Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Tenge million unless otherwise stated

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 and refined products 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% of the Company’s outstanding shares as at March 31, 2017 (December 31, 2016: 63%). The Parent Company is 90% 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, an 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, 2016.

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, 2017 and December 31, 2016 was 313.73 and 333.29 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, 2016, except as discussed below.

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

Tenge million unless otherwise stated

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, 2017:

- IAS 12 — *Income Taxes Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments)
- IAS 7 — *Statement of Cash Flows Disclosure Initiative* (Amendments)

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, 2017 the Company prepaid for and purchased property, plant and equipment with a cost of 24,152 million Tenge (three months ended March 31, 2016: 32,267 million Tenge).

Property, plant and equipment with the net book value of 1,065 million Tenge were disposed off by the Company during the three months ended March 31, 2017, resulting in a net gain on disposal of 397 million Tenge (three months ended March 31, 2016: 330 million Tenge and net loss of 131 million Tenge, respectively).

6. INVESTMENTS IN JOINT VENTURES

	Ownership share	March 31, 2017 Unaudited	December 31, 2016 Audited
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	75,262	71,634
Interest in JV Ural Group Limited BVI ("UGL")	50%	68,670	72,898
Interest in JV KS EP Investments BV ("KS EP Investments")	51%	–	–
		143,932	**144,532**

Movement in investment in joint ventures during the period:

	Three months ended March 31, 2017 Unaudited	Three months ended March 31, 2016 Unaudited
Carrying amount at January 1	**144,532**	**154,453**
Share of total comprehensive income	6,899	187
Foreign currency translation difference	(7,967)	1,644
Share in additional paid in capital	468	–
Carrying amount at March 31 (unaudited)	**143,932**	**156,284**

Unrecognized share in income of KS EP Investments amounted to 576 million Tenge for the three months ended March 31, 2017 (the three months ended March 31, 2016: unrecognized share in loss - 301 million Tenge).

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

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

Tenge million unless otherwise stated

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, 2017 Unaudited	December 31, 2016 Audited
Cash and cash equivalents	64,438	39,695
Other current assets	11,617	11,151
Non-current assets	142,593	153,839
	218,648	**204,685**
Other current liabilities	41,550	33,907
Non-current liabilities	26,574	27,510
	68,124	**61,417**
Net assets	**150,524**	**143,268**
Proportion of the company's ownership	**50%**	**50%**
Carrying value of the investment	**75,262**	**71,634**

	Three months ended March 31,	
	2017	**2016**
	Unaudited	**Unaudited**
Revenues	45,422	32,180
Operating expenses	(24,110)	(28,729)
- *including depreciation and amortization*	*(6,902)*	*(9,635)*
- *including equity method accounting adjustments*	*(1,306)*	*(2,087)*
Profit from operations	21,312	3,451
Finance income	502	160
Finance cost	(254)	(272)
Profit before tax	**21,560**	**3,339**
Income tax expense	(6,930)	(2,383)
Profit and other comprehensive income for the period	**14,630**	**956**
Company's share of the comprehensive income for the period	**7,315**	**478**

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 until April 2040. In May 2015 UOG has extended its exploration license for Fyodorovskoye field until May 2018.

6. INVESTMENTS IN JOINT VENTURES (continued)

UGL (continued)

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

	March 31, 2017	**December 31, 2016**
	Unaudited	**Audited**
Cash and cash equivalents	293	297
Other current assets	22	13
Non-current assets	204,942	215,892
	205,257	**216,202**
Current liabilities	559	1,743
Non-current financial liabilities	56,995	57,970
Non-current liabilities	10,363	10,694
	67,917	**70,407**
Net assets	**137,340**	**145,795**
Proportion of the company's ownership	**50%**	**50%**
Carrying value of the investment	**68,670**	**72,898**

