Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Tenge million

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

KazMunaiGas Exploration Production Joint Stock Company (the "Company") is incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangystau basins of western Kazakhstan. The Company's direct majority shareholder is Joint Stock Company National Company KazMunaiGas ("NC KMG" or the "Parent Company"), which represents the state's interests in the Kazakh oil and gas industry and which holds 63.13% of the Company's outstanding shares as at March 31, 2016 (December 31, 2015: 63.21%). The Parent Company is 100% owned by Joint Stock Company Samruk-Kazyna Sovereign Welfare Fund ("Samruk-Kazyna SWF"), which is in turn 100% owned by the government of the Republic of Kazakhstan (the "Government").

The Company conducts its principal operations through the wholly owned subsidiaries JSC "Ozenmunaigas" and JSC "Embamunaigas". In addition the Company has oil and gas interests in the form of wholly owned subsidiaries, jointly controlled entities, associate and certain other controlling and non-controlling interests in non-core entities. These consolidated financial statements reflect the financial position and results of operations of all of the above interests.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting ("IAS 34") and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2015.

These condensed consolidated interim financial statements are presented in Tenge and all values are rounded to the nearest million unless otherwise stated.

Exchange rates

The official exchange rate of the Kazakhstan Tenge to the US Dollar at March 31, 2016 and December 31, 2015 was 343.62 and 339.47 Tenge to the US Dollar, respectively. Any translation of Tenge amounts to US Dollar or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

3. SEASONALITY OF OPERATIONS

The Company's operating costs are subject to seasonal fluctuations, with higher capital expenditures and expenses for materials and repair, maintenance and other services usually expected in the later part of the year than in the first half of the year. These fluctuations are mainly due to the requirement to conduct formal public tenders in accordance with procurement rules set by Samruk-Kazyna SWF.

4. ACCOUNTING POLICIES

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied in the preparation of the annual consolidated financial statements for the year ended December 31, 2015, except as discussed below.

4. ACCOUNTING POLICIES (continued)

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2016:

- IFRS 11 — Accounting for Acquisitions of Interests in Joint Operations (Amendments);
- IFRS 14 — Regulatory Deferral Accounts;
- IAS 16 and IAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments);
- IAS 27 — Equity Method in Separate Financial Statements (Amendments);
- IAS 1 — Disclosure Initiative (Amendments);
- IFRS 10, IFRS 12 and IAS 2 — Investment Entities: Applying the Consolidation Exception (Amendments);
- IFRS 10 and IAS28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments);
- Improvements to IFRSs — 2012-2014 cycle.

The adoption of these standards and amendments did not have any impact on the financial position or performance of the Company.

5. PROPERTY, PLANT AND EQUIPMENT

During the three months ended March 31, 2016 the Company prepaid for and purchased property, plant and equipment with a cost of 32,267 million Tenge (three months ended March 31, 2015: 22,401 million Tenge).

Property, plant and equipment with the net book value of 330 million Tenge were disposed off by the Company during the three months ended March 31, 2016, resulting in a net loss on disposal of 131 million Tenge (three months ended March 31, 2015: 282 million Tenge and 72 million Tenge, respectively).

6. INVESTMENTS IN JOINT VENTURES

	Ownership share	March 31, 2016 Unaudited	December 31, 2015 Audited
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	84,999	83,752
Interest in JV Ural Group Limited BVI ("UGL")	50%	71,285	70,701
Interest in JV KS EP Investments BV ("KS EP Investments")	51%	−	−
		156,284	**154,453**

Movement in investment in joint ventures during the period:

	Three months ended March 31, 2016 Unaudited	Three months ended March 31, 2015 Unaudited
Carrying amount at January 1	**154,453**	**95,177**
Share of total comprehensive income	187	7,255
Dividends received	−	(4,626)
Foreign currency translation difference	1,644	1,493
Share in additional paid in capital	−	13,972
Carrying amount at March 31 (unaudited)	**156,284**	**113,271**

Unrecognized share in loss of KS EP Investments amounted to 301 million Tenge for the three months ended March 31, 2016 (the three months ended March 31, 2015: 434 million Tenge).

