group considered the subsidiary to meet the criteria to be classified as discontinued operations for the following reasons:

- KMG I is available for immediate sale and can be sold in its current condition;
- the actions to complete the sale were initiated and expected to be completed within one year.

Additional disclosures are provided in *Note 5*.

**5. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE**

The assets and liabilities, classified as discontinued operations and assets classified as held for sale as at December 31, 2016 and the results for 2016 are as follows:

<i>In thousands of tenge</i>	<b>December 31, 2016</b>			
	<b>Assets classified as held for sale</b>	<b>Liabilities directly associated with the assets classified as held for sale</b>	<b>Net assets directly associated with the disposal group</b>	<b>Profit/(loss) after income tax for 2016 from discontinued operation</b>
KMG International N.V.	1,014,948,431	550,226,128	464,722,303	368,199,241
Other assets*	43,845,645	13,658,153	30,187,492	(7,345,210)
<b>Total</b>	<b>1,058,794,076</b>	<b>563,884,281</b>	<b>494,909,795</b>	<b>360,854,031</b>

\* *Other assets include EurasiaAir JSC, Kazakh British Technical University JSC (KBTU) and AZPM JSC*

The assets and liabilities, classified as discontinued operations and assets classified as held for sale as at December 31, 2015 and the results for 2015 are as follows:

<i>In thousands of tenge</i>	<b>December 31, 2015</b>			
	<b>Assets classified as held for sale</b>	<b>Liabilities directly associated with the assets classified as held for sale</b>	<b>Net assets directly associated with the disposal group</b>	<b>Profit/(loss) after income tax for 2015 from discontinued operation</b>
KMG International N.V.	1,040,488,939	497,344,648	543,144,291	261,631,071
KMG Kashagan B.V.	–	–	–	415,610,277
Other assets*	25,714,535	11,462,370	14,252,165	(4,007,253)
<b>Total</b>	<b>1,066,203,474</b>	<b>508,807,018</b>	<b>557,396,456</b>	<b>673,234,095</b>

\* *Other assets include EurasiaAir JSC, Aysir Turism ve Inshaat A.S. and Altyn Tolkyn*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. DISCONTINUED OPERATIONS (continued)****KMG International N.V. (KMG I)**

On December 15, 2016, the Group signed share sale and purchase agreement (SPA) to sell a 51% interest in KMG I. The disposal of KMG I is due to be completed in 2017.

The results of KMG I for the years ended December 31, 2016 and 2015 are presented below:

<i>In thousands of tenge</i>	2016*	2015*
Revenue	1,695,688,049	1,579,288,355
Cost of sales	(1,193,961,256)	(1,056,572,599)
<b>Gross profit</b>	<b>501,726,793</b>	<b>522,715,756</b>
General and administrative expenses	(50,098,705)	(28,105,899)
Transportation and selling expenses	(59,423,245)	(49,874,579)
Impairment of property, plant and equipment and intangible assets, other than goodwill	(3,982,106)	(6,490,037)
Impairment loss recognized on the re-measurement to fair value less costs to sell	(10,327,447)	(160,035,211)
Other operating income	–	126,466
Other operating losses	(2,204,976)	(29,620,808)
<b>Operating profit</b>	<b>375,690,314</b>	<b>248,715,688</b>
Net foreign exchange loss, net	(2,272,190)	(1,677,041)
Finance income	452,245	1,307,723
Finance costs	(10,436,587)	(7,912,085)
Share in profit of associates, net	1,175,613	159,524
<b>Profit before income tax for the year from discontinued operation</b>	<b>364,609,395</b>	<b>240,593,809</b>
Income tax benefit	3,589,846	21,037,262
<b>Profit after income tax for the year from discontinued operation</b>	<b>368,199,241</b>	<b>261,631,071</b>

\* The results are presented after eliminations of intergroup transactions (247,605,667 thousand tenge of revenue and 640,029,453 thousand tenge of cost of sales).

The major classes of assets and liabilities of KMG I, classified as held for sale as at December 31, 2016 and 2015 are as follows:

<i>In thousands of tenge</i>	2016*	2015*
<b>Assets</b>		
Property, plant and equipment	585,545,785	632,565,455
Intangible assets	73,932,864	78,832,132
Investment in associate	12,644,023	11,496,830
Deferred tax asset	34,545,175	39,488,816
Inventories	115,234,684	86,794,671
Trade accounts receivable	128,944,234	90,336,362
Other non-current assets	2,949,283	3,931,742
Other current assets	36,148,634	62,551,082
Cash and cash equivalents	25,003,749	34,491,849
<b>Assets classified as held for sale</b>	<b>1,014,948,431</b>	<b>1,040,488,939</b>
<b>Liabilities</b>		
Borrowings	201,868,754	230,088,353
Deferred income tax liabilities	72,935,184	78,194,199
Provisions	50,706,074	53,394,218
Trade accounts payable	142,278,168	40,766,952
Other taxes payable	17,704,032	18,351,748
Other non-current liabilities	141,648	555,713
Other current liabilities	64,592,268	75,993,465
<b>Liabilities directly associated with the assets classified as held for sale</b>	<b>550,226,128</b>	<b>497,344,648</b>
<b>Net assets directly associated with the disposal group</b>	<b>464,722,303</b>	<b>543,144,291</b>

\* Assets and liabilities are presented after eliminations of intergroup transactions.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. DISCONTINUED OPERATIONS (continued)****KMG International N.V. (KMG I) (continued)**

The net cash flows incurred by KMG I are as follows:

<i>In thousands of tenge</i>	2016	2015
Operating	57,998,062	4,299,344
Investing	(34,273,788)	(17,623,100)
Financing	(32,809,432)	2,828,610
<b>Net cash outflows</b>	<b>(9,085,158)</b>	<b>(10,495,146)</b>

As at December 31, 2016, items of property, plant and equipment with the net book value of 372,054,627 thousand tenge related to discontinued operations (2015: 395,631,917 thousand tenge) were pledged as collateral to secure borrowings and payables of KMG I.

As at December 31, 2016 KMG I has pledged trade accounts receivable of approximately 72,640,966 thousand tenge as a collateral under its borrowings (2015: 95,357,123 thousand tenge) related to discontinued operations.

As at December 31, 2016 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment were 174,340,401 thousand tenge (2015: 176,319,465 thousand tenge).

**6. RESTATEMENTS**

In 2016 the Group ceased to classify Aysir Turizm ve Inshaat A.S. (Aysir) as discontinued operation as the Group did not receive reasonable offers due to unfavorable situation in tourism sector of Turkey. As such Aysir does not meet the criteria of IFRS 5. The assets and liabilities of Aysir were transferred from discontinued operations to continuing operations. The effect of the change on comparative data, including KBTU, is tabulated below.

<i>In thousands of tenge</i>	2015
<b>Effect on financial position as of December 31:</b>	
Increase in property, plant and equipment	10,004,228
Increase in intangible assets	3,430,389
Increase in other non-current assets	2,452
<b>Increase in non-current assets</b>	<b>13,437,069</b>
Increase in inventories	202,434
Increase in VAT recoverable	222,428
Increase in trade accounts receivable	238,222
Increase in other current assets	178,037
Increase in cash and cash equivalents	1,426,898
Decrease in assets classified as held for sale	(15,705,088)
<b>Decrease in current assets</b>	<b>(13,437,069)</b>
Increase in deferred income tax liabilities	540,540
Increase in other non-current liabilities	2,039,799
<b>Increase in non-current liabilities</b>	<b>2,580,339</b>
Increase in trade accounts payable	220,929
Increase in other current liabilities	615,537
Decrease in liabilities directly associated with the assets classified as held for sale	(3,416,805)
<b>Increase in current liabilities</b>	<b>(2,580,339)</b>
<b>Increase in net assets</b>	<b>–</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****6. RESTATEMENTS (continued)***In thousands of tenge*

<b>Effect on performance for the year ended December 31, 2015</b>	
Decrease in revenue	(892,887)
Decrease in cost of sales	3,410,873
Decrease in general and administrative expenses	522,870
Decrease in transportation and selling expenses	27,306
Decrease in other operating income	(864,623)
Decrease in other operating expenses	167,519
Decrease in net foreign exchange gain	(5,071,021)
Decrease in finance income	(351,423)
Increase in finance costs	(2,753)
Decrease in income tax expenses	621,773
Increase in profit after income tax for the year from discontinued operations	2,432,366
<b>Net profit for the year</b>	<b>—</b>

**7. LOSS OF CONTROL**

On October 16, 2015 Company and Samruk-Kazyna completed the sale of 50% of shares of KMG Kashagan B.V. to JSC Samruk-Kazyna (“Shares of Kashagan”). Samruk-Kazyna has transferred Shares of Kashagan to the Group in trust management, respectively, despite the fact that the Group has lost the right of ownership, economic benefits and risk of Shares of Kashagan, including the right to receive distributions and pledges in the charter capital on these shares, the Group remained rights and duties of daily operations of KMG Kashagan B.V.

The Group acquired from Samruk-Kazyna a call option (to buy back) all or part of Shares of Kashagan effective from January 1, 2018 to December 31, 2020.

At the date of loss of control net assets of KMG Kashagan B.V. were as follows:

<i>In thousands of tenge</i>	<b>Net assets at the date of disposal</b>
Property, plant and equipment	2,886,837,050
Exploration and evaluation assets	156,783,937
Intangible assets	116,181
Trade accounts receivable	21,994,678
VAT receivable	15,945,879
Cash	6,535,012
<b>Other current assets</b>	<b>1,303,225,870</b>
	<b>4,391,438,607</b>
Payable for the acquisition of additional interest in North Caspian Project	688,733,107
Provisions	46,861,625
Trade accounts payable	53,534,962
<b>Current liabilities</b>	<b>1,323,867,747</b>
	<b>2,112,997,441</b>
<b>Net assets</b>	<b>2,278,441,166</b>

The resulting gain on disposal of investment amounted to 432,513,360 thousand tenge. As a result of this transaction the Group has derecognized the assets and liabilities of the former subsidiary, when the control was lost and recognized its retained 50% interest in KMG Kashagan B.V. at its fair value of 1,301,888,532 thousand tenge.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****8. PROPERTY, PLANT AND EQUIPMENT**

<i>In thousands of tenge</i>	<b>Oil and gas assets</b>	<b>Pipelines</b>	<b>Refinery assets</b>	<b>Buildings and improvements</b>	<b>Machinery and equipment</b>	<b>Vehicles</b>	<b>Other</b>	<b>Capital work in progress</b>	<b>Total</b>
<b>Net book value as at December 31, 2014 (restated)</b>	2,330,978,251	538,898,415	464,213,942	243,316,379	274,933,208	72,311,339	28,380,202	347,937,787	4,300,969,523
Foreign currency translation	1,284,174,730	15,047,843	262,186,613	45,174,980	23,246,210	18,568,584	4,125,478	20,541,729	1,673,066,167
Change in estimate	–	402,875	–	(6,283)	–	–	–	–	396,592
Additions	127,182,596	13,374,711	1,063,269	9,070,592	4,237,799	6,099,948	6,538,739	426,169,509	593,737,163
Disposals	(17,034,031)	(5,665,592)	(2,688,016)	(14,450,659)	(9,066,533)	(3,413,185)	(4,608,245)	(1,783,094)	(58,709,355)
Depreciation charge	(43,195,165)	(19,441,312)	(49,470,221)	(15,729,407)	(27,162,872)	(10,431,501)	(8,793,249)	–	(174,223,727)
Accumulated depreciation and impairment on disposals	12,675,768	4,301,686	2,264,498	8,418,714	8,303,055	3,126,521	3,733,079	307,512	43,130,833
Impairment (Note 29)	(15,355,630)	(8,000,633)	–	(16,402,383)	(8,014,756)	(9,354,602)	(762,800)	(8,547,639)	(66,438,443)
Transfers to discontinued operations	(2,894,178,458)	(16,646,251)	(557,952,552)	(84,913,991)	(39,803,482)	(2,757,062)	(8,953,139)	(47,542,564)	(3,652,747,499)
Transfers (to)/from inventory, net	(19,990,810)	1,798,348	259,942	643	288,909	40,341	(2,885)	3,649,919	(13,955,593)
Transfer to assets held for sale, net	(3,956)	–	(15,681)	(34,076)	–	(3,467)	(3,303)	(336)	(60,819)
Transfers to investment property (Note 10)	(7,239)	–	–	(2,108,669)	(1,578)	–	(63)	(46,304)	(2,163,853)
Transfers to intangible assets, net (Note 11)	(225,329)	–	–	–	(331)	–	(1,149)	(878,830)	(1,105,639)
Transfer from exploration and evaluation assets (Note 9)	19,103,078	–	–	–	–	–	344,256	–	19,447,334
Transfers and reclassifications	95,490,043	82,213,050	127,670,605	12,414,284	33,167,807	1,863,009	3,828,628	(356,647,426)	–
<b>Net book value as at December 31, 2015 (restated)</b>	879,613,848	606,283,140	247,532,399	184,750,124	260,127,436	76,049,925	23,825,549	383,160,263	2,661,342,684

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 8. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of tenge</i>	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
<b>Net book value as at December 31, 2015 (restated)</b>	879,613,848	606,283,140	247,532,399	184,750,124	260,127,436	76,049,925	23,825,549	383,160,263	2,661,342,684
Foreign currency translation	(10,971,334)	–	–	(1,432,872)	(417,878)	(750,283)	(285,909)	98,148	(13,760,128)
Change in estimate	(8,500,916)	(6,079,200)	–	(53,279)	–	–	–	–	(14,633,395)
Additions	83,804,363	2,590,183	692,596	2,288,823	6,554,473	2,536,240	5,060,421	422,448,504	525,975,603
Additions on finance lease	–	–	871,933	–	–	–	–	–	871,933
Disposals	(5,646,977)	(1,734,827)	(1,377,061)	(1,301,727)	(1,893,689)	(4,340,763)	(2,203,070)	(14,650,326)	(33,148,440)
Depreciation charge	(67,800,045)	(22,759,956)	(26,768,931)	(17,306,955)	(26,465,714)	(7,973,698)	(5,998,828)	–	(175,074,127)
Accumulated depreciation and impairment on disposals	5,587,411	1,665,595	917,594	611,453	1,707,023	4,159,902	1,965,237	3,252,309	19,866,524
(Impairment) / reversal of impairment (Note 29)	1,113,617	(1,206,581)	–	405,314	(641,489)	(918,887)	(544,666)	(1,457,438)	(3,250,130)
Transfers to discontinued operations	(84,640)	–	–	(4,203,451)	(926,578)	(150,232)	(2,018,896)	(4,135,805)	(11,519,602)
Transfers from inventory, net	15,838	489,059	155,774	1,246	81,689	30,694	19,292	1,297,315	2,090,907
Transfer to assets held for sale, net	(19,911)	–	(17,055)	(113,630)	(2,076)	(210,124)	(203)	–	(362,999)
Transfers (to)/from investment property (Note 10)	–	–	–	(200,042)	(363)	–	967	–	(199,438)
Transfers (to)/from intangible assets, net (Note 11)	1,915	–	–	–	–	–	–	(695,965)	(694,050)
Transfer to exploration and evaluation assets (Note 9)	(3,446,255)	–	–	–	–	–	–	(923,422)	(4,369,677)
Transfers and reclassifications	3,966,096	64,031,658	93,630,122	48,909,084	39,723,354	1,169,683	13,589,517	(265,019,514)	–
<b>Net book value as at December 31, 2016</b>	<b>877,633,010</b>	<b>643,279,071</b>	<b>315,637,371</b>	<b>212,354,088</b>	<b>277,846,188</b>	<b>69,602,457</b>	<b>33,409,411</b>	<b>523,374,069</b>	<b>2,953,135,665</b>
At cost	1,796,687,457	776,793,501	473,343,599	350,113,598	466,840,617	161,145,408	79,902,688	547,812,419	4,652,639,287
Accumulated depreciation and impairment	(919,054,447)	(133,514,430)	(157,706,228)	(137,759,510)	(188,994,429)	(91,542,951)	(46,493,277)	(24,438,350)	(1,699,503,622)
<b>Net book value as at December 31, 2016</b>	<b>877,633,010</b>	<b>643,279,071</b>	<b>315,637,371</b>	<b>212,354,088</b>	<b>277,846,188</b>	<b>69,602,457</b>	<b>33,409,411</b>	<b>523,374,069</b>	<b>2,953,135,665</b>
At cost	1,746,242,742	718,921,016	379,475,290	309,283,815	430,146,554	163,397,183	66,470,768	405,772,191	4,219,709,559
Accumulated depreciation and impairment	(866,628,894)	(112,637,876)	(131,942,891)	(124,533,691)	(170,019,118)	(87,347,258)	(42,645,219)	(22,611,928)	(1,558,366,875)
<b>Net book value as at December 31, 2015 (restated)</b>	<b>879,613,848</b>	<b>606,283,140</b>	<b>247,532,399</b>	<b>184,750,124</b>	<b>260,127,436</b>	<b>76,049,925</b>	<b>23,825,549</b>	<b>383,160,263</b>	<b>2,661,342,684</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****8. PROPERTY, PLANT AND EQUIPMENT (continued)**

In 2016, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 2.42% in the amount of 28,515,460 thousand tenge which are related to the construction of assets (2015: 22,911,733 thousand tenge at the average interest rate of 4.02%).