	Three months ended March 31,	
	2017	**2016**
	Unaudited	**Unaudited**
Operating expenses	(241)	(178)
Loss from operations	(241)	(178)
Finance income	6	4
Finance cost	(422)	(346)
Loss before tax	**(657)**	**(520)**
Income tax expense	(175)	(60)
Loss and other comprehensive loss for the period	**(832)**	**(580)**
Company's share of the comprehensive loss for the period	**(416)**	**(290)**

During three months ended March 31, 2017 the Company provided interest free loans in the amount of 1,233 thousand US dollars (397 million Tenge) to UGL (three months ended March 31, 2016: nil). 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 92,754 thousand US dollars (29,100 million Tenge) at March 31, 2017 (December 31, 2016: 88,927 thousand US dollars or 29,638 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, 2017	December 31, 2016
		Unaudited	**Audited**
Interest in Petrokazakhstan Inc. ("PKI")	33%	131,822	135,633

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, 2017	2016
	Unaudited	**Unaudited**
Carrying amount at January 1	**135,633**	**154,241**
Share of the total comprehensive income / (loss)	4,265	(1,398)
Foreign currency translation difference	(8,076)	1,930
Carrying amount at March 31 (unaudited)	**131,822**	**154,773**

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

	March 31, 2017	December 31, 2016
	Unaudited	**Audited**
Cash and cash equivalents	47,443	54,443
Other current assets	44,744	42,735
Non-current assets	405,844	433,384
	498,031	**530,562**
Current liabilities	23,039	20,300
Non-current liabilities	75,531	99,253
	98,570	**119,553**
Net assets	**399,461**	**411,009**
Proportion of the company's ownership	**33%**	**33%**
Carrying value of the investment	**131,822**	**135,633**

	Three months ended March 31, 2017	2016
	Unaudited	**Unaudited**
Revenues	34,666	27,821
Operating expenses	(30,644)	(46,596)
- including depreciation and amortization	*(8,435)*	*(13,741)*
- including equity method accounting adjustments	*(4,864)*	*(8,691)*
Income/(loss) from operations	4,022	(18,775)
Share in profit of joint ventures	6,909	5,481
Finance income	78	75
Finance cost	(804)	(1,959)
Income/(loss) before tax	10,205	(15,178)
Income tax (expense) /benefit	(5,636)	3,429
Profit / (Loss) for the period	**4,569**	**(11,749)**
Other comprehensive income	8,356	7,512
Total comprehensive income/(loss)	**12,925**	**(4,237)**
Company's share of the comprehensive income/(loss) for the period	**4,265**	**(1,398)**

8. FINANCIAL ASSETS

Other financial assets

	March 31, 2017	December 31, 2016
	Unaudited	**Audited**
US dollar denominated held to maturity deposits	31,329	33,276
Tenge denominated held to maturity deposits	2,242	2,682
Other	27	3
Total non-current	**33,598**	**35,961**
US dollar denominated term deposits	945,115	980,958
Great Britain pound denominated term deposits	2,451	2,299
Total current	**947,566**	**983,257**
	981,164	**1,019,218**

As at March 31, 2017 the non-current US dollar denominated held to maturity deposits include restricted deposits in the amount of 31,329 million Tenge (December 31, 2016: 33,276 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, 2017	December 31, 2016
	Unaudited	**Audited**
Trade receivables	71,095	73,348
Dividends receivable	–	670
Other	1,053	1,178
Allowance for doubtful receivables	(1,151)	(1,075)
	70,997	**74,121**

As at March 31, 2017 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGaz Trading AG ("KMG Trading"), subsidiary of the Parent Company, amounting to 57,657 million Tenge (December 31, 2016: 57,503 million Tenge).

As at March 31, 2017 the Company's trade receivables also included receivables from sale of refined products to KazMunaiGas Onimdery LLP ("KMG Onimdery"), subsidiary of KMG RM, amounting to Trade receivables from KMG RM includes 10,242 million Tenge (December 31, 2016: 13,704 million Tenge).

