ҚазМұнайГаз
БАРЛАУ ӨНДІРУ АКЦИОНЕРЛІК ҚОҒАМЫ

Integrated Report 2016

Securing a sustainable future

About this report

The purpose of this Annual Report is to inform the reader about all the material events that affect our business. The Company aims to help our investors and other stakeholders understand how it has formed its strategy, manages its operations, achieves its financial performance, manages the long-term sustainability of the business and creates value for its stakeholders. This report aims to communicate this by answering the following questions about the business.

— What do the Company, its subsidiaries, associates and joint ventures do?

— What are the circumstances under which it operates?

— How does the Company's corporate governance structure ensure that its ability to create value for stakeholders in the short, medium and long term is maintained?

— What is the organisation's business model?

— What are the main risks and opportunities that affect the organisation's ability to create value for stakeholders in the short, medium and long term, and how are these managed?

— What are the Company's future goals, aims and objectives, and how does it intend to achieve them?

— To what extent has the organisation achieved its goals, aims and objectives for the reporting period, and what was the effect on the value of the Company for stakeholders?

— What are the key challenges and uncertainties that the organisation is likely to encounter in pursuing its strategy, and what are the potential implications for the business model and future performance?

— How does the organisation determine which matters are included in this report and how are such matters quantified or evaluated?

2016 key events

February The Company announced the results of exploration activities on the north-eastern flank of the S. Nurzhanov field, and in the Liman and Akkuduk blocks.

March The Board of Directors decided not to recommend the payment of a dividend to ordinary shareholders following the sharp decline in oil prices since the end of 2014.

April The Company switched to an independent crude oil processing scheme for domestic supply. Under the new framework KMG EP supplies oil directly to ANPZ and PNHZ for processing into oil products with further sales.

July The Company received a payment of 44 billion tenge (US$130m[1]) from JSC KazMunaiGas – Refining and Marketing, for crude oil that KMG EP supplied to the domestic market in 2015.

August The independent shareholders voted against the introduction of changes and amendments to the Relationship Agreement and Charter of the Company.

August Half-year results recorded a net profit of 17.2 billion tenge (US$50 million) compared with 2.9 billion tenge (US$16 million) in the same period of 2015. The net cash position[2] on June 30, 2016 was 1,065 billion tenge (US$3.1 billion), US$85 million higher than the net cash position as at the end of the first quarter of 2016.

August The Supreme Court of the Republic of Kazakhstan ruled to reduce the 2006–2008 tax charge by 5.4 billion tenge.

September OMG received approval of its application for a temporary reduction in Mineral Extraction Tax ('MET') for the Uzen and Karamandybas fields.

September Igor Goncharov was elected as Chairman of the Board of Directors.

October The Company announced a positive outcome concerning recovery of around 24.5 billion tenge (US$74 million) in VAT following extensive work by the Company, facilitated and aided by NC KMG, the Ministry of Energy and the Ministry of Finance of the Republic of Kazakhstan.

November Positive testing results of an exploratory appraisal well at the Rozhkovskoye field, located in the Fedorovsky block.

November Net profit for the first nine months of 2016 was 76 billion tenge (US$220 million) and net cash generated from operating activities was 108 billion tenge (US$314 million). Net cash position at September 30, 2016 was 1,145 billion tenge (US$3.4 billion), representing an 81 billion tenge (US$270 million) increase over the net cash position as of June 30, 2016.

December The Board of Directors approved the 2017 budget and the 2017–2021 business plan.

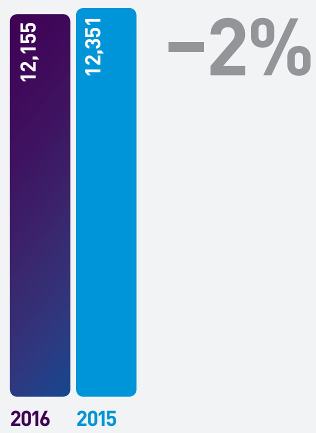
[1] Amounts have been converted to US$ solely for the convenience of the reader at a rate of 337.39 tenge/US$.
[2] Cash, cash equivalents and other financial assets less borrowings.

Delivering in a challenging market

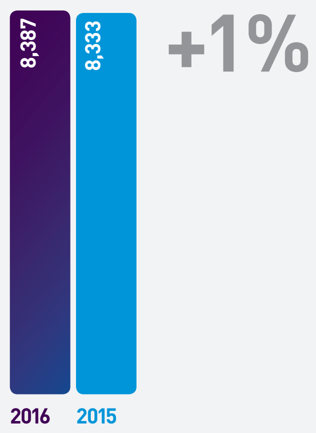
KMG EP managed to maintain profitability and return to positive free cash flow generation.