As at December 31, 2016, items of property, plant and equipment with the net book value of 483,908,126 thousand tenge (2015: 386,385,948 thousand tenge) were pledged as collateral to secure borrowings and payables of the Group (*Notes 20*).

Additions to capital work in progress are mainly related to modernization projects of the Group refineries located in Atyrau and Pavlodar and development drilling at Ozenmunaigas and Embamunaigas subsidiaries.

As at December 31, 2016 the cost of fully depreciated but still in use property, plant and equipment were 81,065,726 thousand tenge (2015: 77,608,360 thousand tenge).

**Impairment of property, plant and equipment**

In 2016, the Group recorded net impairment loss of 3,250,130 thousand tenge, which is mainly attributable to impairment of property, plant and equipment of ANS in the amount of 3,036,355 thousand tenge.

In 2015, the Group recorded net impairment loss of 66,438,443 thousand tenge, which is mainly attributable to impairment of property, plant and equipment of ANS in the amount of 31,376,902 thousand tenge and KTM in the amount of 19,862,145 thousand tenge.

**9. EXPLORATION AND EVALUATION ASSETS**

<i>In thousands of tenge</i>	<b>Tangible</b>	<b>Intangible</b>	<b>Total</b>
<b>Net book value as at December 31, 2014</b>	230,762,313	46,302,555	277,064,868
Foreign currency translation	67,469,703	8,327,269	75,796,972
Additions	31,712,671	1,792,674	33,505,345
Transfers to discontinued operations	(156,783,937)	–	(156,783,937)
Transfer to property, plant and equipment ( <i>Note 8</i> )	(10,936,431)	(8,510,903)	(19,447,334)
Disposals	(437,243)	(537,975)	(975,218)
(Impairment) / reversal of impairment ( <i>Note 29</i> )	60,626	(695,259)	(634,633)
Transfers and reclassifications	7,246,576	(7,246,576)	–
<b>Net book value as at December 31, 2015</b>	169,094,278	39,431,785	208,526,063
Foreign currency translation	<b>(677,712)</b>	<b>(339,900)</b>	<b>(1,017,612)</b>
Additions	<b>21,130,985</b>	<b>3,484,421</b>	<b>24,615,406</b>
Transfer from property, plant and equipment ( <i>Note 8</i> )	<b>4,369,677</b>	–	<b>4,369,677</b>
Disposals	<b>(18,734)</b>	<b>(4,857,647)</b>	<b>(4,876,381)</b>
Change in estimate	<b>(63,985)</b>	–	<b>(63,985)</b>
<b>Net book value as at December 31, 2016</b>	<b>193,834,509</b>	<b>37,718,659</b>	<b>231,553,168</b>

As at December 31, 2016 and 2015 the exploration and evaluation assets are represented by the following projects:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
Project N	<b>84,350,943</b>	79,985,583
Pearls	<b>34,328,596</b>	33,208,533
Zhambyl	<b>31,946,639</b>	26,511,840
Urikhtau	<b>30,326,087</b>	26,259,701
Satpayev	<b>14,653,706</b>	13,090,616
Other	<b>35,947,197</b>	29,469,790
	<b>231,553,168</b>	208,526,063

Exploration costs on Pearls and Satpayev projects are financed by project partners other than the Group. Respective financial liabilities are recognized within borrowings (*Note 20*). The repayment of the financing for these projects depends on the identification of commercially recoverable reserves.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****10. INVESTMENT PROPERTY**

<i>In thousands of tenge</i>	<b>Total</b>
<b>Net book value as at December 31, 2014</b>	27,197,634
Additions	708,109
Depreciation charge	(626,727)
Disposals	(180,146)
Transfer from property, plant and equipment ( <i>Note 8</i> )	2,163,853
Transfers to inventory	(1,806)
<b>Net book value as at December 31, 2015</b>	29,260,917
Additions	<b>565,862</b>
Depreciation charge	<b>(722,174)</b>
Disposals	<b>(47)</b>
Transfers from assets classified as held for sale	<b>174,243</b>
Transfer from property, plant and equipment ( <i>Note 8</i> )	<b>199,438</b>
Transfers from inventory	<b>1,805</b>
<b>Net book value as at December 31, 2016</b>	<b>29,480,044</b>
At cost	<b>32,589,798</b>
Accumulated depreciation and impairment	<b>(3,109,754)</b>
<b>Net book value as at December 31, 2016</b>	<b>29,480,044</b>
At cost	31,446,992
Accumulated depreciation and impairment	(2,186,075)
<b>Net book value as at December 31, 2015</b>	29,260,917

Investment property is mainly represented by Emerald Quarter office building leased under operating lease terms. The management of the Group believes that as at December 31, 2016 the fair value of this building is 26,723,865 thousand tenge (2015: 29,458,335 thousand tenge). The fair value of investment property was based on the market price of the office property (*Note 34*).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****11. INTANGIBLE ASSETS**

<i>In thousands of tenge</i>	<b>Goodwill</b>	<b>Marketing related intangible assets</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
<b>Net book value as at December 31, 2014 (restated)</b>	111,526,414	32,223,795	19,613,047	22,976,258	186,339,514
Foreign currency translation	8,272,242	23,776,865	2,972,672	8,976,563	43,998,342
Additions	–	–	1,658,595	2,050,381	3,708,976
Disposals	–	(9,385,609)	(3,244,900)	(2,906,355)	(15,536,864)
Amortization charge	–	–	(5,687,134)	(2,704,067)	(8,391,201)
Accumulated amortization and impairment on disposals	–	1,874,505	3,028,601	1,437,042	6,340,148
Impairment	(11,922,192)	–	(45,676)	(6,497,133)	(18,465,001)
Transfer from property, plant and equipment, net (Note 8)	–	–	641,257	464,382	1,105,639
Transfer from inventory	–	–	29,968	–	29,968
Transfers to discontinued operations	(17,872,825)	(48,489,556)	(6,170,291)	(6,651,451)	(79,184,123)
Transfers to assets classified as held for sale	–	–	(27)	–	(27)
Transfers	–	–	(1,782,506)	1,782,506	–
<b>Net book value as at December 31, 2015 (restated)</b>	90,003,639	–	11,013,606	18,928,126	119,945,371
Foreign currency translation	–	–	(1,164)	(1,396,052)	(1,397,216)
Additions	–	–	2,474,012	511,244	2,985,256
Disposals	–	–	(2,357,734)	(477,764)	(2,835,498)
Amortization charge	–	–	(3,620,391)	(1,936,237)	(5,556,628)
Accumulated amortization and impairment on disposals	–	–	2,343,001	452,278	2,795,279
Impairment	–	–	(32,549)	–	(32,549)
Transfer from property, plant and equipment, net (Note 8)	–	–	691,448	2,602	694,050
Transfers to discontinued operations (Note 5)	–	–	(100,373)	(9,080)	(109,453)
Transfers	–	–	8,236	(8,236)	–
<b>Net book value as at December 31, 2016</b>	90,003,639	–	10,418,092	16,066,881	116,488,612
At cost	126,946,769	–	33,487,005	24,072,716	184,506,490
Accumulated amortization and impairment	(36,943,130)	–	(23,068,913)	(8,005,835)	(68,017,878)
<b>Net book value as at December 31, 2016</b>	90,003,639	–	10,418,092	16,066,881	116,488,612
At cost	126,946,769	–	32,883,471	24,985,035	184,815,275
Accumulated amortization and impairment	(36,943,130)	–	(21,869,865)	(6,056,909)	(64,869,904)
<b>Net book value as at December 31, 2015 (restated)</b>	90,003,639	–	11,013,606	18,928,126	119,945,371

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****11. INTANGIBLE ASSETS (continued)**

Carrying amount of goodwill is allocated to each of the group of cash-generating units as follows:

<b>Cash-generating unit</b>	<b>2016</b>	<b>2015</b>
Cash-generating units of PNHZ	<b>88,553,296</b>	88,553,296
Other	<b>1,450,343</b>	1,450,343
<b>Total goodwill</b>	<b>90,003,639</b>	90,003,639

***PNHZ, a 100% subsidiary of KMG RM***

In 2016 and 2015, based on the impairment test results, no impairment of PNHZ goodwill was recognized.

For the detailed discussion of testing goodwill for impairment refer to *Note 4*.

**12. BANK DEPOSITS**

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
Denominated in US dollar	<b>1,202,060,798</b>	962,456,681
Denominated in tenge	<b>28,256,972</b>	31,416,852
Denominated in other currency	<b>2,378,825</b>	2,844,428
	<b>1,232,696,595</b>	996,717,961

As at December 31, 2016, the weighted average interest rate for long-term bank deposits was 1.16% in US dollars and 4.87% in tenge, respectively (2015: 1.01% in US dollars and 2.31% in tenge, respectively).

As at December 31, 2016, the weighted average interest rate for short-term bank deposits was 1.84% in US dollars, 12.13% in tenge and 0.36% in other foreign currencies, respectively (2015: 1.32% in US dollars, 9.42% in tenge and 1.19% in other foreign currencies, respectively).

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
Maturities under 1 year	<b>1,182,669,493</b>	947,909,540
Maturities between 1 and 2 years	<b>178,088</b>	27,113
Maturities over 2 years	<b>49,849,014</b>	48,781,308
	<b>1,232,696,595</b>	996,717,961

As at December 31, 2016 bank deposits include cash pledged as collateral of 108,695,345 thousand tenge (2015: 109,580,052 thousand tenge), which are represented mainly by 63,718,200 thousand tenge (2015: 62,595,803 thousand tenge) pledged with SB Sberbank Russia JSC until execution of obligations (April 21, 2017) by Atyrau Oil Refinery LLP (ANPZ) (a subsidiary of KMG RM) on loans received from this bank on construction of the deep oil processing plant at Atyrau Oil Refinery and 33,276,000 thousand tenge (2015: 31,405,000 thousand tenge) at restricted bank accounts designated as a liquidation fund per requirements of subsoil use contracts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES**

<i>In thousands of tenge</i>	<b>Main activity</b>	<b>Place of business</b>	<b>December 31, 2016</b>		<b>December 31, 2015</b>	
			<b>Carrying value</b>	<b>Percentage ownership</b>	<b>Carrying value</b>	<b>Percentage ownership</b>
<b>Joint ventures</b>						
Kashagan B.V.	Oil and gas exploration and production	Kazakhstan	<b>1,759,152,117</b>	<b>50.00%</b>	1,624,696,293	50.00%
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	<b>1,154,183,137</b>	<b>20.00%</b>	1,028,085,031	20.00%
Mangistau Investments B.V.	Oil and gas development and production	Kazakhstan	<b>191,813,452</b>	<b>50.00%</b>	206,541,978	50.00%
KazRosGas LLP	Processing and sale of natural gas and refined gas products	Kazakhstan	<b>79,658,348</b>	<b>50.00%</b>	97,406,849	50.00%
Ural Group Limited BVI	Oil and gas exploration and production	Kazakhstan	<b>72,898,443</b>	<b>50.00%</b>	70,701,382	50.00%
KazGerMunay LLP	Oil and gas exploration and production	Kazakhstan	<b>71,109,842</b>	<b>50.00%</b>	82,409,608	50.00%
Kazakhoil-Aktobe LLP	Production of crude oil	Kazakhstan	<b>39,503,663</b>	<b>50.00%</b>	57,773,742	50.00%
Other			<b>55,079,872</b>		43,998,956	
<b>Associates</b>						
PetroKazakhstan Inc. (“PKI”)	Exploration, production and processing of oil and gas	Kazakhstan	<b>144,252,432</b>	<b>33.00%</b>	163,616,692	33.00%
Caspian Pipeline Consortium (CPC)	Transportation of liquid hydrocarbons	Kazakhstan / Russia	<b>137,035,180</b>	<b>20.75%</b>	45,624,141	20.75%
Other			<b>1,590,324</b>		2,085,073	
			<b>3,706,276,810</b>		<b>3,422,939,745</b>	



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

All of the above joint ventures and associates are strategic for the Group’s business.

As at December 31, 2016, the Group’s share in unrecognized losses of joint ventures and associates was equal to 357,813,869 thousand tenge (December 31, 2015: 532,570,728 thousand tenge). The Group’s change in share of unrecognized losses of joint ventures and associates for 2016 was 174,756,859 thousand tenge (2015: 495,499,453 thousand tenge).