Kazgermunai, UGL and KS EP Investments are non-listed companies and there is no quoted market price available for their shares.

6. INVESTMENTS IN JOINT VENTURES (continued)

Kazgermunai

On April 24, 2007 the Company acquired from NC KMG a 50% participation interest in Kazgermunai, which is involved in oil and natural gas production in south central Kazakhstan.

The following table illustrates the summarized financial information of Kazgermunai based on its IFRS financial statements reflecting equity method accounting adjustments:

	March 31, 2016	**December 31, 2015**
	Unaudited	**Audited**
Cash and cash equivalents	24,826	32,656
Other current assets	19,399	17,712
Non-current assets	190,884	198,757
	235,109	**249,125**
Dividends payable	13,745	25,460
Other current liabilities	7,790	11,689
Non-current liabilities	43,576	44,472
	65,111	**81,621**
Net assets	**169,998**	**167,504**
Proportion of the company's ownership	**50%**	**50%**
Carrying value of the investment	**84,999**	**83,752**

	Three months ended March 31,	
	2016	**2015**
	Unaudited	**Unaudited**
Revenues	32,180	34,963
Operating expenses	(28,729)	(18,469)
- *including depreciation and amortization*	*(9,635)*	*(3,871)*
- *including equity method accounting adjustments*	*(2,087)*	*3,600*
Profit from operations	3,451	16,494
Finance income	160	154
Finance cost	(272)	(200)
Profit before tax	**3,339**	**16,448**
Income tax expense	(2,383)	(1,404)
Profit and other comprehensive income for the period	**956**	**15,044**
Company's share of the comprehensive income for the period	**478**	**7,522**

Kazgermunai cannot distribute its profits until it obtains consent from the two venture partners.

UGL

On April 15, 2011 the Company acquired from Exploration Venture Limited (EVL) 50% of the common shares of UGL. UGL holds 100% equity interest in Ural Oil and Gas LLP (UOG), which is involved in oil and gas exploration in west Kazakhstan. In April 2015 UOG obtained a production license for the Rozhkovskoye field. The production license is valid for 25 years.

6. INVESTMENTS IN JOINT VENTURES (continued)

UGL (countinued)

The following table illustrates the summarized financial information of UGL reflecting equity method accounting adjustments:

	March 31, 2016 Unaudited	December 31, 2015 Audited
Cash and cash equivalents	346	921
Other current assets	60	54
Non-current assets	211,672	207,323
	212,078	**208,298**
Current liabilities	2,845	3,118
Non-current financial liabilities	56,495	53,901
Non-current liabilities	10,168	9,877
	69,508	**66,896**
Net assets	**142,570**	**141,402**
Proportion of the company's ownership	**50%**	**50%**
Carrying value of the investment	**71,285**	**70,701**

	Three months ended March 31, 2016 Unaudited	Three months ended March 31, 2015 Unaudited
Operating expenses	(178)	(287)
Loss from operations	(178)	(287)
Finance income	4	2
Finance cost	(346)	(264)
Loss before tax	**(520)**	**(549)**
Income tax (expense) / benefit	(60)	14
Loss and other comprehensive loss for the period	**(580)**	**(535)**
Company's share of the comprehensive loss for the period	**(290)**	**(268)**

During three months ended March 31, 2016 the Company did not provide interest free loans to UGL (three months ended March 31, 2015: 1,500 thousand US dollars or 277 million Tenge). On initial recognition the loans are recognized at the fair value determined by discounting future cash flows. Investments in UGL are adjusted accordingly to recognize effect of discounting.

Carrying value of the loans from UGL totaled 85,228 thousand US dollars (29,286 million Tenge) at March 31, 2016 (December 31, 2015: 82,309 thousand US dollars or 27,941 million Tenge).