As at March 31, 2017 there are no amounts overdue from KMG Trading and KMG Onimdery (December 31, 2016: nil Tenge).

Cash and cash equivalents

	March 31, 2017	December 31, 2016
	Unaudited	**Audited**
US dollar denominated term deposits with banks	83,430	34,957
Tenge denominated term deposits with banks	22,858	30,078
US dollar denominated cash in banks and on hand	62,026	95,402
Tenge denominated cash in banks and on hand	1,864	1,467
Great Britain pound denominated cash in bank and on hand	168	187
	170,346	**162,091**

9. SHARE CAPITAL

Shares outstanding

During the three months ended March 31, 2017 the weighted average number of all shares outstanding amounted to 68,372,648 shares (three months ended March 31, 2016: 68,181,988 shares).

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, 2017 the amount per share outstanding is 27,839 Tenge (December 31, 2016: 28,240 Tenge).

10. PROVISIONS

	March 31, 2017	**December 31, 2016**
	Unaudited	**Audited**
Taxes and related fines and penalties	35,974	43,386
Asset retirement obligation	17,698	17,170
Employee benefit liability	16,809	16,414
Environmental remediation	14,501	14,256
	84,982	**91,226**

11. REVENUE

	Three months ended March 31,	
	2017	**2016**
	Unaudited	**Unaudited**
Export:		
Crude oil	151,621	101,340
Refined products	18,649	–
Gas products	122	158
Domestic (Note 17):		
Crude oil	2	15,354
Gas products	2,091	1,244
Refined products	38,955	–
Other sales and services	2,286	3,094
	213,726	**121,190**

12. PRODUCTION EXPENSES

	Three months ended March 31,	
	2017	**2016**
	Unaudited	**Unaudited**
Employee benefits	41,374	37,172
Refinery processing costs	12,960	–
Energy	5,632	5,478
Materials and supplies	5,266	4,883
Repairs and maintenance	4,364	4,459
Transportation services	1,453	1,178
Change in crude oil balance	(3,577)	(303)
Other	2,607	1,751
	70,079	**54,618**

Tenge million unless otherwise stated

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended March 31, 2017	2016
	Unaudited	**Unaudited**
Transportation expenses	23,713	23,875
Employee benefits	4,139	3,881
Consulting and audit services	459	339
Repairs and maintenance	228	170
Sponsorship	64	71
Net (reversal) / accrual of fines and penalties (Note 17)	(3,935)	617
Other	812	1,363
	25,480	**30,316**

14. TAXES OTHER THAN ON INCOME

	Three months ended March 31, 2017	2016
	Unaudited	**Unaudited**
Export customs duty	23,468	17,074
Mineral extraction tax	21,426	14,918
Rent tax	17,724	–
Property tax	1,465	1,681
Other taxes	1,512	522
	65,595	**34,195**

15. INCOME TAX (BENEFIT) / EXPENSE

	Three months ended March 31, 2017	2016
	Unaudited	**Unaudited**
Corporate income tax	(2,787)	7,326
Excess profit tax	(1,688)	–
Current income tax	**(4,475)**	**7,326**
Corporate income tax	2,621	3,756
Deferred income tax	**2,621**	**3,756**
Income tax (benefit)/expense	**(1,854)**	**11,082**

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, 2017 and 2016 and the balances with related parties at March 31, 2017 and December 31, 2016 are as follows:

	Three months ended March 31,	
	2017	2016
	Unaudited	Unaudited
Revenue and other income		
Entities under common control	186,720	120,422
Joint ventures	1,199	1,143
Associate	5	12
Other state controlled entities	1	163
Purchases of goods and services		
Entities under common control	25,572	12,799
Other state controlled entities	5,755	5,377
Joint ventures	270	22
Interest earned on financial assets		
Interest earned on loans to Joint ventures	1,013	1,037
Average interest rate on loans to Joint ventures	0.00%	0.00%
Salaries and other short-term benefits		
Members of the Board of Directors	55	77
Members of the Management Board	96	132
Share-based payments		
Members of the Management Board	–	43

	March 31, 2017	December 31, 2016
	Unaudited	Audited
Prepaid expenses and trade and other receivables		
Entities under common control	76,933	77,992
Joint ventures	63,248	64,626
Other state-controlled entities	1,823	872
Associate	5	11
Trade payables		
Entities under common control	3,092	3,771
Other state controlled entities	401	275
Joint ventures	708	684

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. The price for such supplies of crude oil prior to April 1, 2016, was subject to agreement with the Parent Company and this price could have been 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.