The following table summarizes the movements in the investments in 2016 and 2015:

<i>In thousands of tenge</i>	<b>2016</b>	2015
<b>At January 1</b>	<b>3,422,939,745</b>	1,217,661,400
Share in profits of joint ventures and associates, net ( <i>Note 31</i> )	<b>270,190,990</b>	112,807,416
Additional contributions without change in ownership	<b>165,401,066</b>	37,545,354
Refund of contributions without change in ownership	<b>(1,925,543)</b>	–
Dividends received	<b>(118,607,550)</b>	(186,116,705)
Change in dividends receivable	<b>10,160,358</b>	(13,055,008)
Disposals	–	(6,151,234)
Acquisitions	<b>87</b>	3,889,687
Loss of Control over Kashagan ( <i>Note 7</i> )	–	1,301,888,532
Impairment of investments	<b>(5,503,379)</b>	(9,342,198)
Other changes in the equity of the joint venture	<b>8,475,525</b>	19,135,708
Transfers to discontinued operation	–	(11,585,151)
Foreign currency translation	<b>(44,854,489)</b>	956,261,944
<b>At December 31</b>	<b>3,706,276,810</b>	3,422,939,745

Additional contributions without change in ownership mainly relates to the cash calls for Kashagan project (159,758,211 thousand tenge or 469,556 thousand US dollars).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2016:

<i>In thousands of tenge</i>	<b>KMG Kashagan B.V.</b>	<b>Tengizchevroil LLP</b>	<b>Mangistau Investments B.V.</b>	<b>Kazakhoil- Aktobe LLP</b>	<b>Beineu- Shymkent Pipeline LLP</b>	<b>KazRosGas LLP</b>	<b>KazGerMunay LLP</b>	<b>Ural Group Limited BVI</b>
Non-current assets	4,272,763,806	6,865,450,041	395,489,866	85,936,432	449,074,109	9,641,413	152,790,499	215,892,000
Current assets, including	174,986,584	2,424,218,478	95,375,850	28,462,628	115,813,128	244,478,957	50,846,056	310,850
<i>Cash and cash equivalents</i>	86,451,093	1,795,549,215	3,870,651	10,749,817	56,148,742	62,379,300	39,694,839	297,396
Non-current liabilities, including	(601,418,805)	(2,456,711,253)	(65,632,702)	(7,586,856)	(474,773,724)	(454,608)	(27,510,090)	(68,663,338)
<i>Non-current financial liabilities</i>	(250,522,762)	(1,333,160,000)	–	–	(467,117,974)	–	–	(57,970,000)
Current liabilities, including	(328,027,351)	(1,062,041,583)	(41,606,110)	(27,804,878)	(129,935,447)	(94,349,066)	(33,906,781)	(1,742,626)
<i>Current financial liabilities</i>	(271,597,355)	(34,823,472)	–	–	(11,384,051)	–	–	–
<b>Equity</b>	<b>3,518,304,234</b>	<b>5,770,915,683</b>	<b>383,626,904</b>	<b>79,007,326</b>	<b>(39,821,934)</b>	<b>159,316,696</b>	<b>142,219,684</b>	<b>145,796,886</b>
Share of ownership	50%	20%	50%	50%	50%	50%	50%	50%
Accumulated unrecognized share of losses	–	–	–	–	19,910,968	–	–	–
<b>Carrying amount of the investments as at December 31, 2016</b>	<b>1,759,152,117</b>	<b>1,154,183,137</b>	<b>191,813,452</b>	<b>39,503,663</b>	<b>–</b>	<b>79,658,348</b>	<b>71,109,842</b>	<b>72,898,443</b>
Revenue	16,419,924	3,568,833,894	532,016,705	54,593,234	33,827,305	231,655,238	157,268,631	39,899
Depreciation, depletion and amortization	(10,493,810)	(453,762,627)	(55,342,813)	(16,043,932)	(9,378,998)	(717,333)	(36,325,000)	(29,672)
Finance income	903,219	9,238,666	52,201	524,548	24	6,256,417	946,000	17,221
Finance costs	(40,494,823)	(172,523,889)	(4,942,864)	(1,006,373)	(11,103,332)	(100,133)	(1,231,000)	(1,652,398)
Income tax expense	58,587,222	(316,950,160)	(20,804,933)	(12,179,837)	–	(14,443,039)	(19,873,000)	(187,093)
<b>Profit/(loss) for the year from continuing operations</b>	<b>15,451,774</b>	<b>739,551,980</b>	<b>59,532,404</b>	<b>(23,070,957)</b>	<b>14,989,344</b>	<b>37,294,835</b>	<b>10,259,065</b>	<b>(3,155,114)</b>
Profit after income tax for the year from discontinued operations	–	–	–	–	–	–	–	–
Other comprehensive loss	(66,056,550)	(109,061,451)	(294,736)	–	–	(285,886)	(2,644,700)	(2,751,222)
<b>Total comprehensive income/(loss)</b>	<b>(50,604,776)</b>	<b>630,490,529</b>	<b>59,237,668</b>	<b>(23,070,957)</b>	<b>14,989,344</b>	<b>37,008,949</b>	<b>7,614,365</b>	<b>(5,906,336)</b>
Change in unrecognized share of losses	–	–	–	–	10,947,110	–	–	–
Dividends received	–	–	44,347,360	6,734,600	–	36,252,976	27,514,925	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2015:

<i>In thousands of tenge</i>	KMG Kashagan B.V.	Tengizchevroil LLP	Mangistau Investments B.V.	Kazakhoil- Aktobe LLP	Beineu- Shymkent Pipeline LLP	KazRosGas LLP	KazGerMunay LLP	Ural Group Limited BVI
Non-current assets	4,199,332,506	5,924,302,459	411,943,107	102,550,731	391,162,216	51,062,738	196,073,754	207,323,000
Current assets, including	45,113,526	717,423,338	80,562,288	61,427,855	20,300,668	176,399,827	50,367,839	975,080
<i>Cash and cash equivalents</i>	7,396,712	160,541,813	4,659,706	48,137,975	3,945,388	77,193,114	32,655,996	921,000
Non-current liabilities, including	(928,622,901)	(1,150,136,581)	(49,494,943)	(8,812,710)	(359,008,654)	(1,915,629)	(44,473,178)	(63,777,115)
<i>Non-current financial liabilities</i>	(870,094,200)	–	–	–	(352,452,278)	–	–	(53,901,281)
Current liabilities, including	(66,430,545)	(351,164,062)	(29,926,497)	(39,618,392)	(114,170,382)	(30,733,238)	(37,149,199)	(3,118,202)
<i>Current financial liabilities</i>	(5,794,414)	–	–	–	(60,995,739)	–	–	–
<b>Equity</b>	<b>3,249,392,586</b>	<b>5,140,425,154</b>	<b>413,083,955</b>	<b>115,547,484</b>	<b>(61,716,152)</b>	<b>194,813,698</b>	<b>164,819,216</b>	<b>141,402,763</b>
Share of ownership	50%	20%	50%	50%	50%	50%	50%	50%
Accumulated unrecognized share of losses	–	–	–	–	30,858,077	–	–	–
<b>Carrying amount of the investments as at December 31, 2015</b>	<b>1,624,696,293</b>	<b>1,028,085,031</b>	<b>206,541,978</b>	<b>57,773,742</b>	<b>–</b>	<b>97,406,849</b>	<b>82,409,608</b>	<b>70,701,382</b>
Revenue	–	2,764,321,171	400,902,519	49,839,377	14,305,380	205,531,466	139,704,176	15,840
Depreciation, depletion and amortization	(9,197)	(250,414,110)	(33,902,903)	(21,927,401)	(9,566,015)	(959,231)	(18,690,460)	(31,106)
Finance income	124,021	2,756,026	769,375	509,020	–	4,042,950	631,861	11,156
Finance costs	(7,018,371)	(21,001,187)	(3,174,721)	(925,258)	(5,444,889)	(57,118)	(807,440)	(1,079,466)
Income tax expense	(196,290)	(347,421,542)	(12,774,663)	(17,517,878)	–	(37,477,573)	(48,569,000)	8,127
<b>Profit/(loss) for the year from continuing operations</b>	<b>(26,095,270)</b>	<b>810,801,685</b>	<b>39,406,476</b>	<b>(898,458)</b>	<b>(182,581,500)</b>	<b>72,505,952</b>	<b>5,348,554</b>	<b>(9,830,980)</b>
Profit after income tax for the year from discontinued operations	–	–	–	–	–	–	–	–
Other comprehensive income	596,620,080	2,269,800,841	–	–	–	79,461,723	77,250,921	66,493,998
<b>Total comprehensive income/(loss)</b>	<b>570,524,810</b>	<b>3,080,602,526</b>	<b>39,406,476</b>	<b>(898,458)</b>	<b>(182,581,500)</b>	<b>151,967,675</b>	<b>82,599,475</b>	<b>56,663,018</b>
Unrecognized share of losses	–	–	–	–	30,858,076	–	–	–
Dividends received	–	89,154,720	9,355,664	27,655,000	–	40,910,962	13,822,375	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information about a material associates, based on its financial statements for 2016:

<i>In thousands of tenge</i>	<b>2016</b>	
	PKI	CPC
Non-current assets	459,502,915	2,099,989,380
Current assets	97,178,710	86,254,119
Non-current liabilities	(99,253,349)	(1,139,220,549)
Current liabilities	(20,299,694)	(540,815,685)
<b>Equity</b>	<b>437,128,582</b>	<b>506,207,265</b>
Share of ownership	33%	20.75%
Goodwill	–	31,997,172
<b>Carrying amount of the investment as at December 31</b>	<b>144,252,432</b>	<b>137,035,180</b>
Revenue	128,809,187	546,965,806
(Loss)/profit for the year	(47,908,279)	390,880,208
Other comprehensive (loss)\income	(10,771,298)	79,529,104
<b>Total comprehensive (loss)/income</b>	<b>(58,679,577)</b>	<b>470,409,312</b>
Change in unrecognized share of losses	–	6,198,893
Dividends received	–	–

The following tables illustrate summarized financial information about a material associates, based on its financial statements for 2015:

<i>In thousands of tenge</i>	<b>2015</b>	
	PKI	CPC
Non-current assets	584,794,086	1,979,004,062
Current assets	126,835,837	166,133,563
Non-current liabilities	(83,297,091)	(1,968,693,463)
Current liabilities	(132,524,675)	(143,505,511)
<b>Equity</b>	<b>495,808,157</b>	<b>32,938,651</b>
Share of ownership	33%	20.75%
Goodwill	–	32,590,478
Accumulated unrecognized share of losses	–	(6,198,893)
<b>Carrying amount of the investment as at December 31</b>	<b>163,616,692</b>	<b>45,624,141</b>
Revenue	127,768,000	332,604,313
(Loss)/profit for the year from continuing operations	(49,898,215)	40,784,504
Other comprehensive income	190,848,388	108,928,463
<b>Total comprehensive income</b>	<b>140,950,173</b>	<b>149,712,967</b>
Unrecognized share of losses	–	(8,095,569)
Dividends received	–	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate aggregate financial information of individually immaterial joint ventures (the Group’s proportional share):

<i>In thousands of tenge</i>	2016	2015
Non-current assets	1,227,505,089	1,142,214,221
Current assets	358,319,467	325,740,081
Non-current liabilities	(1,612,176,196)	(1,647,126,997)
Current liabilities	(252,278,473)	(268,917,883)
Goodwill	172,214	269,603
Impairment	(3,635,227)	(3,635,227)
Accumulated unrecognized share of losses	(337,172,998)	(495,455,158)
<b>Carrying amount of the investments as at December 31</b>	<b>55,079,872</b>	<b>43,998,956</b>
Profit/(loss) for the year from continuing operations	176,603,625	(486,275,059)
Other comprehensive (losses)/income	(100,559)	1,344,572
Total comprehensive income/(losses)	176,503,066	(484,930,487)
Unrecognized share of income/(losses)	158,282,161	(472,724,347)

The following tables illustrate aggregate financial information of individually immaterial associates (the Group’s proportional share):

<i>In thousands of tenge</i>	2016	2015
Non-current assets	6,880,546	698,944
Current assets	2,707,872	6,198,592
Non-current liabilities	(4,848,556)	(2,410,644)
Current liabilities	(3,720,029)	(2,460,419)
Impairment	(159,415)	–
Accumulated unrecognized share of losses	(729,905)	(58,600)
<b>Carrying amount of the investments as at December 31</b>	<b>1,590,324</b>	<b>2,085,073</b>
(Losses)/profit for the year from continuing operations	(514,758)	454,199
<b>Total comprehensive (losses)/income</b>	<b>(514,758)</b>	<b>454,199</b>
Unrecognized share of (losses)/income	(671,305)	(58,600)

**14. NOTE RECEIVABLE FROM A SHAREHOLDER OF A JOINT VENTURE**

In 2007, the Group acquired a 50% interest in a jointly controlled entity, CITIC Canada Energy Limited (“CCEL”), whose investments are involved in oil and natural gas production in the Western Kazakhstan, from its co-investor, State Alliance Holdings Limited, a holding company ultimately belonging to CITIC Group (“CITIC”), and listed on the Hong Kong Stock Exchange.

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 KMG EP is contractually obliged to transfer any dividends received from CCEL, in excess of a guaranteed amount, to CITIC, up to the total maximum amount, which is equal to 512.3 million US dollars (170,760 million tenge) as at December 31, 2016 (2015: 515.5 million US dollars or 174,994 million tenge). The total maximum amount represents the balance of KMG EP’s share of the original purchase price funded by CITIC plus accrued interest. KMG EP has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Group recognizes in its consolidated statement of financial position only the right to receive dividends from CCEL in the guaranteed amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total maximum guaranteed amount. The carrying amount of this receivable at December 31, 2016, was equal to 103 million US dollars (34,312,858 thousand tenge) (2015: 89.3 million US dollars or 30,423,947 thousand tenge).

In addition, KMG EP has the right, subject to certain conditions precedent, to exercise a put option and return the investment to CITIC in exchange for 150 million US dollars plus annual interest of 8% less the cumulative amount of the guaranteed payments received.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****14. NOTE RECEIVABLE FROM A SHAREHOLDER OF A JOINT VENTURE (continued)**

On November 17, 2008, the annual Guaranteed Amount has been increased from 26.2 million US dollars to 26.9 million US dollars payable in two equal installments not later than June 12 and December 12. After the above amendment the effective interest rate on the receivable from CCEL is 15% per annum.

CCEL equity is nil as CCEL is contractually obliged to distribute all income to its participants, therefore, classifying all distributable income as a liability.

**15. INVENTORIES**

<i>In thousands of tenge</i>	2016	2015 (Restated)
Materials and supplies	61,605,528	63,817,047
Gas products	20,579,927	28,933,091
Refined products	14,504,132	27,450,624
Crude oil	8,525,374	11,606,349
Less: provision for obsolete inventory	(6,438,061)	(6,097,728)
	<b>98,776,900</b>	<b>125,709,383</b>

**16. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS**

<i>In thousands of tenge</i>	2016	2015* (Restated)
Advances paid and prepaid expenses	89,388,255	31,391,070
Taxes receivable	34,330,632	24,516,318
Other current assets	31,831,789	41,903,866
Less: allowance for impairment	(6,471,068)	(4,687,653)
<b>Total other current assets</b>	<b>149,079,608</b>	<b>93,123,601</b>
Trade accounts receivable	290,199,726	104,414,492
Less: allowance for impairment	(10,388,095)	(8,915,101)
<b>Trade accounts receivable</b>	<b>279,811,631</b>	<b>95,499,391</b>

As at December 31, 2016 and 2015 the above assets were non-interest bearing.

Movements in the allowance for impairment of trade accounts receivable and other current assets were as follows:

<i>In thousands of tenge</i>	<b>Individually impaired</b>
<b>As at December 31, 2014</b>	43,613,960
Charge for the year	20,895,686
Recovered	(4,539,739)
Written off	(1,279,274)
Foreign currency translation	5,077,273
Discontinued operations	(50,165,152)
<b>As at December 31, 2015</b>	13,602,754
Charge for the year	9,141,218
Recovered	(3,565,932)
Written off	(1,794,727)
Discontinued operations	(419,627)
Foreign currency translation	(104,523)
<b>As at December 31, 2016</b>	<b>16,859,163</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****16. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS (continued)**

As at December 31, the ageing analysis of trade accounts receivable is as follows:

<i>In thousands of tenge</i>	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>				
			<b>&lt;30 days</b>	<b>30-60 days</b>	<b>61-90 days</b>	<b>91-120 days</b>	<b>&gt;120 days</b>
<b>2016</b>	<b>279,811,631</b>	<b>261,776,745</b>	<b>3,577,040</b>	<b>7,558,909</b>	<b>4,342,068</b>	<b>906,982</b>	<b>1,649,887</b>
2015	95,499,391	75,037,134	3,217,748	6,669,126	4,618,171	600,052	5,357,160

**17. LOANS AND RECEIVABLE DUE FROM RELATED PARTIES**

<i>In thousands of tenge</i>	<b>2016</b>	2015
Loans due from related parties	<b>605,812,462</b>	469,041,982
Receivable due from related parties	–	88,512,853
Less: allowance for impairment of loans to related parties	<b>(15,418,397)</b>	(11,098,114)
	<b>590,394,065</b>	546,456,721

<i>In thousands of tenge</i>	<b>2016</b>	2015
Loans due from related parties in US dollars	<b>185,596,852</b>	226,092,770
Receivable due from related parties in US dollars	–	88,512,853
Loans due from related parties in tenge	<b>403,380,730</b>	230,915,858
Loans due from related parties in other foreign currencies	<b>1,416,483</b>	935,240
	<b>590,394,065</b>	546,456,721

<i>In thousands of tenge</i>	<b>2016</b>	2015
Current portion	<b>113,616,133</b>	113,045,841
Non-current portion	<b>476,777,932</b>	433,410,880
	<b>590,394,065</b>	546,456,721

Loans due from related parties are stated at amortized cost.