The fair value on initial and additional shareholder loans, which are given on an interest free basis, is determined by discounting future cash flows for the loan using a discount rate of 15%.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

Tenge million unless otherwise stated

7. INVESTMENTS IN ASSOCIATE

	Ownership share	March 31, 2016	December 31, 2015
		Unaudited	**Audited**
Interest in Petrokazakhstan Inc. ("PKI")	33%	154,773	154,241

PKI is a non-listed company and there is no quoted market price available for its shares. PKI is involved in field exploration, and development, oil and gas production, acquisition of oil fields and selling of crude oil and oil products. PKI's main oil and natural gas production assets are located in south central Kazakhstan. The Company acquired a 33 percent stake in PKI in December 2009.

The associate's reporting period of the financial statements is the same as Company's reporting period.

Movement in investment in associate during the reporting period:

	Three months ended March 31, 2016	2015
	Unaudited	**Unaudited**
Carrying amount at January 1	**154,241**	**116,054**
Share of the total comprehensive loss	(1,398)	(2,952)
Foreign currency translation difference	1,930	2,083
Carrying amount at March 31 (unaudited)	**154,773**	**115,185**

The following table illustrates the summarized financial information of PKI and reconciliation with the Company's carrying value of investment:

	March 31, 2016	December 31, 2015
	Unaudited	**Audited**
Cash and cash equivalents	64,869	48,568
Other current assets	68,794	78,268
Non-current assets	546,855	556,382
	680,518	**683,218**
Current liabilities	131,331	132,525
Non-current liabilities	80,177	83,297
	211,508	**215,822**
Net assets	**469,010**	**467,396**
Proportion of the company's ownership	**33%**	**33%**
Carrying value of the investment	**154,773**	**154,241**

	Three months ended March 31, 2016	2015
	Unaudited	**Unaudited**
Revenues	27,821	29,144
Operating expenses	(46,596)	(35,711)
- including depreciation and amortization	*(13,741)*	*(8,893)*
- including equity method accounting adjustments	*(8,691)*	*(4,576)*
Loss from operations	(18,775)	(6,567)
Share in profit of joint ventures	5,481	4,520
Finance income	75	49
Finance cost	(1,959)	(1,007)
Loss before tax	(15,178)	(3,005)
Income tax benefit / (expense)	3,429	(5,182)
Loss for the period	**(11,749)**	**(8,187)**
Other comprehensive income / (loss)	7,512	(759)
Total comprehensive loss	**(4,237)**	**(8,946)**
Company's share of the comprehensive loss for the period	**(1,398)**	**(2,952)**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

Tenge million unless otherwise stated

8. FINANCIAL ASSETS

Other financial assets

	March 31, 2016	December 31, 2015
	Unaudited	**Audited**
US dollar denominated held to maturity deposits	34,066	31,680
Tenge denominated held to maturity deposits	2,094	2,077
Other	3	3
Total non-current	**36,163**	**33,760**
US dollar denominated term deposits	767,287	831,122
Great Britain pound denominated term deposits	2,745	2,790
Total current	**770,032**	**833,912**
	806,195	**867,672**

As at March 31, 2016 the non-current US dollar denominated held to maturity deposits include restricted deposits in the amount of 33,341 million Tenge (December 31, 2015: 31,405 million Tenge), which are kept in blocked accounts designated as a liquidation fund per requirements of subsoil use contracts.

Trade and other receivables

	March 31, 2016	December 31, 2015
	Unaudited	**Audited**
Trade receivables	97,531	93,027
Dividends receivable	6,872	12,730
Other	785	852
Allowance for doubtful receivables	(1,063)	(1,166)
	104,125	**105,443**

As at March 31, 2016 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGaz Trading AG ("KMG Trading") and KazMunaiGas Refinery and Marketing ("KMG RM"), both subsidiaries of the Parent Company, amounting to 44,714 million Tenge (December 31, 2015: 36,824 million Tenge) and 50,560 million Tenge (December 31, 2015: 52,137 million Tenge), respectively. Trade receivables from KMG RM includes 43,863 million Tenge that is overdue (December 31, 2015: nil). No provisions were accrued for these amounts.