Starting from April 1, 2016 the Company ceased sales of crude oil to KMG RM and started tolling crude oil at Atyrau Refinery ("ANPZ") and Pavlodar Refinery ("PNHZ"), who are under the ownership and control of the Parent Company, and selling refined products on its own account. On January 1, 2017 the Company ceased using KMG RM as its sales agent.

In regards to refined products, the Kazakhstan government also requires to supply a major portion of oil products, specifically light distillates, to meet domestic fuel requirements and to support agricultural producers during spring and autumn sowing campaigns. This is achieved by either refusal to allow export of light distillates or by issuing quotas to supply agricultural producers. Local market oil products prices are significantly lower than international market prices and domestic prices for some of the refined products are regulated by the Committee for the Regulation of Natural Monopolies.

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. 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 March 31, 2017.

The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions.

2009-2012 Comprehensive tax audit

Based on the results of the 2009-2012 Comprehensive tax audit in 2015 the Company received a tax assessment for 38,512 million Tenge, including tax principal, administrative fine and penalty. The Company did not agree with the results of the tax audit and sent an appeal to the Committee of State Revenues. As per the decision of the Committee of State Revenue the amount of tax principal and penalty was reduced to 11,483 million Tenge. As per the decision of Special Interdistrict Administrative court of Astana the amount of administrative fine was reduced to 2,002 million Tenge.

The Company appealed the remaining amount of 13,486 million Tenge, which was fully provided as of December 31, 2016, to the appropriate courts. In March 2017, Administrative Court of Astana made a decision to reduce the principal amount of the claim further from 7,012 million Tenge to 3,263 million Tenge. Fines and penalties are subject to revision by the respective authorities and will be received in due course. As at March 31, 2017 the Company has a total provision of 6,075 million Tenge related to this claim, which is management's best estimate of the amount ultimately payable.

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.

17. COMMITMENTS AND CONTINGENCIES (continued)

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

Commitments arising from oilfield licenses

Year	**Capital expenditures**	**Operational expenditures**
2017 (remaining)	108,922	3,448
2018	32,946	4,499
2019	33,085	4,068
2020-2048	2	20,583
	174,955	**32,598**

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, 2017:

Year	**Capital expenditures**	**Operational expenditures**
2017 *(remaining)*	6,003	5,397

Commitments of UGL

The Company's share in the commitments of UGL is as follows as at March 31, 2017:

Year	**Capital expenditures**	**Operational expenditures**
2017 *(remaining)*	12	60

17. COMMITMENTS AND CONTINGENCIES (continued)

Commitments of PKI

The Company's share in the commitments of PKI is as follows as at March 31, 2017:

Year	Capital expenditures
2017 *(remaining)*	262

18. SUBSEQUENT EVENTS

Following instructions from the Parent company and in accordance with the decision of the Company's Board of Directors dated April 11, 2017, the processing fee of Atyrau refinery increased by 19.6% from 20,501 Tenge per ton of crude oil to 24,512 Tenge per ton effective from April 1, 2017 to December 31, 2017.

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 25, 2017:

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

The Company's registered office is:

KazMunaiGas Exploration Production Joint Stock Company
Left Bank, Kabanbay Batyr ave., Building 17
Astana 010000
Republic of Kazakhstan

Telephone: +7 (7172) 975 433
Fax: +7 (7172) 975 445
www.kmgep.kz