Movements in allowance for impairment of loans to related parties were as follows:

<i>In thousands of tenge</i>	<b>Individually impaired</b>
<b>As at December 31, 2014</b>	71,379
Charge for the year	11,025,736
Recovery	(55,944)
Foreign currency translation	56,943
<b>As at December 31, 2015</b>	11,098,114
Charge for the year	<b>1,425,550</b>
Recovery	<b>(79,103)</b>
Foreign currency translation	<b>2,973,836</b>
<b>As at December 31, 2016</b>	<b>15,418,397</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. CASH AND CASH EQUIVALENTS**

<i>In thousands of tenge</i>	<b>2016</b>	2015* (Restated)
Term deposits with banks – US dollars	<b>435,939,051</b>	499,438,041
Term deposits with banks – tenge	<b>180,075,718</b>	76,341,941
Current accounts with banks – US dollars	<b>245,711,146</b>	159,107,357
Current accounts with banks – tenge	<b>13,214,622</b>	13,494,837
Current accounts with banks – other currencies	<b>1,893,667</b>	17,452,944
Term deposits with banks – other currencies	<b>37,995</b>	3,746,773
Cash-on-hand	<b>1,566,151</b>	421,624
	<b>878,438,350</b>	770,003,517
Cash and cash equivalents attributable to discontinued operations	<b>27,014,161</b>	38,430,622
	<b>905,452,511</b>	808,434,139

Term deposits with banks are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. As at December 31, 2016, the weighted average interest rate for time deposits with banks was 0.61% in US dollars and 8.15% in tenge, respectively (2015: 0.58% in US dollars and 25.31% in tenge, respectively).

As at December 31, 2016 and 2015 cash and cash equivalents were not pledged as collateral.

**19. EQUITY**

Total number of outstanding, issued and paid shares comprises:

	<b>December 31, 2014</b>	<b>Issued in 2015</b>	<b>December 31, 2015</b>	<b>Issued in 2016</b>	<b>December 31, 2016</b>
<b>Number of shares issued and paid, including</b>					
Par value of 27,726.63 tenge	528,491,023	55,716,442	<b>584,207,465</b>	<b>5,272</b>	<b>584,212,737</b>
Par value of 5,000 tenge	137,900	–	<b>137,900</b>	–	<b>137,900</b>
Par value of 2,500 tenge	59,707,029	–	<b>59,707,029</b>	–	<b>59,707,029</b>
Par value of 2,451 tenge	10,195,321	55,716,442	<b>65,911,763</b>	<b>5,272</b>	<b>65,917,035</b>
Par value of 2,451 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 1,000 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 921 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 858 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 838 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 704 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 592 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 500 tenge	458,450,766	–	<b>458,450,766</b>	–	<b>458,450,766</b>
<b>Share capital (000'tenge), including</b>	557,072,340	139,291,105	<b>696,363,445</b>	<b>13,180</b>	<b>696,376,625</b>
Par value of 27,726.63 tenge	3,823,502	–	<b>3,823,502</b>	–	<b>3,823,502</b>
Par value of 5,000 tenge	298,535,145	–	<b>298,535,145</b>	–	<b>298,535,145</b>
Par value of 2,500 tenge	25,488,303	139,291,105	<b>164,779,408</b>	<b>13,180</b>	<b>164,792,588</b>
Par value of 2,451 tenge	2	–	<b>2</b>	–	<b>2</b>
Par value of 1,000 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 921 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 858 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 838 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 704 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 592 tenge	1	–	<b>1</b>	–	<b>1</b>
Par value of 500 tenge	229,225,382	–	<b>229,225,382</b>	–	<b>229,225,382</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**19. EQUITY (continued)****Share capital**

In 2015 the Company issued 55,716,442 common shares. As consideration for these common shares the Company received cash amounting 12,700,436 thousand tenge and the right to claim payments under “Kazakhstan Note”.

The right to claim under the “Kazakhstan Note” are in accordance with the loan agreement dated May 16, 1997 between the Government and Caspian Pipeline Consortium – K JSC. The nominal value as of transfer date amounted 126,590,669 thousand tenge.

In 2016 the Company issued 5,272 common shares. As consideration for these common shares the Company received building in Kyzylorda in the amount 13,179 thousand tenge and cash in the amount 1 thousand tenge.

As at December 31, 2016, 265,346,859 common shares were authorized, but not issued (2015: 265,352,131 common shares).

**Additional paid-in capital**

The excess of the fair value of the “Kazakhstan Note” over its nominal value as at the transfer date amounted 3,518,718 thousand tenge, which was recognized as an additional paid-in capital.

In 2015 the Group recognized additional paid in capital in the amount of 13,375,340 thousand tenge, which represents the fair value of gas pipelines contributed by the Samruk-Kazyna and the Government on trust management terms, which serves as a short-term mechanism until the legal title for pipelines shifts to the Group.

**Transactions with Samruk-Kazyna**

In 2016 the Company provided interest free loan to Samruk-Kazyna, the difference between fair value and nominal value of the loan amounting 50,871,857 thousand tenge (2015: 4,760,377 thousand tenge) recognized as transaction with Samruk-Kazyna in the consolidated statement of changes in equity.

**Distributions to Samruk-Kazyna**

In 2016 distributions to Samruk-Kazyna includes: accrual of provision for construction of the Palace of martial arts in Astana city in the amount of 14,275,013 thousand tenge (2015: nil), accrual of provision for construction of the kindergarten in Astana city in the amount of 281,489 thousand tenge (reversed a provision in 2015: 303,146 thousand tenge), reversed of provision for reconstruction of the trade and exhibition center in Moscow in the amount of 152,435 thousand tenge (reversed a provision in 2015: 30,365 thousand tenge), the sponsorship expenses for conducting of International Exhibition Astana EXPO-2017 in the amount of 2,144,808 thousand tenge and the results of operations of PSA LLP (subsidiary of the Group) in the total amount of 5,852,146 thousand tenge (2015: 4,454,291 thousand tenge).

**Dividends**

In 2016 according to the decision of Samruk-Kazyna and National Bank of RK, the Company declared dividends for 2015 at 102.27 tenge per common share in the total amount of 59,748,893 thousand tenge (2015: 24,335,911 thousand tenge).

In 2016 the Group declared dividends in the total of 5,167,227 thousand tenge to the holders of non-controlling interest in KMG EP and KTO (subsidiaries of the Group) (2015: 15,790,408 thousand tenge). As at December 31, 2016 the dividends payable by the Group to the holders of non-controlling interest of 1,862,166 thousand tenge (2015: 1,943,914 thousand tenge).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. EQUITY (continued)****Currency translation reserves**

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries and joint ventures and associates whose functional currency is not Kazakhstani tenge and whose financial results are included in these consolidated financial statements in accordance with the accounting policy.

In 2015 the Group reclassified exchange difference on translation of foreign operations from other comprehensive income to profit and loss amounting 106,930,994 thousand tenge as the result of change in investment ownership interests in KMG Kashagan B.V. (Note 7).

**Book value per share**

In accordance with the decision of KASE dated October 4, 2010 financial statements shall disclose book value per share (ordinary and preferred) as of the reporting date, calculated in accordance with the KASE rules.

<i>In thousands of tenge</i>	<b>2016</b>	2015
Total assets	<b>11,883,077,270</b>	10,709,657,658
Less: intangible assets	<b>116,488,612</b>	119,945,371
Less: total liabilities	<b>5,604,806,355</b>	4,619,479,861
<b>Net assets</b>	<b>6,161,782,303</b>	5,970,232,426
Number of ordinary shares	<b>584,212,737</b>	584,207,465
<b>Book value per ordinary share, tenge</b>	<b>10,547</b>	10,219

**Non-controlling interest**

The following tables illustrate information of subsidiaries in which the Group has significant non-controlling interests:

	<b>Country of incorporation and operation</b>	<b>2016</b>		<b>2015</b>	
		<b>Share</b>	<b>Carrying value</b>	<b>Share</b>	<b>Carrying value</b>
KazMunayGas Exploration					
Production JSC	Kazakhstan	<b>36.98%</b>	<b>715,007,274</b>	36.79%	666,542,230
KazTransOil JSC	Kazakhstan	<b>10.00%</b>	<b>42,221,868</b>	10.00%	40,542,082
Rompetrol Downstream S.R.L.	Romania	<b>45.37%</b>	<b>41,753,314</b>	45.37%	40,689,678
Rompetrol Petrochemicals S.R.L.	Romania	<b>45.37%</b>	<b>11,002,892</b>	45.37%	11,931,434
Rompetrol Rafinare S.A.	Romania	<b>45.37%</b>	<b>1,775,348</b>	45.37%	4,350,577
Rompetrol Vega	Romania	<b>45.37%</b>	<b>(20,763,577)</b>	45.37%	(22,799,241)
Other			<b>10,562,978</b>		11,923,153
			<b>801,560,097</b>		753,179,913

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. EQUITY (continued)****Non-controlling interest (continued)**

The following tables illustrate summarized financial information of subsidiaries on a stand-alone basis, in which the Group has significant non-controlling interests as at December 31, 2016 and for the year then ended:

<i>In thousands of tenge</i>	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetrol Rafinare S.A.	Rompetrol Downstream S.R.L.	Rompetrol Vega	Rompetrol Petrochemicals S.R.L.
<b>Summarized statement of financial position</b>						
Non-current assets	738,093,000	426,739,640	267,716,078	119,113,167	21,101,988	4,300,369
Current assets	1,372,383,000	112,883,363	137,535,233	80,502,620	7,633,039	22,852,248
Non-current liabilities	(49,282,000)	(57,652,505)	(74,068,991)	(57,160,652)	(22,265,502)	(2,828,719)
Current liabilities	(127,682,000)	(61,396,189)	(327,269,445)	(50,430,727)	(52,232,554)	(73,495)
<b>Total equity</b>	<b>1,933,512,000</b>	<b>420,574,309</b>	<b>3,912,875</b>	<b>92,024,408</b>	<b>(45,763,029)</b>	<b>24,250,403</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	1,218,504,726	378,352,441	2,137,527	50,271,094	(24,999,452)	13,247,511
Non-controlling interest	715,007,274	42,221,868	1,775,348	41,753,314	(20,763,577)	11,002,892
<b>Summarized statement of comprehensive income</b>						
Revenue	727,154,000	207,107,815	726,258,178	247,673,492	49,722,055	–
<b>Profit/(loss) for the year from continuing operations</b>	<b>131,576,000</b>	<b>67,615,565</b>	<b>(4,862,301)</b>	<b>12,978,277</b>	<b>12,529,909</b>	<b>(2,865,715)</b>
<b>Total comprehensive income/(loss) for the year, net of tax</b>	<b>120,368,000</b>	<b>67,963,961</b>	<b>(5,675,817)</b>	<b>2,344,256</b>	<b>4,486,614</b>	<b>(2,046,509)</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	76,087,439	61,167,565	(3,100,588)	1,280,620	2,450,950	(1,117,967)
Non-controlling interest	44,280,561	6,796,396	(2,575,229)	1,063,636	2,035,664	(928,542)
Dividends declared to non-controlling interests	(51,573)	(5,115,654)	–	–	–	–
<b>Summarized cash flow information</b>						
Operating activity	179,725,000	90,257,555	60,338,009	12,991,805	60,117	(29,683)
Investing activity	(252,679,000)	(20,217,330)	(25,786,852)	(4,953,041)	(61,321)	7
Financing activity	(2,265,000)	(51,166,084)	(31,812,694)	(7,598,919)	115	(495)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(75,219,000)</b>	<b>18,874,141</b>	<b>2,738,463</b>	<b>439,845</b>	<b>(1,089)</b>	<b>(30,171)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. EQUITY (continued)****Non-controlling interest (continued)**

The following tables illustrate summarized financial information of subsidiaries on a stand-alone basis, in which the Group has significant non-controlling interests as at December 31, 2015 and for the year then ended:

<i>In thousands of tenge</i>	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetrol Rafinare S.A.	Rompetrol Downstream S.R.L.	Rompetrol Vega	Rompetrol Petrochemicals S.R.L.
<b>Summarized statement of financial position</b>						
Non-current assets	713,604,659	426,560,775	303,060,162	122,324,632	21,494,135	5,327,942
Current assets	1,297,145,000	108,836,380	124,877,530	99,027,728	5,650,886	24,666,572
Non-current liabilities	(51,494,130)	(69,508,118)	(80,515,090)	(64,956,676)	(22,698,769)	(3,032,787)
Current liabilities	(147,406,000)	(60,468,222)	(337,833,908)	(66,715,533)	(54,695,893)	(664,821)
<b>Total equity</b>	<b>1,811,849,529</b>	<b>405,420,815</b>	<b>9,588,694</b>	<b>89,680,151</b>	<b>(50,249,641)</b>	<b>26,296,906</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	1,145,307,299	364,878,733	5,238,117	48,990,473	(27,450,400)	14,365,472
Non-controlling interest	666,542,230	40,542,082	4,350,577	40,689,678	(22,799,241)	11,931,434
<b>Summarized statement of comprehensive income</b>						
Revenue	529,812,000	213,161,761	536,053,867	243,482,603	31,778,403	–
<b>Profit/(loss) for the year from continuing operations</b>	<b>243,669,081</b>	<b>73,561,722</b>	<b>5,880,455</b>	<b>(7,869,431)</b>	<b>411,969</b>	<b>(2,609,137)</b>
<b>Total comprehensive income/(loss) for the year, net of tax</b>	<b>501,223,222</b>	<b>89,901,372</b>	<b>9,279,254</b>	<b>35,035,544</b>	<b>(22,918,837)</b>	<b>10,025,371</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	316,833,526	80,911,235	5,069,076	19,139,217	(12,520,114)	5,476,658
Non-controlling interest	184,389,696	8,990,137	4,210,178	15,896,327	(10,398,723)	4,548,713
Dividends declared to non-controlling interests	(11,065,875)	(4,642,936)	–	–	–	–
<b>Summarized cash flow information</b>						
Operating activity	151,000	113,261,335	5,165,871	1,699,957	346,187	(3,442)
Investing activity	87,143,000	(58,586,404)	(11,843,210)	(2,954,902)	(345,857)	1,226
Financing activity	(30,228,685)	(46,429,364)	6,172,686	563,574	3,510	(428)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>57,065,315</b>	<b>8,245,567</b>	<b>(504,653)</b>	<b>(691,371)</b>	<b>3,840</b>	<b>(2,644)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****20. BORROWINGS**

<i>In thousands of tenge</i>	2016	2015
Fixed interest rate borrowings	2,099,674,818	2,185,653,220
Weighted average interest rates	7.93%	7.82%
Floating interest rate borrowings	972,865,152	1,043,215,469
Weighted average interest rates	4.57%	4.40%
	<b>3,072,539,970</b>	<b>3,228,868,689</b>

<i>In thousands of tenge</i>	2016	2015
US dollar – denominated borrowings	2,846,125,693	3,007,519,468
Tenge – denominated borrowings	226,414,277	221,349,221
	<b>3,072,539,970</b>	<b>3,228,868,689</b>

<i>In thousands of tenge</i>	2016	2015
Current portion	366,438,649	296,545,652
Non-current portion	2,706,101,321	2,932,323,037
	<b>3,072,539,970</b>	<b>3,228,868,689</b>

As at December 31, 2016 and 2015, the debt securities issued and loans comprised:

<b>Bonds</b>	<b>Issuance amount</b>	<b>Redemption date</b>	<b>Interest</b>	<b>2016</b>	<b>2015</b>
Bonds LFB 2008	1,6 billion USD	2018	9.125%	529,821,083	537,528,897
Bonds LFB 2010	1,5 billion USD	2020	7.00%	453,732,442	459,835,697
Bonds LFB 2010	1,25 billion USD	2021	6.375%	375,026,800	380,467,835
Bonds LFB 2013	2 billion USD	2043	5.75%	166,991,558	169,911,347
Bonds LFB 2013	1 billion USD	2023	4.4%	134,371,387	136,531,343
Bonds LFB 2014	1 billion USD	2044	6.00%	9,736,418	9,902,685
Bonds LFB 2014	0,5 billion USD	2025	4.875%	40,558,524	41,220,808
Bonds KFB 2009	120 billion KZT	2019	6M Libor+8.5%	110,551,375	150,176,515
Bonds KFB 2010	100 billion KZT	2017	7%	94,483,326	88,302,174
The Bank of New York Mellon	600 million USD	2017	6.375%	42,929,372	92,311,615
Others				13,193,743	12,781,662
<b>Total</b>				<b>1,971,396,028</b>	<b>2,078,970,578</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****20. BORROWINGS (continued)**

<b>Loans</b>	<b>Issuance amount</b>	<b>Redemption date</b>	<b>Interest</b>	<b>2016</b>	<b>2015</b>
Development bank of Kazakhstan JSC	884 million USD	2023	4.5% + 6M Libor – 7.72%	<b>319,055,961</b>	360,850,249
The Export-Import Bank of China	1 billion USD	2027	Libor + 4.1%	<b>245,894,740</b>	151,844,361
Sberbank Russia	400 million USD	2024	12M Libor + 3.5%	<b>134,557,235</b>	137,067,428
Development bank of Kazakhstan JSC	71 billion KZT	2022-2025	7%-9%	<b>103,733,280</b>	106,013,401
Loan from partners (Project Pearl)	Financing for share of costs KMT in execution of subsoil use contract	From beginning of commercial exploration	6M Libor + 1%	<b>84,876,946</b>	83,776,032
The Syndicate of banks	604 thousand USD	2017	1 M libor + 2.0 %	<b>53,541,383</b>	–
European Bank for Reconstruction and Development	140 thousand USD	2023	3 M libor + 3.15% CIRR + 2.19%,	<b>46,322,433</b>	–
Japan Bank for International Cooperation	298 million USD	2025	6M Libor + 1.10%	<b>42,632,934</b>	20,757,136
Loan from partners (Project Satpayev)	Financing for share of costs KMT in execution of subsoil use contract	From beginning of commercial exploration	12M Libor + 1.5%	<b>28,128,262</b>	26,291,533
Halyk bank JSC	72 million USD	2032	6%	<b>23,393,933</b>	23,762,900
Halyk bank JSC	18 billion KZT	2024	5.5%-10%	<b>5,018,872</b>	5,705,273
Loan from partners (Project Zhambyl)	Financing for share of costs KMT in execution of subsoil use contract	From beginning of commercial exploration	12M Libor + 1%	–	62,827,375
ING BANK	1 billion USD	2016	3M Libor + 2.1%	–	135,461,430
Other	–	–	–	<b>13,987,963</b>	35,540,993
<b>Total</b>				<b>1,101,143,942</b>	1,149,898,111

On October 30, 2009, the Group issued bonds at KASE in the amount of 120,000,000 thousand tenge, which were acquired by JSC Development Bank of Kazakhstan (“DBK”). These bonds are recorded at amortized cost using effective interest rate of 8.96%. During 2016, the Group repurchased portion of these bonds in the amount of 38,118,615 thousand tenge (2015: 19,682,102 thousand tenge).

On March 29, 2016 the Group executed early redemption of bonds from The Bank of New York Mellon in the amount of 142,199 thousand US dollars or 48,368,990 thousand tenge (2015:270,000 thousand US dollars or 82,976,400 thousand tenge). As at December 31, 2016 the carrying amount of these bonds, including interest payable, was equal to 42,929,372 thousand tenge (2015: 92,311,615 thousand tenge). On August 31, 2016 the Company acquired from KC Kazakh B.V. 27% interest in the project Zhambyl (“Project”). The loan given by KC Kazakh B.V. for financing of Company’s share in the Project was forgiven. As a result of the transaction the Company recognized an income in the amount of 62,513,395 thousand tenge (*Note 30*).

In 2010, 2012 and 2015, Atyrau Oil Refinery LLP (“ANPZ”), the subsidiary of KMG RM, entered into the credit line agreements for the total amount of 1,135,984 thousand US dollars with DBK. The credit line is used to finance the construction of the aromatic hydrocarbon complex. The Group’s property, plant and equipment with carrying value of 483,908,126 thousand tenge (2015: 365,908,183 thousand tenge) was pledged to DBK as loan collateral (*Note 8*).

In accordance with the loan agreement dated May 26, 2016, KTG received a loan from the European Bank for Reconstruction and Development in the amount of 140,000 thousand US dollar (equivalent to 48,143,200 thousand tenge) to the purpose of restructuring obligations. Under the terms of the loan agreement, all payments related to the loan are made in US dollars. KTG shall repay this loan by 26 (twenty-six) consecutive equal quarterly installments commencing on June 5, 2017. The interest is charged at 3m LIBOR plus 3.15% per annum and paid quarterly. As at December 31, 2016 the carrying value of this loan, including interest payable, was equal to 46,322,433 thousand tenge (equivalent to 137,524 thousand US dollars) (2015: nil).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**20. BORROWINGS (continued)**

In 2016 in accordance with the General Agreement on short-term loans with a limit of up to 200,000 thousand US dollars at the rate of 3 months LIBOR + 2% for less than 12 (twelve) months from the date of each tranche development, Citibank, N.A Nassau, Bahamas Branch (the Commonwealth of the Bahamas) and Citibank Kazakhstan JSC (The Syndicate of banks) provided KTG with additional financing in several tranches for replenishment of working capital in the total amount of 194,605,404 thousand tenge (equivalent to 565,600 thousand US dollars). During 2016, the KTG repaid the principal in the amount of 152,980,980 thousand tenge (equivalent to 442,000 thousand US dollars). As at December 31, 2016 the carrying value of this loan, including interest payable, was equal to 53,541,383 thousand tenge (equivalent to 160,645 thousand US dollars) (2015: 9,165,690 thousand tenge or 27,000 thousand US dollars).

ANPZ has concluded a loan agreement with Export-Import Bank of China in the amount of 1,130,409 thousand US dollars (equivalent to 206,130,016 thousand tenge) with interest rate of 4.1% + LIBOR in order to finance the construction of the advanced oil processing plant and payments of principal starting from 2016 till 2025. Interest payment is carried out in terms of semi-annual payments. As at December 31, 2016, the outstanding balance of principal and interest was 228,723,260 thousand tenge and 17,171,480 thousand tenge respectively (in 2015: 150,081,711 thousand tenge and 1,762,650 thousand tenge respectively)

In accordance with loan agreement dated July 15, 2011 KMG Finance Sub B.V. (subsidiary of Cooperative KazMunaiGaz U.A.) repaid borrowings from ING Bank in the amount of 400,000 thousand US dollars (equivalent to 136,696,000 thousand tenge as of settlement date).

In 2016 the Company made an interest repayment of the Eurobonds in the total amount of 369,211 thousand US dollars (equivalent to 123,667,077 thousand tenge on the due date).

As at December 31, 2016, the Group has loans payable to partners on Satpayev and Perl exploration projects of 28,128,262 thousand tenge and 84,876,946 thousand tenge, respectively (2015: 26,291,533 thousand tenge and 83,776,032 thousand tenge, respectively), that originated under the carry-in financing agreements. In accordance with these agreements, all exploration costs on these projects are initially financed by the project partners apart from the Group. The loan principal and interest are payable by the Group to partners of these projects only upon successful oil discovery at the project fields and sufficiency of free cash flows from the project.

At the end of 2015 the Group performed early redemption of bonds at LSE totalling 3.68 billion US dollars, as a result of these transaction was earned an income in the amount of 54,836,897 thousand tenge (*Note 30*).

As at December 31, 2015 MDC (Oil and Gas N Block Kazakhstan) GmbH assigned its 24.50% portion in the project N to the Group. As a result of the transaction the Company recognised an income in the amount of KZT 37,329,326 thousand (*Note 30*).

**Covenants**

The Group has limitations in terms of the acceptance of debt obligations according to the documentation of international bonds issues. Thus, the debt increase is limited to the need to comply with a financial ratio, which is defined as the ratio of consolidated net debt to the total amount of the consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) with a threshold value of 3.5. As of December 31, 2016 and December 31, 2015, the Group complies with this restrictive condition.

Also, the Group is required to ensure execution of the financial and non-financial covenants under the terms of the loan agreements. Failure to comply with financial covenants gives the lenders the right to demand early repayment of loans. As of December 31, 2016 and December 31, 2015, the Group complied with all financial and non-financial covenants.

**Hedge of net investment in the foreign operations**

As at December 31, 2016 certain borrowings denominated in foreign currency were designated as hedge instrument for the net investment in the foreign operations. In 2016, income of 37,952,320 thousand tenge (2015: losses of 1,586,801,249 thousand tenge) on the translation of these borrowings were transferred to other comprehensive income and offset the loss on translation of foreign operations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**21. OIL SUPPLY AGREEMENT**

In 2016 the Group entered into long-term crude oil and liquefied petroleum gas (“LPG”) supply agreement. The total minimum delivery volume approximates 30 million tons of crude oil and 1 million tons of LPG in the period from the date of the contract to March 2020 from Tengizchevroil LLP (“Tengizchevroil”), Mangistaumunaigaz JSC and Karazhanbasmunai JSC oil production, approximately equal to 30 million tons and 1 million tons, respectively.

As part of this transaction, the Group received prepayment of 2,966,005 thousand US dollars (equivalent of 1,012,020,000 thousand tenge at the date of transaction) net of transaction costs, which to be discharged by oil supply from Tengizchevroil (joint venture of the Group) starting from April 2017.

The agreement stipulates pricing calculation with reference to market quotes and prepayments are settled through physical deliveries of crude oil and LPG.

According to the agreement the Group shall ensure that the crude oil and LPG volumes required to be delivered are unencumbered.

The delivery of oil under this agreement commenced from April 2016. The Group considers this agreement to be regular way agreement to deliver non-financial items in accordance with the Group’s expected sale requirements.

The outstanding balance of prepayment is subject to interest at Libor + 1.85% per annum.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****22. PROVISIONS**

<i>In thousands of tenge</i>	<b>Asset retirement obligations</b>	<b>Provision for environmental obligation</b>	<b>Provision for taxes</b>	<b>Provision for gas transportation</b>	<b>Employee benefit obligations</b>	<b>Other</b>	<b>Total</b>
<b>As at December 31, 2014</b>	114,024,291	39,623,445	15,717,351	13,328,668	27,590,340	23,576,407	233,860,502
Foreign currency translation	32,519,478	16,289,887	3,306,898	–	–	4,934,703	57,050,966
Change in estimate	3,278,918	89,321	8,670,258	–	–	1,837,442	13,875,939
Unwinding of discount	8,058,071	1,250,258	–	–	–	48,542	9,356,871
Provision for the year	(5,060,493)	102,375	60,558,923	11,484,510	9,552,956	11,346,095	87,984,366
Transfers to discontinued operation	(47,392,848)	(35,195,570)	–	–	–	(13,057,083)	(95,645,501)
Recovered	–	(34,351)	(1,195,125)	–	–	(2,163,327)	(3,392,803)
Unused amounts reversed	(689,500)	(1,815,381)	–	–	–	–	(2,504,881)
Use of provision	(608,667)	(2,553,683)	(23,829,983)	–	(2,070,334)	(4,586,017)	(33,648,684)
<b>As at December 31, 2015</b>	<b>104,129,250</b>	<b>17,756,301</b>	<b>63,228,322</b>	<b>24,813,178</b>	<b>35,072,962</b>	<b>21,936,762</b>	<b>266,936,775</b>
Foreign currency translation	(365,138)	–	(9,212)	–	–	(3,740)	(378,090)
Change in estimate	(18,428,561)	(3,365,970)	–	–	–	–	(21,794,531)
Unwinding of discount	8,158,788	1,251,920	–	–	2,608,255	39,655	12,058,618
Provision for the year	1,044,732	10,187	9,274,588	–	(2,491,391)	15,584,607	23,422,723
Recovered	(1,167,110)	–	(20,989,376)	(451,720)	–	(930,923)	(23,539,129)
Unused amounts reversed	(48,750)	–	–	–	–	–	(48,750)
Use of provision	(1,779,270)	(1,273,771)	(3,457,469)	–	(2,811,727)	(13,569,279)	(22,891,516)
<b>As at December 31, 2016</b>	<b>91,543,941</b>	<b>14,378,667</b>	<b>48,046,853</b>	<b>24,361,458</b>	<b>32,378,099</b>	<b>23,057,082</b>	<b>233,766,100</b>

As at December 31, 2016 other provisions include provision for construction of the Palace of martial arts in the amount 11,303,508 thousand tenge (2015: nil), provision for reconstruction of the trade and exhibition center in the amount of 5,875,276 thousand tenge (2015: 6,054,816 thousand tenge) and provision for construction of golf club in the amount of 3,238,730 thousand tenge (2015: 13,320,988 thousand tenge).

Provision for gas transportation relates to the Group’s commitment on reimbursement of losses incurred by PetroChina. Under the agreement on gas borrowing the Group has commitments to PetroChina to reimburse the supported costs and losses incurred by PetroChina due to gas borrowing and its return.

Current portion and long-term portion are segregated as follows:

<i>In thousands of tenge</i>	<b>Asset retirement obligations</b>	<b>Provision for environmental obligation</b>	<b>Provision for taxes</b>	<b>Provision for gas transportation</b>	<b>Employee benefit obligations</b>	<b>Other</b>	<b>Total</b>
<b>As at December 31, 2016</b>							
Current portion	819,946	487,031	48,046,853	24,361,458	2,380,419	18,298,570	94,394,277
Long-term portion	90,723,995	13,891,636	–	–	29,997,680	4,758,512	139,371,823
<b>Provision as at December 31, 2016</b>	<b>91,543,941</b>	<b>14,378,667</b>	<b>48,046,853</b>	<b>24,361,458</b>	<b>32,378,099</b>	<b>23,057,082</b>	<b>233,766,100</b>
<b>As at December 31, 2015</b>							
Current portion	914,771	8,310,515	63,228,322	24,813,178	2,162,074	17,080,094	116,508,954
Long-term portion	103,214,479	9,445,786	–	–	32,910,888	4,856,668	150,427,821
<b>As at December 31, 2015</b>	<b>104,129,250</b>	<b>17,756,301</b>	<b>63,228,322</b>	<b>24,813,178</b>	<b>35,072,962</b>	<b>21,936,762</b>	<b>266,936,775</b>

A description of significant provisions, including critical estimates and judgments used, is included in Note 4.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****23. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES**

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Advances received	<b>30,463,723</b>	30,276,485
Due to employees	<b>33,259,709</b>	30,227,320
Dividends payable	<b>1,862,166</b>	33,048,356
Other	<b>53,456,651</b>	51,652,191
<b>Total other current liabilities</b>	<b>119,042,249</b>	145,204,352
<b>Trade accounts payable</b>	<b>260,137,009</b>	174,237,185

Trade accounts payable is denominated in the following currencies as of December 31:

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Tenge	<b>210,992,037</b>	138,525,047
US dollars	<b>36,935,083</b>	34,652,490
Euro	<b>219,061</b>	673,149
Other currency	<b>11,990,828</b>	386,499
<b>Total</b>	<b>260,137,009</b>	174,237,185

As at December 31, 2016 and 2015, trade accounts payable and other current liabilities were not interest bearing.