Cash and cash equivalents

	March 31, 2016	December 31, 2015
	Unaudited	**Audited**
US dollar denominated term deposits with banks	194,071	207,440
Tenge denominated term deposits with banks	18,088	12,370
US dollar denominated cash in banks and on hand	36,794	15,488
Tenge denominated cash in banks and on hand	6,816	1,767
Great Britain pound denominated cash in bank and on hand	248	245
	256,017	**237,310**

9. SHARE CAPITAL

Shares outstanding

During the three months ended March 31, 2016 the weighted average number of all shares outstanding amounted to 68,181,988 shares (three months ended March 31, 2015: 68,162,635 shares).

9. SHARE CAPITAL (continued)

Book value per share

The Kazakhstan Stock Exchange has enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets per shares outstanding as at period end. As at March 31, 2016 the amount per share outstanding is 26,666 Tenge (December 31, 2015: 26,544 Tenge).

10. PROVISIONS

	March 31, 2016	December 31, 2015
	Unaudited	**Audited**
Taxes and related fines and penalties	60,439	60,086
Asset retirement obligation	21,760	21,322
Environmental remediation	17,599	17,610
Other	16,503	16,256
	116,301	**115,274**

11. REVENUE

	Three months ended March 31,	
	2016	**2015**
	Unaudited	**Unaudited**
Export:		
Crude oil	101,340	97,863
Gas products	158	365
Domestic (Note 16):		
Crude oil	15,354	13,529
Gas products	1,244	1,642
Refined products	316	242
Other sales and services	2,778	3,091
	121,190	**116,732**

12. PRODUCTION EXPENSES

	Three months ended March 31,	
	2016	**2015**
	Unaudited	**Unaudited**
Employee benefits	37,172	41,535
Energy	5,478	4,810
Materials and supplies	4,883	5,207
Repairs and maintenance	4,459	3,138
Transportation services	1,178	1,291
Change in crude oil balance	(303)	3,178
Processing expenses	–	118
Decrease in asset retirement obligation in excess of capitalised asset	–	(3,851)
Other	1,751	2,538
	54,618	**57,964**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

Tenge million unless otherwise stated

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended March 31,	
	2016	**2015**
	Unaudited	**Unaudited**
Transportation expenses	23,875	16,982
Employee benefits	3,881	4,525
Fines and penalties (Note 10)	617	2,393
Consulting and audit services	339	342
Repairs and maintenance	170	173
Sponsorship	71	65
Management fee and commisions	–	1,113
Other	1,363	847
	30,316	**26,440**

14. TAXES OTHER THAN ON INCOME

	Three months ended March 31,	
	2016	**2015**
	Unaudited	**Unaudited**
Export customs duty	17,074	21,039
Mineral extraction tax	14,918	13,928
Property tax	1,681	1,184
Rent tax	–	11,823
Other taxes	522	405
	34,195	**48,379**

15. INCOME TAX EXPENSE

	Three months ended March 31,	
	2016	**2015**
	Unaudited	**Unaudited**
Corporate income tax	7,326	4,787
Excess profit tax	–	58
Current income tax	**7,326**	**4,845**
Corporate income tax	3,756	(581)
Excess profit tax	–	52
Deferred income tax	**3,756**	**(529)**
Income tax expense	**11,082**	**4,316**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

Tenge million unless otherwise stated

16. RELATED PARTY TRANSACTIONS

The category 'entities under common control' comprises entities controlled by the Parent Company. The category 'other state controlled entities' comprises entities controlled by Samruk-Kazyna SWF.

Sales and purchases with related parties during the three months ended March 31, 2016 and 2015 and the balances with related parties at March 31, 2016 and December 31, 2015 are as follows:

	Three months ended March 31, 2016	2015
	Unaudited	**Unaudited**
Revenue and other income		
Entities under common control	120,422	113,046
Joint ventures	1,143	1,557
Other state controlled entities	163	9
Associate	12	6
Purchases of goods and services		
Entities under common control	12,799	10,042
Other state controlled entities	5,377	4,524
Joint ventures	22	–
Parent Company	–	1,113
Interest earned on financial assets		
Interest earned on loans to Joint ventures	1,037	1,192
Average interest rate on loans to Joint ventures	0.00%	1.13%
Salaries and other short-term benefits		
Members of the Board of Directors	77	45
Members of the Management Board	132	66
Share-based payments		
Members of the Management Board	43	–