**24. OTHER TAXES PAYABLE**

<i>In thousands of tenge</i>	<b>2016</b>	2015
Rent tax on crude oil export	<b>5,189,479</b>	7,124,401
Individual income tax	<b>5,936,494</b>	5,121,419
Mineral extraction tax	<b>4,488,819</b>	15,855,702
VAT	<b>4,375,978</b>	3,547,256
Withholding tax from non-residents	<b>4,418,027</b>	4,575,186
Excise tax	<b>107,067</b>	102,509
Other	<b>9,498,593</b>	3,688,580
	<b>34,014,457</b>	40,015,053

**25. REVENUE**

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Sales of crude oil	<b>705,983,894</b>	121,652,310
Sales of gas and gas products	<b>334,478,483</b>	250,052,997
Transportation fee	<b>322,341,649</b>	300,198,287
Sales of refined products	<b>293,076,283</b>	235,461,998
Refining of oil and oil products	<b>99,137,367</b>	78,160,260
Quality bank for crude oil	<b>(19,864,051)</b>	(12,731,642)
Other revenue	<b>122,281,731</b>	121,011,712
	<b>1,857,435,356</b>	1,093,805,922

Sales of crude oil to the market is performed through KMG I except sales under oil supply agreement (*Note 21*).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****26. COST OF SALES**

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Crude oil	<b>678,037,107</b>	–
Payroll	<b>281,672,842</b>	264,684,012
Depreciation, depletion and amortization	<b>167,171,547</b>	125,640,063
Materials and supplies	<b>108,734,417</b>	376,371,706
Other taxes	<b>53,593,187</b>	45,412,479
Transportation costs	<b>47,654,973</b>	44,184,858
Mineral extraction tax	<b>40,676,527</b>	68,196,680
Electricity	<b>37,924,337</b>	34,200,157
Repair and maintenance	<b>32,546,598</b>	23,850,186
Other	<b>113,734,484</b>	107,840,085
	<b>1,561,746,019</b>	1,090,380,226

**27. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Payroll	<b>55,055,626</b>	55,999,274
Consulting services	<b>11,969,388</b>	10,073,266
Other taxes	<b>8,195,559</b>	5,876,211
Depreciation and amortization	<b>6,748,431</b>	8,772,446
Social payments, out of payroll	<b>6,249,461</b>	9,018,150
Charitable donations and sponsorship	<b>1,544,528</b>	7,347,604
VAT that cannot be offset	<b>1,252,092</b>	2,312,065
Allowance for impairment of trade accounts receivable	<b>3,614,402</b>	366,508
Allowance for impairment of long term advances	<b>2,000,000</b>	–
Allowance for impairment of other current assets	<b>1,867,627</b>	2,833,600
Allowance for obsolete inventories	<b>1,058,595</b>	1,391,281
Impairment of VAT receivable	<b>(3,417,616)</b>	51,548,508
Allowance for fines, penalties and tax provisions	<b>(10,849,789)</b>	27,970,940
Other	<b>32,386,860</b>	27,713,990
	<b>117,675,164</b>	211,223,843

**28. TRANSPORTATION AND SELLING EXPENSES**

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Customs duty	<b>84,119,112</b>	84,592,482
Transportation	<b>67,903,136</b>	44,547,149
Rent tax on crude oil export	<b>19,981,204</b>	41,556,722
Payroll	<b>6,834,599</b>	7,709,726
Depreciation and amortization	<b>6,408,306</b>	6,762,144
Other	<b>13,226,726</b>	10,152,356
	<b>198,473,083</b>	195,320,579

**29. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL, NET**

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Property, plant and equipment (Note 8)	<b>3,250,130</b>	66,438,443
Goodwill (Note 11)	–	11,922,192
Exploration and evaluation assets (Note 9)	–	634,633
Intangible assets (Note 11)	<b>32,549</b>	52,772
	<b>3,282,679</b>	79,048,040

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****30. FINANCE INCOME / FINANCE COST****Finance income**

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Interest income on bank deposits, loans and bonds	<b>75,638,208</b>	47,540,011
Derecognition of liabilities	<b>62,513,395</b>	44,411,619
Amortization of discount on loans due from related parties	<b>21,378,184</b>	20,456,740
Income from early repayment of debt securities issued	–	54,836,897
Other	<b>8,361,901</b>	5,734,207
	<b>167,891,688</b>	172,979,474

**Finance costs**

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Interest on loans and debt securities issued	<b>169,590,948</b>	164,836,556
Amortization of discount on loans and debt securities issued	<b>14,933,481</b>	8,880,840
Unwinding of discount on asset retirement obligations and provision for environmental obligation	<b>9,410,708</b>	8,528,403
Discount on assets with non-market interest rate	<b>4,077,354</b>	3,042,132
Other	<b>32,370,863</b>	13,049,115
	<b>230,383,354</b>	198,337,046

**31. SHARE IN PROFIT OF JOINT VENTURES AND ASSOCIATES, NET**

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Tengizchevroil LLP	<b>147,910,396</b>	162,160,337
Caspian Pipeline Consortium	<b>74,908,750</b>	367,216
Mangistau Investments B.V.	<b>29,766,202</b>	19,703,238
KazRosGas LLP	<b>18,647,418</b>	36,252,976
Valseira Holdings B.V.	<b>10,414,188</b>	(123,491)
Kashagan B.V.	<b>7,725,887</b>	(13,047,635)
KazGerMunay LLP	<b>5,129,532</b>	2,674,277
Ural Group Limited	<b>(1,577,557)</b>	(4,915,490)
Beineu-Shymkent Pipeline	<b>(3,452,438)</b>	(60,432,674)
Kazakhoil-Aktobe LLP	<b>(11,535,479)</b>	(449,229)
PetroKazakhstan Inc.	<b>(15,809,732)</b>	(16,466,411)
Kazakh-Chinese Gas Pipeline	–	(17,540,840)
Share in (loss)/profit of other joint ventures and associates	<b>8,063,823</b>	4,625,142
	<b>270,190,990</b>	112,807,416

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. INCOME TAX EXPENSES**

As at December 31, 2016 income taxes prepaid the amount of 74,457,414 thousand tenge (2015: 60,482,541 thousand tenge) are represented by corporate income tax. As at December 31, 2016 income taxes payable in the amount of 2,301,839 thousand tenge (2015: 4,114,767 thousand tenge) are represented mainly by corporate income tax.

Income tax expense comprised the following for the years ended December 31:

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
<b>Current income tax</b>		
Corporate income tax	<b>80,090,378</b>	163,625,299
Excess profit tax	<b>(1,128,184)</b>	8,130,592
Withholding tax on dividends and interest income	<b>4,637,262</b>	15,564,793
<b>Deferred income tax</b>		
Corporate income tax	<b>45,733,941</b>	(37,650,281)
Excess profit tax	<b>15,543,024</b>	2,812,418
Withholding tax on dividends and interest income	<b>18,914,716</b>	79,044,869
<b>Income tax expenses</b>	<b>163,791,137</b>	231,527,690

According to the 2006 amendments to the tax legislation, which were effective starting from the fiscal years beginning on January 1, 2007, dividends received from Kazakhstan taxpayers were exempt from income tax withheld at the source of payment. Therefore, in 2006 the Group reversed the deferred tax liability on undistributed profits of subsidiaries, joint ventures and associates registered in the Republic of Kazakhstan, which was recognized in prior years. However, during 2007-2015 the Group was receiving dividends from Tengizchevroil LLP (20% joint venture of the Group, a Kazakhstan taxpayer) net of withholding tax since there is uncertainty whether the withholding tax exemption is applicable for the stable tax regime of Tengizchevroil LLP. The Group was challenging withholding of the tax on those dividends, but has not managed to convince Tengizchevroil LLP and the tax authorities that withholding tax should not be applied.

Therefore, Management of the Group recognizes the deferred income tax withholding on its interest in undistributed retained earnings of Tengizchevroil LLP as its current best estimate is that the Group will continue to receive dividends net of withholding tax in future years.

A reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate (20% in 2016 and 2015) to income tax expenses was as follows for the years ended December 31:

<i>In thousands of tenge</i>	<b>2016</b>	2015 (Restated)
Profit before income tax from continuing operations	<b>163,108,149</b>	52,976,616
Profit before income tax from discontinued operations	<b>357,713,188</b>	653,693,071
Statutory tax rate	<b>20%</b>	20%
<b>Income tax expense on accounting profit</b>	<b>104,164,267</b>	141,333,937
Share in profit of joint ventures and associates non-taxable or taxable at different rates	<b>(31,851,639)</b>	1,762,312
Other non-deductible expenses and non-taxable income	<b>71,705,991</b>	54,098,983
Excess profit tax	<b>14,414,840</b>	10,943,010
Effect of different corporate income tax rates	<b>3,133,154</b>	(2,336,799)
Change in unrecognized deferred tax assets	<b>(916,319)</b>	5,502,010
	<b>160,650,294</b>	211,303,453
Income tax expenses reported in the consolidated statement of comprehensive income	<b>163,791,137</b>	231,527,690
Income tax benefit attributable to discontinued operations	<b>(3,140,843)</b>	(20,224,237)
	<b>160,650,294</b>	211,303,453

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. INCOME TAX EXPENSES (continued)**

Deferred tax balances, calculated by applying the statutory tax rates effective at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at December 31:

<i>In thousands of tenge</i>	2016 Corporate income tax	2016 Excess profit tax	2016 Withholding tax	2016 Total	2015 Corporate income tax (restated)	2015 Excess profit tax (restated)	2015 Withholding tax (restated)	2015 Total (restated)
<b>Deferred tax assets</b>								
Property, plant and equipment	37,366,506	(1,899,726)	–	35,466,780	62,590,914	(1,899,726)	–	60,691,188
Tax loss carryforward	430,057,756	–	–	430,057,756	437,984,606	–	–	437,984,606
Employee related accruals	6,801,380	46,020	–	6,847,400	8,115,281	6,729	–	8,122,010
Environmental liability	3,563,499	245	–	3,563,744	3,571,609	245	–	3,571,854
Other	27,424,474	162,597	–	27,587,071	36,302,109	31,105	–	36,333,214
Less: unrecognized deferred tax assets	(404,888,041)	–	–	(404,888,041)	(403,971,722)	–	–	(403,971,722)
Less: deferred tax assets offset with deferred tax liabilities	(26,725,677)	–	–	(26,725,677)	(35,249,859)	–	–	(35,249,859)
<b>Deferred tax assets</b>	<b>73,599,897</b>	<b>(1,690,864)</b>	<b>–</b>	<b>71,909,033</b>	<b>109,342,938</b>	<b>(1,861,647)</b>	<b>–</b>	<b>107,481,291</b>
<b>Deferred tax liabilities</b>								
Property, plant and equipment	102,407,438	15,716,011	–	118,123,449	94,290,979	2,204	–	94,293,183
Undistributed earnings of joint venture	–	–	173,127,471	173,127,471	–	–	154,212,755	154,212,755
Other	74,735	–	–	74,735	5,653,674	–	–	5,653,674
Less: deferred tax assets offset with deferred tax liabilities	(26,725,677)	–	–	(26,725,677)	(35,249,859)	–	–	(35,249,859)
<b>Deferred tax liabilities</b>	<b>75,756,496</b>	<b>15,716,011</b>	<b>173,127,471</b>	<b>264,599,978</b>	<b>64,694,794</b>	<b>2,204</b>	<b>154,212,755</b>	<b>218,909,753</b>
<b>Net deferred tax liability/(asset)</b>	<b>2,156,599</b>	<b>17,406,875</b>	<b>173,127,471</b>	<b>192,690,945</b>	<b>(44,648,144)</b>	<b>1,863,851</b>	<b>154,212,755</b>	<b>111,428,462</b>

Deferred corporate income tax and excess profit tax are determined with reference to individual subsoil use contracts. Deferred corporate income tax is also determined for activities outside of the scope of subsoil use contracts. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset arising mainly from tax losses carry forward amounted to 404,888,041 thousand tenge as at December 31, 2016 (2015: 403,971,722 thousand tenge).

Tax losses carryforward as at December 31, 2016 in the Republic of Kazakhstan expire for tax purposes ten years from the date they are incurred.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. INCOME TAX EXPENSES (continued)**

The movements in the deferred tax liability/(asset) were as follows:

<i>In thousands of tenge</i>	<b>2016 Corporate income tax</b>	<b>2016 Excess profit tax</b>	<b>2016 Withholding tax</b>	<b>2016 total</b>	<b>2015 Corporate income tax</b>	<b>2015 Excess profit tax</b>	<b>2015 Withholding tax</b>	<b>2015 total</b>
<b>Net deferred tax liability/(asset) as at January 1</b>	<b>(44,648,144)</b>	<b>1,863,851</b>	<b>154,212,755</b>	<b>111,428,462</b>	26,588,654	(94,398)	75,167,886	101,662,142
Foreign currency translation	258,403	–	–	258,403	7,041,797	(854,169)	–	6,187,628
Discontinued operations	5,159	–	–	5,159	(40,796,123)	–	–	(40,796,123)
Charge to the consolidated statement of comprehensive income	<b>46,541,181</b>	<b>15,543,024</b>	<b>18,914,716</b>	<b>80,998,921</b>	(37,482,472)	2,812,418	79,044,869	44,374,815
<b>Net deferred tax liability/(asset) as at December 31</b>	<b>2,156,599</b>	<b>17,406,875</b>	<b>173,127,471</b>	<b>192,690,945</b>	(44,648,144)	1,863,851	154,212,755	111,428,462

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****33. RELATED PARTY DISCLOSURES**

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following table provides the balances of transactions with related parties as at December 31, 2016 and 2015:

<i>In thousands of tenge</i>		<b>Due from related parties</b>	<b>Due to related parties</b>	<b>Cash and deposits placed with related parties</b>	<b>Borrowings payable to related parties</b>
Samruk-Kazyna entities	<b>2016</b>	<b>250,189,225</b>	<b>1,755,168</b>	<b>227,330</b>	–
	2015	86,673,893	28,779,665	38,349	7,527,711
Associates	<b>2016</b>	<b>196,364,723</b>	<b>6,519,184</b>	–	–
	2015	238,975,765	2,740,195	–	–
Other state-controlled parties	<b>2016</b>	–	<b>8,783,316</b>	<b>308,652</b>	<b>539,518,308</b>
	2015	–	12,943,081	274,253	622,971,826
Joint ventures in which the Group is a venturer	<b>2016</b>	<b>426,310,101</b>	<b>148,065,653</b>	–	–
	2015	386,156,435	71,317,430	–	–

**Due from related parties**

In 2016 the Company provided the additional interest free loan to the Samruk-Kazyna in the amount of 203,888,218 thousand tenge. The difference between fair value and nominal value of the loan amounting 50,871,857 thousand tenge was recognized as transaction with Samruk-Kazyna in the consolidated statement of changes in equity.

As at December 30, 2016 changes in due from associates mainly related to the repayment of principal and interest on the right to claim payments under “Kazakhstan Note” in the amount of 28,907,749 thousand tenge and 10,715,809 thousand tenge, respectively.

Increase in due from joint ventures is mainly due to prepayment to Tengizchevroil LLP for oil supply in the amount of 40,128,116 thousand tenge. Changes of due from joint ventures also include accrual of interest on loan given to PetroKazakhstanOilProducts LLP and BeineuShymkent Pipelines LLP in the amount of 6,306,385 thousand tenge and 7,191,646 thousand tenge, respectively. The Group provided additional interest free loan to the BeineuShymkent Pipelines LLP in the amount of 11,440,207 thousand tenge.

**Due to related parties**

Decrease in due to Samruk-Kazyna entities mainly related to the repayment of dividends to Samruk-Kazyna and National Bank of RK in the amount of 81,768,201 thousand tenge and 9,085,134 thousand tenge, respectively.

As at December 31, 2016 due to joint ventures mainly include trade payable to KazRosGas LLP, Kazakhoil Aktobe LLP, Asia Gas Pipeline LLP, Tengizchevroil LLP and BeineuShymkent Pipelines LLP in the amount of 53,550,549 thousand tenge, 6,175,646 thousand tenge, 13,277,218 thousand tenge, 14,256,155 thousand tenge and 46,509,577 thousand tenge, respectively (2015: 22,744,328 thousand tenge, 2,998,459 thousand tenge, 9,347,400 thousand tenge, 3,055,893 thousand tenge, and 13,011,233 thousand tenge, respectively). In 2016, KMG Kashagan B.V. fully repaid the receivable in the amount of 92,717,990 thousand tenge.

**Borrowings payable to related parties**

In 2016 the Company repaid the loan to Samruk-Kazyna in the amount 11,308,821 thousand tenge interest rate of 7.99% per annum.

As at December 31, 2016, borrowings payable to other related parties mainly included bonds and loans payable to DBK with the total carrying amount of 533,340,616 thousand tenge (2015: 617,040,165 thousand tenge).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****33. RELATED PARTY DISCLOSURES (continued)**

The following table provides the total amount of transactions, which have been entered into with related parties during 2016 and 2015:

<i>In thousands of tenge</i>		<b>Sales to related parties</b>	<b>Purchases from related parties</b>	<b>Interest earned from related parties</b>	<b>Interest incurred to related parties</b>
Samruk-Kazyna entities	<b>2016</b>	<b>64,283,484</b>	<b>28,166,784</b>	<b>14,325,455</b>	<b>4,089,541</b>
	2015	52,538,731	25,971,548	4,731,537	561,667
Associates	<b>2016</b>	<b>25,429,144</b>	<b>61,467,268</b>	<b>13,417,271</b>	<b>4,379,044</b>
	2015	112,705,111	22,378,357	9,383,468	2,885,303
Other state-controlled parties	<b>2016</b>	<b>–</b>	<b>4,764,444</b>	<b>–</b>	<b>25,424,702</b>
	2015	–	68,406,297	716,962	13,236,901
Joint ventures in which the Group is a venturer	<b>2016</b>	<b>303,010,916</b>	<b>624,153,438</b>	<b>26,462,248</b>	<b>4,917,734</b>
	2015	278,198,209	125,179,943	15,982,970	–

Purchase transactions with Samruk-Kazyna, other state-controlled entities and joint ventures are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC (railway services), NC Kazakhtelecom JSC (telecommunication services), NAC Kazatomprom JSC (energy services), KEGOC JSC (energy supply), Kazpost JSC (postal services) and Samruk-Energo JSC (energy supply). In addition, the Group sells and purchases crude oil and natural gas, refined products and provides transportation services to and from Samruk-Kazyna entities, associates and joint ventures.

**Key management employee compensation**

Total compensation to key management personnel, including key management personnel of subsidiaries, included in general and administrative expenses in the accompanying consolidated statement of comprehensive income was equal to 9,797,411 thousand tenge and 9,017,155 thousand tenge for the years ended December 31, 2016 and 2015, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

**34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES**

The Group’s principal financial instruments mainly consist of borrowings, cash and cash equivalents, short term bank deposits as well as accounts receivable and accounts payable. The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

**Market risk**

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate margin and collateral requirements.

The sensitivity analyses in the following sections relate to the position as of December 31, 2016 and 2015.

*Foreign currency risk*

As a result of significant borrowings and accounts payable denominated in the US dollars, the Group’s consolidated statement of financial position can be affected significantly by movement in the US dollar / tenge exchange rates. The Group also has transactional currency exposures. Such exposure arises from revenues in the US dollars.

The Group has a policy on managing its foreign currency risk in US dollar by matching US dollar denominated financial assets with US dollar denominated financial liabilities and/or by designating hedge between non-financial assets and financial liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Market risk (continued)***Foreign currency risk (continued)*

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group’s profit before income tax (due to changes in the fair value of monetary assets and liabilities). The sensitivity of possible the changes in exchange rates for other currencies are not considered due to its insignificance to the consolidated financial results of Group’s operations.

<i>In thousands of tenge</i>	<b>Increase/ decrease in tenge to US dollar exchange rate</b>	<b>Effect on profit before tax</b>
<b>2016</b>	<b>+13%</b>	<b>(118,409,921)</b>
	<b>-13%</b>	<b>118,409,921</b>
<b>2015</b>	<b>+60%</b>	<b>(584,523,503)</b>
	<b>-20%</b>	<b>210,171,684</b>

*Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s long-term borrowings with floating interest rates.

The Group’s policy is to manage its interest rate cost using a mix of fixed and variable rate borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group’s profit before income tax (through the impact on floating rate borrowings) and equity. There is no significant impact on the Group’s equity.

<i>In thousands of tenge</i>	<b>Increase/ decrease in basis points</b>	<b>Effect on profit before tax</b>
<b>2016</b>	<b>+0.60</b>	<b>(5,598,880)</b>
LIBOR	<b>-0.08</b>	<b>746,405</b>
<b>2015</b>	<b>+0.50</b>	<b>(5,216,077)</b>
LIBOR	<b>-0.12</b>	<b>1,251,859</b>

**Credit risk**

The Group trades only with recognized, creditworthy parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group’s exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 16*. There are no significant concentrations of credit risk within the Group.

With respect to credit risks arising on other financial assets of the Group, which comprise cash and cash equivalents, bank deposits, trade accounts receivable, bonds receivable, loans and notes receivable and other financial assets, the Group’s exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Credit risk (continued)**

The table below shows the balances of major subsidiaries’ cash and cash equivalents, short-term and long-term deposits (*Notes 12 and 18*) held in banks at the reporting date using the Standard and Poor’s and Fitch’s credit ratings.

Banks	Location	Rating <sup>1</sup>		2016	2015
		2016	2015		
Halyk Bank	Kazakhstan	BB (negative)	BB+ (negative)	716,187,314	559,695,895
Sumitomo Mitsui Banking Corporation	Japan	A (positive)	AA- (stable)	287,848,285	196,892,600
HSBC	United Kingdom	AA- (negative)	AA- (stable)	166,649,716	63,252,229
BNP Paribas	United Kingdom	A (stable)	A+ (negative)	166,295,295	170,156,317
Kazkommertsbank	Kazakhstan	B- (negative)	B- (negative)	165,771,106	107,943,726
SOCIETE GENERALE	Switzerland	A (stable)		162,461,529	–
ING Bank	The Netherlands	A (stable)	A (stable)	161,907,378	148,227,731
Sberbank of Russia	Kazakhstan	BBB-	BB+ (negative)	63,718,200	70,818,123
Altyn Bank	Kazakhstan	BB (negative)		45,247,477	131,729
RBK Bank	Kazakhstan	B- (stable)	B- (stable)	29,919,368	14,119,322
Credit Suisse	British Virgin Islands	A (stable)	A (stable)	25,472,932	30,300,719
Citibank	United Kingdom	A (stable)	A (stable)	19,984,012	107,762,087
Citibank	Kazakhstan	A+(stable)		12,509,234	7,523,568
Delta Bank	Kazakhstan	CCC+	B (stable)	11,984,344	8,577,796
Deutsche Bank	the Netherlands and the United Kingdom	BBB+ (positive)	AA- (stable)	10,935,579	197,643,658
ATF Bank	Kazakhstan	B (negative)	B- (stable)	9,707,001	21,848,003
Tsesnabank	Kazakhstan	B+ (negative)	B+ (stable)	2,818,521	6,337,078
Forte Bank	Kazakhstan	B (stable)	B (stable)	2,166,169	1,410,307
BankCenterCredit	Kazakhstan	B (stable)	B (stable)	1,289,220	2,446,081
Eurasian Bank	Kazakhstan	B (stable)	B (stable)	614,348	15,908,613
KazInvestBank	Kazakhstan	B- (stable)	B- (stable)	–	1,238,426
RBS Kazakhstan	Kazakhstan	–	–	–	107,005
Kaspi Bank	Kazakhstan	–	–	–	492
Other banks				46,081,766	33,958,349
				<b>2,109,568,794</b>	<b>1,766,299,854</b>

On 31 December 2016 the Group held deposits in the total amount of 11,984,344 thousand in Delta Bank. On 30 December 2016 the Standard & Poor’s long-term/short-term counterparty credit rating was downgraded from “B/B” to “CCC+/C” then to “D/D” on 16 February 2017 following its default on the principal bond payment amount of KZT 9.8 billion. On 23 February 2017, Delta Bank has repaid the overdue the bonds and 27 February 2017 announced that it has received KZT 45.6 billion in loans after which the bank has redeemed an additional KZT 18.4 billion of bonds. Based on the most recently published financial information of Delta Bank, actions taken by the state bodies of the Republic of Kazakhstan to date and expected future actions of those state bodies, the Group believes that no impairment allowance is currently required.

Continued support by the state bodies of the Republic of Kazakhstan is a key assumption in management’s conclusions that no impairment allowance is required, and is based on management’s review of all available information at the date of approval of the consolidated financial statements.

<sup>1</sup> Source: Interfax – Kazakhstan, Factivia, official sites of the banks as at December 31 of the respective year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarises the maturity profile of the Group’s financial liabilities at December 31, 2016 and 2015 based on contractual undiscounted payments.

<i>In thousands of tenge</i>	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after 5 years*	Total
<b>As at December 31, 2016</b>						
Borrowings	80,004,420	12,921,740	373,280,508	1,572,032,557	1,148,905,492	3,187,144,717
Trade accounts payable	119,638,134	118,852,271	40,736,206	–	–	279,226,611
	<b>199,642,554</b>	<b>131,774,011</b>	<b>414,016,714</b>	<b>1,572,032,557</b>	<b>1,148,905,492</b>	<b>3,466,371,328</b>
<b>As at December 31, 2015</b>						
Borrowings	41,340,415	15,517,298	283,075,724	2,037,121,260	1,579,219,648	3,956,274,345
Trade accounts payable	14,242,241	98,856,133	60,917,882	–	–	174,016,256
	<b>55,582,656</b>	<b>114,373,431</b>	<b>343,993,606</b>	<b>2,037,121,260</b>	<b>1,579,219,648</b>	<b>4,130,290,601</b>

\*The Group excludes from maturity profile table the loans payable to project partners under the carry-in financing agreements (*Note 20*), due to the uncertainty of maturity of these loans.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Fair values of financial instruments and investment property**

The carrying amount of the Group financial instruments as at December 31, 2016 and 2015 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

	2016				
	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
<i>In thousands of tenge</i>					
Bonds receivable from Samruk-Kazyna	42,123,003	63,663,823	–	63,663,823	–
Fixed interest rate borrowings	2,099,674,818	2,250,517,072	1,945,130,199	305,386,873	–
Financial guarantee	13,471,461	13,471,461	–	13,471,461	–
Investment property	29,480,044	29,987,922	–	29,987,922	–

	2015				
	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
<i>In thousands of tenge</i>					
Bonds receivable from Samruk-Kazyna	41,840,972	93,722,183	–	93,722,183	–
Fixed interest rate borrowings	2,185,653,220	2,230,487,370	1,960,846,551	269,640,819	–
Financial guarantee	9,160,158	9,160,158	–	9,160,158	–
Derivatives, net	(174,880)	(174,880)	–	(174,880)	–
Investment property	29,260,917	32,496,894	–	32,496,894	–

The fair value of bonds receivable from the Samruk-Kazyna and fixed-rate borrowings have been calculated by discounting the expected future cash flows at market interest rates.

During the reporting period no transfers between Level 1 and Level 2 of the fair value assessment were made.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****35. CONSOLIDATION**

The following significant subsidiaries have been included in these consolidated financial statements:

Significant entities	Main activity	Country of incorporation	Percentage ownership	
			2016	2015
KazMunayGas Exploration Production JSC and its subsidiaries (“KMG EP”)	Exploration and production	Kazakhstan	<b>63.02%</b>	63.21%
KazTransGas JSC and its subsidiaries (“KTG”)	Gas transportation	Kazakhstan	<b>100.00%</b>	100.00%
KazTransOil JSC and its subsidiaries (“KTO”)	Oil transportation	Kazakhstan	<b>90.00%</b>	90.00%
KazMunayGas – refining and marketing JSC and subsidiaries (“KMG RM”)	Refinery and marketing of oil products	Kazakhstan	<b>100.00%</b>	100.00%
KazMunayTeniz JSC and its subsidiaries (“KMT”)	Exploration and production	Kazakhstan	<b>100.00%</b>	100.00%
KazMunayGas-Service LLP and its subsidiaries (“KMGS”)	Service projects	Kazakhstan	<b>100.00%</b>	100.00%
Cooperative KazMunayGas PKI U.A. and its subsidiaries	Refinery and marketing of oil products	Netherlands	<b>100.00%</b>	100.00%
KMG International N.V. and its subsidiaries (“KMG I”)	Refinery and marketing of oil products	Romania	<b>100.00%</b>	100.00%
N Operating Company LLP	Exploration and production	Kazakhstan	<b>100.00%</b>	100.00%
KMG Systems and Services LLP	Support services	Kazakhstan	<b>100.00%</b>	100.00%
Kazakhstan Pipeline Ventures LLC and associate	Oil transportation	the United States of America	<b>100.00%</b>	100.00%
KMG Karachaganak LLP	Exploration and production	Kazakhstan	<b>100.00%</b>	100.00%
KazMorTransFlot JSC	Oil transportation and construction	Kazakhstan	<b>100.00%</b>	100.00%
Aktauneftebservice LLP and its subsidiaries (“ANS”)	Oil support services	Kazakhstan	<b>100.00%</b>	100.00%

**36. CONTINGENT LIABILITIES AND COMMITMENTS****Operating environment**

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

**Commodity price risk**

The Group generates most of its revenue from the sale of commodities, primarily crude oil and oil products. Historically, the prices of these products have been volatile and have fluctuated widely in response to changes in supply and demand, market uncertainty, the performance of the global or regional economies and cyclicity in industries.

Prices may also be affected by government actions, including the imposition of tariffs and import duties, speculative trades, an increase in capacity or an oversupply of the Group’s products in its main markets. These external factors and the volatility of the commodity markets make it difficult to estimate future prices.

A substantial or extended decline in commodity prices would materially and adversely affect the Group’s business and the consolidated financial results and cash flows of operations. The Group does not hedge significantly its exposure to the risk of fluctuations in the price of its products.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Taxation**

Kazakhstan’s tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan’s tax laws are severe. Due to uncertainties associated with Kazakhstan’s tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2016.

As at December 31, 2016, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

*2009-2012 Comprehensive tax audit of KMG EP*

Based on the results of the 2009-2012 Comprehensive tax audit in 2015 KMG EP received a tax assessment for 38,512,000 thousand tenge, including tax principal, administrative fine and penalty. KMG EP did not agree with the results of the tax audit and sent an appeal to the Committee of the State Revenues. As per the decision of Special Interdistrict Administrative court of Astana the amount of administrative fine was reduced to 2,002,000 thousand tenge. The KMG EP plans to appeal the remaining amount of 13,486,000 thousand tenge to the appropriate courts. The accompanying consolidated financial statement include provisions for the entire claim balance.

*Value-added-tax (VAT) recoverability of KMG EP*

On August 31, 2016 the KMG EP filed an application for the VAT recoverability in the amount of 57,410,000 thousand tenge, including 46,558,000 thousand tenge related to the Company’s sale of assets to JSC “Ozenmunaigas” and JSC “Embamunaigas” (subsidiaries of KMG EP) in 2012. On October 10, 2016 the Tax authorities partially satisfied the VAT claim amount for 24,567,000 thousand tenge, which has been received by the KMG EP in 2016. In these financials, the KMG EP has reversed 24,567,000 thousand tenge of previously accrued VAT allowance.