	March 31, 2016	December 31, 2015
	Unaudited	**Audited**
Prepaid expenses and trade and other receivables		
Entities under common control	99,687	95,516
Joint ventures	68,174	72,306
Other state-controlled entities	3,088	2,796
Associate	12	7
Trade payables		
Entities under common control	1,795	2,530
Other state controlled entities	280	327
Joint ventures	33	28

17. COMMITMENTS AND CONTINGENCIES

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.

17. COMMITMENTS AND CONTINGENCIES (continued)

Local market obligation

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. While the price for such supplies of crude oil is agreed with the Parent Company, this price may be materially below international market prices. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, 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 Company's business, prospects, financial condition and results of operations.

The Company supplies oil and gas products to the local market by selling to JSC "KazMunaiGas Refinery and Marketing", a subsidiary of the Parent Company. Prices for local market sales were previously determined through an annual negotiation process with JSC "KazMunaiGas Refinery and Marketing" and the Parent Company. Starting in January 2016 JSC "KazMunaiGas Refinery and Marketing" unilateraly set the domestic price based on making themselves profit neutral. These prices have not been agreed by the Company's Management nor have they been approved by the Independent Non-Executive Directors of the Company ("INEDs"), as required by the Charter of the Company.

The Company's management made a decision to recognize revenue in the financial statements at the value of the consideration received and receivable.

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. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Because of the 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 March 31, 2016.

Environment

Environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Other than those amounts provided for in provisions (Note 10) management believes that there are no probable environmental liabilities, which could have a material adverse effect on the Company's financial position, statement of comprehensive income or cash flows.

Oilfield licenses

The Company is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation. The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, statement of income or statement of cash flows.

The Company's oil and gas fields are located on land belonging to the Mangistau and Atyrau regional administrations. Licenses were issued by the Ministry of Oil and Gas of the Republic of Kazakhstan. The Company pays mineral extraction and excess profits tax to explore and produce oil and gas from these fields.

The principle licenses of the Company and their expiry dates are:

Field	Contract	Expiry date
Uzen (8 fields)	No. 40	2036
Emba (1 field)	No. 37	2041
Emba (1 field)	No. 61	2048
Emba (23 fields)	No. 211	2037
Emba (15 fields)	No. 413	2043

17. COMMITMENTS AND CONTINGENCIES (continued)

Commitments arising from oilfield licenses

Year	Capital expenditures	Operational expenditures
2016 *(remaining)*	55,754	3,063
2017	14,670	4,033
2018	8,446	4,001
2019	8,396	3,488
2020-2048	109	19,136
	87,375	**33,721**

Crude oil supply commitments

The Company has obligations to supply oil and oil products to the local market under government directives.

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at March 31, 2016:

Year	Capital expenditures	Operational expenditures
2016 *(remaining)*	5,014	4,705

Commitments of UGL

The Company's share in the commitments of UGL is as follows as at March 31, 2016:

Year	Capital expenditures	Operational expenditures
2016 *(remaining)*	3,509	771

Commitments of PKI

The Company's share in the commitments of PKI is as follows as at March 31, 2016:

Year	Capital expenditures
2016 *(remaining)*	614

18. SUBSEQUENT EVENTS

Local market obligation and move to processing

On March 31, 2016 the Company's Board of Directors approved to change the manner in which the Company satisfies its local market supply obligations (Note 17). From April 1, 2016 the Company will process oil on its own account. The refined products that are received will then be sold to the market through JSC "KazMunaiGas Refinery and Marketing" via an agency agreement.

These condensed consolidated interim financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on April 26, 2016:

Chief Executive Officer	Iskaziyev K. O.
Chief Financial Officer	Abdulgafarov D.E.
Financial Director – Financial Controller	Drader Sh., CA
Chief Accountant	Zainelova A.A., CPA

Contact information

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