*Mineral extraction tax (MET) of KMG EP*

In September 2016, “Ozenmunaigas” JSC has received approval of its application for a temporary reduced rate of MET for the Uzen and Karamandybas fields in Mangystau oblast. The reduced MET rate is set at 9.0% (compared to the budgeted rate of 13.0%) for the whole of 2016 on the condition that in 2016 Uzen and Karamandybas fields record losses for the purpose of calculating corporate income tax using the applicable State tax legislation. The effect of this reduction equals to 14,896,000 thousand tenge, which was included in its entirety in these consolidated financial statements, as management expects that JSC “Ozenmunaigas” will claim a taxable loss in its final 2016 tax filing.

*Rent tax of KMG EP*

In 2016 changes into the tax legislation were introduced in relation to methodology of rent tax calculation. On the basis of these changes along with correspondence with the tax authorities the KMG EP has refiled its rent tax declarations for 2012-2015, and reduced its current rent tax payable by the amount of 11,664,000 thousand tenge, which was the amount of the reduction in rent tax using the new revised rates for these periods.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Transfer pricing control**

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the arm's length principle.

The new law on transfer pricing came into effect in Kazakhstan from January 1, 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest at December 31, 2016.

As at December 31, 2016 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

**Cost recovery audits**

Under the base principles of the production sharing agreements, the Government transferred to contractors the exclusive rights to conduct activities in the subsurface use area, but did not transfer rights to this subsurface use area either to ownership or lease. Thus, all extracted and processed oil (i.e. the hydrocarbons produced) are the property of the Government. Works are carried out on the basis of compensation and the Government pays the contractors not in cash but in the form of the portion of oil production, thereby allowing the contractors to recover their costs and earn profit.

In accordance with the production sharing agreements not all costs incurred by the contractors could be reimbursed. Certain expenditures need to be approved by the authorized bodies. The authorized bodies conduct the cost recovery audits. In accordance with the costs recovery audits completed prior to December 31, 2016 certain amounts of the costs incurred by contractors were assessed as non-recoverable. The parties to the production sharing agreements are in negotiations with respect to the recoverability of those costs.

As of December 31, 2016 the Group's share in the total disputed amounts of costs is 201,091,569 thousand tenge (2015: 217,166,089 thousand tenge). The Group and its partners under the production sharing agreements are in negotiation with the Government with respect to the recoverability of these costs.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Civil litigation (KMG I)**

According to a Decree issued April 22, 2016, prosecutors of Romania with the General Headquarters of the Department for Fight Against Organized Crime and Terrorism (DIICOT) have ordered a reclassification and continued investigation of the case against 26 suspects under charges of organized crime (14 of them were employees of KMG I). In accordance to the same Decree, several civil responsible parties were added to the case, which include KMG I, SC Oilfield Exploration Business Solutions SA and SC Rompetrol Rafinare S.A. (KMG I subsidiaries). The amount of claims of the civil action is RON 1,724,168,825, USD 290,786,616 and EUR 34,941,924 (equivalent of 760 million US dollar or 253,300 million tenge). By Decree issued on May 6, 2016, the DIICOT have applied a prejudgment seizure on KMG I, SC Oilfield Exploration Business Solutions SA and SC Rompetrol Rafinare S.A. movable and immovable assets except for bank accounts, receivables and inventories. Prescribed seizure does not impact the operational activity of the companies. KMG I appealed the seizure orders in domestic courts and international arbitration. The hearing of Supreme Court was on June 13, 2016. The Supreme Court rejected in full the appeal. The investigation is ongoing and court trial is expected after investigation is finished. The management of the Group believes that until the investigation is complete and full details of the claims are provided, no provision for claims is required. On July 22, 2016 the Company and KMG I submitted to the Romanian authorities the Notice of Investment Dispute based on the Agreement between the Government of Romania and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania and the Energy Charter Treaty. The submission of the aforementioned Notice represents the first procedural step that might give rise to an arbitration dispute between an investor and the country where the investment was made. If a settlement between the Group and Romanian authorities fail to be reached, the case will be referred to and settled by the International Centre for Settlement of Investment Disputes under World Bank or to the Arbitration Institute of the Stockholm Chamber of Commerce.

Management believes that until the completion of the investigation and presentation of information on claims, the creation of reserves is not required.

**KMG Drilling & Services LLP (KMG D&S) litigations with Consortium of companies Ersai Caspian Contractor LLP**

KMG D&S (subsidiary of the Group) is involved in arbitration proceedings with Consortium of companies Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP (further – Consortium or Claimants) according to purchase contract on construction of JUDR, which is handled by the London Court of International Arbitration. On 17 January, 2017 KMG D&S received the claim from Consortium. Operative part of the Statement of case includes the following Claimant’s demands:

- Declaration of project change in consequence of changes in the requirements of regulatory bodies, increase of Contract price due to such changes, compensation of consequential damages;
- Extension of JUDR delivery date due to permissible delays;
- Declaration by KMG D&S of delay of signing the works acceptance certificates and payment of key stages 5,6,7 of JUDR construction and recovery of damages in respect of delayed payments;
- Damage compensation resulting from increase of Contract price, breach of Contract, as well as exchange rate adjustments and Consortium’s additional charges.

The total claim amounted more than 141,501 thousand US dollars (equivalent to 47,160,861 thousand tenge) and is not final the statement of case claims on appreciation of value based on currency adjustments and reimbursement of additional expenses of Consortium however, amounts are not specified under this claims.

The Group does not agree with the claim and upon completion of the analysis of the case will start to develop the defence’s arguments. Legal and technical consultants, independent experts are involved for protection the Group’s corporate interests.

There is uncertainty about the result of judicial proceedings. As of December 31, 2016 the Group had not recognized the provision for given claim.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Kazakhstan local market obligation**

The Government requires oil companies in the Republic of Kazakhstan to supply a portion of the products to meet the Kazakhstan domestic energy requirement on an annual basis, mainly to maintain oil products supply balance on the local market and to support agricultural producers during the spring and autumn sowing and harvest campaigns.

Kazakhstan local market oil prices are significantly lower than export prices and even lower than the normal domestic market prices determined in an arm-length transaction. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Group, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Group’s business, prospects, consolidated financial position and results of operations.

In 2016, in accordance with its obligations, the Group delivered 3,236,644 tons of crude oil (2015: 5,510,786 tons), including joint ventures, to the Kazakhstan market.

**Commitments under subsoil use contracts**

As at December 31, 2016 the Group had the following commitments related to minimal working program in accordance with terms of licenses, production sharing agreements and subsoil use contracts, signed with the Government:

<b>Year</b>	<b>Capital expenditures</b>	<b>Operational expenditures</b>
2017	137,188,527	9,176,156
2018	20,922,637	4,731,850
2019	16,562,701	5,331,863
2020	8,270,115	5,622,882
2021-2048	12,249,354	18,255,167
<b>Total</b>	<b>195,193,334</b>	<b>43,117,918</b>

**Oil supply commitments**

As of December 31, 2016 the Group had commitments under the oil supply agreement in the amount of 24.6 million ton to be delivered till March 2020.

**Other contractual commitments**

As at December 31, 2016, the Group, including joint ventures, had other capital commitments of approximately 995,145,776 thousand tenge (2015: 730,593,026 thousand tenge), related to acquisition and construction of property, plant and equipment.

**Non-financial guarantees**

As of December 31, 2016 and 2015, the Group has outstanding performance guarantees issued in favour of third parties whereas it provides guarantee should its subsidiary, joint venture or associate fail to perform their obligations under the natural gas purchase-sale, transportation and other agreements.

As of the reporting date the management of the Group believes that there were no cases of non-performance from the guaranteed parties and, accordingly, no obligations related to the above stated non-financial contingencies were recognized.

**37. SEGMENT REPORTING**

Management of the Group analyzes the segment information based on IFRS numbers. Segment profits are considered based on gross profit and net profit results.

The Group’s operating segments have their own structure and management according to the type of the produced goods and services provided. Moreover, all segments are strategic directions of the business which offer different types of the goods and serve different markets.

The Group’s activity consists of four main operating segments: exploration and production of oil and gas, transportation of oil, transportation of gas, refining and trading of crude oil and refined products. The remaining operating segments have been aggregated and presented as other operating segment due to their insignificance.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****37. SEGMENT REPORTING (continued)**

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2016:

<i>In thousands of tenge</i>	Exploration and production of oil and gas and trading of own refined products	Oil transportation	Gas trading and transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	112,656,378	188,176,142	483,593,658	992,583,481	80,425,697	–	1,857,435,356
Revenues from sales to other segments	739,286,768	45,849,567	18,364,837	58,996,031	42,593,080	(905,090,283)	–
<b>Total revenue</b>	<b>851,943,146</b>	<b>234,025,709</b>	<b>501,958,495</b>	<b>1,051,579,512</b>	<b>123,018,777</b>	<b>(905,090,283)</b>	<b>1,857,435,356</b>
<b>Gross profit</b>	<b>419,643,185</b>	<b>97,474,945</b>	<b>153,714,720</b>	<b>132,766,007</b>	<b>(10,017,778)</b>	<b>(497,891,742)</b>	<b>295,689,337</b>
Finance income	33,625,179	9,138,097	14,200,584	31,912,152	137,722,140	(58,706,464)	167,891,688
Finance costs	(13,229,134)	(4,829,755)	(27,210,248)	(45,814,320)	(194,230,327)	54,930,430	(230,383,354)
Depreciation, depletion and amortization	(77,003,750)	(31,799,193)	(28,652,432)	(34,080,013)	(9,057,477)	–	(180,592,865)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill	(1,134,659)	(679,061)	1,575,152	(51)	(3,044,060)	–	(3,282,679)
Share in profit of joint ventures and associates, net	163,204,602	79,407,009	15,191,245	10,839,301	1,548,833	–	270,190,990
Income tax expenses	(76,672,148)	(13,941,937)	(26,531,702)	(19,297,752)	(27,347,598)	–	(163,791,137)
<b>Net profit for the year</b>	<b>285,204,844</b>	<b>149,302,835</b>	<b>95,731,109</b>	<b>564,774,494</b>	<b>(697,184,832)</b>	<b>(37,657,407)</b>	<b>360,171,043</b>
<b>Other segment information</b>							
Investments in joint ventures and associates	3,440,284,418	149,567,256	80,723,711	31,350,162	4,351,263	–	3,706,276,810
Capital expenditures	147,284,800	42,612,060	88,851,035	233,253,447	42,140,785	–	554,142,127
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(19,786,389)	(2,470,383)	(8,329,262)	(5,933,387)	(2,196,200)	–	(38,715,621)
<b>Assets of the segment</b>	<b>6,210,069,721</b>	<b>831,909,870</b>	<b>1,295,190,723</b>	<b>3,459,862,728</b>	<b>1,682,382,885</b>	<b>(1,596,338,657)</b>	<b>11,883,077,270</b>
<b>Liabilities of the segment</b>	<b>529,270,606</b>	<b>164,038,032</b>	<b>663,338,007</b>	<b>2,693,298,363</b>	<b>3,089,738,401</b>	<b>(1,534,877,054)</b>	<b>5,604,806,355</b>

Eliminations represent the exclusion of intra-group turnovers.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****37. SEGMENT REPORTING (continued)**

Inter-segment transactions were made on terms agreed to between the segments that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2015:

<i>In thousands of tenge</i>	<b>Exploration and production of oil and gas and trading of own refined products</b>	<b>Oil transportation</b>	<b>Gas trading and transportation</b>	<b>Refining and trading of crude oil and refined products</b>	<b>Other*</b>	<b>Elimination</b>	<b>Total</b>
Revenues from sales to external customers	27,780,657	193,940,554	373,081,073	418,895,127	80,108,511	–	1,093,805,922
Revenues from sales to other segments	591,822,009	43,589,021	1,238,250	4,745,358	21,542,805	(662,937,443)	–
<b>Total revenue</b>	<b>619,602,666</b>	<b>237,529,575</b>	<b>374,319,323</b>	<b>423,640,485</b>	<b>101,651,316</b>	<b>(662,937,443)</b>	<b>1,093,805,922</b>
<b>Gross profit</b>	<b>254,150,812</b>	<b>106,475,440</b>	<b>97,163,649</b>	<b>70,976,890</b>	<b>(11,059,000)</b>	<b>(514,282,095)</b>	<b>3,425,696</b>
Finance income	40,185,303	5,088,707	10,281,584	5,747,908	145,472,682	(33,796,710)	172,979,474
Finance costs	(9,798,925)	(3,392,996)	(26,096,094)	(10,342,142)	(174,031,025)	25,324,136	(198,337,046)
Depreciation, depletion and amortization	(49,961,419)	(26,657,680)	(25,652,523)	(27,855,163)	(11,310,026)	–	(141,436,811)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill	(24,854,737)	(1,189,514)	(5,136,242)	(4,281,314)	(31,664,041)	–	(67,125,848)
Share in profit of joint ventures and associates, net	151,273,139	(13,704,207)	(24,560,703)	200,375	(401,188)	–	112,807,416
Income tax expenses	(223,286,459)	(25,132,258)	(1,534,705)	32,673,499	(14,247,767)	–	(231,527,690)
<b>Net profit for the year</b>	<b>561,394,306</b>	<b>79,680,215</b>	<b>(121,488,045)</b>	<b>(360,405,396)</b>	<b>370,928,022</b>	<b>(35,426,081)</b>	<b>494,683,021</b>
<b>Other segment information</b>							
Investments in joint ventures and associates	3,243,334,533	60,522,184	92,468,369	23,445,191	3,169,468	–	3,422,939,745
Capital expenditures	251,771,251	80,075,523	96,683,410	167,298,364	30,621,148	–	626,449,696
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(11,602,749)	(855,459)	(5,862,523)	(6,614,583)	(5,863,282)	–	(30,798,596)
<b>Assets of the segment</b>	<b>6,222,958,294</b>	<b>713,980,295</b>	<b>1,087,756,149</b>	<b>2,212,877,178</b>	<b>1,212,755,839</b>	<b>(740,670,097)</b>	<b>10,709,657,658</b>
<b>Liabilities of the segment</b>	<b>568,163,254</b>	<b>172,158,449</b>	<b>517,619,492</b>	<b>1,495,561,554</b>	<b>2,552,194,461</b>	<b>(686,217,349)</b>	<b>4,619,479,861</b>

\* Certain numbers shown here do not correspond to the consolidated financial statements for year ended December 31, 2015 and reflect adjustments made, refer to Note 6.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**38. SUBSEQUENT EVENTS**

On January 19, 2017 the Group made a partial repayment of issued bonds held by Development Bank of Kazakhstan JSC in the amount of 22,568,510 thousand tenge, including accrued interest of 5,006,615 thousand tenge.

On January 23, 2017 the Group paid principal and interest on loans received from Development Bank of Kazakhstan JSC in the amount of 21,092,997 thousand tenge and 9,755,664 thousand tenge, respectively.

On January 27, 2017 KMG EP has received notification on the results of KMG EP’s appeal related to the 2009-2012 Comprehensive Tax audit and respective resolution of tax authorities to reduce total tax charges and penalties to 11,483 million tenge. On January 31, 2017 KMG EP has received the decision of Special Interdistrict Administrative Court of Astana to reduce administrative fine related to the 2009-2012 Comprehensive Tax audit to 2,002 million tenge. Tax provisions in these consolidated financial statements were reduced by 18,754 million tenge to account for this ruling.

On February 17, 2017 the Company issued 5,187,152 common shares. As consideration, the Company received high, medium and low pressure gas pipelines and associated facilities in the amount of 12,967,879 thousand tenge and cash in the amount 1 thousand tenge.

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