Our Operational KPI's

Total production*
thousand tonnes



OMG and EMG production
thousand tonnes



*Including proportionate share of equity-accounted entities and CCEL.

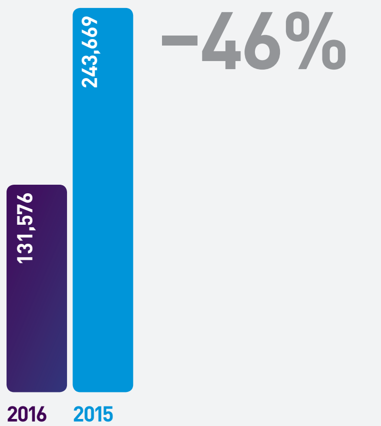
**EBITDA is calculated by adding back the share of income in equity-accounted entities, finance income and non-cash expenses such as depreciation and amortisation to the Company's operating profit.

***Operating profit does not include share in results of equity accounted entities, CIT expenses, finance charges, impairment charges, foreign exchange gain/loss and other non-operating charges.

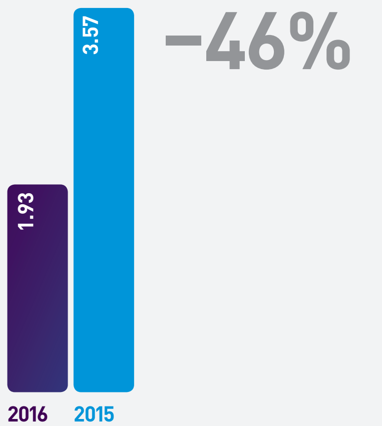
> *"KMG EP successfully accomplished a number of significant objectives and, as a result, achieved positive operating and financial results."*

Our Financial KPI's

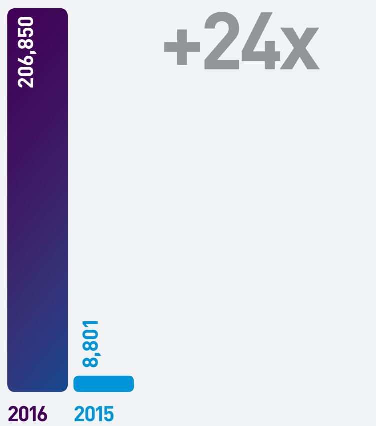
Net Income
million tenge



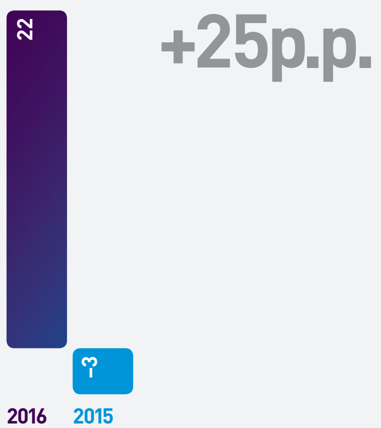
Basic and diluted EPS
thousand tenge



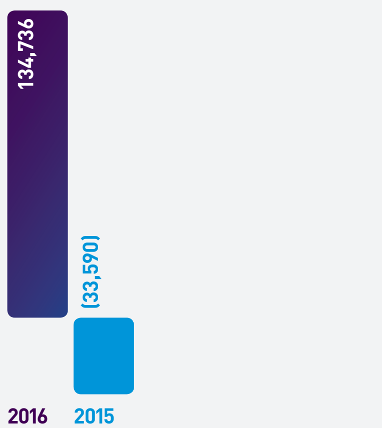
EBITDA**
million tenge



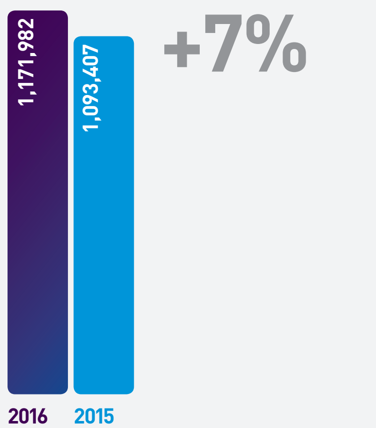
Operating margin***
%



Operating cash flow before working capital adjustments
million tenge



Net cash position at the end of the period
million tenge



About our business

Oil production originally commenced in Kazakhstan in 1911. Following the country's independence from the former Soviet Union in 1991, a state-owned corporation called Kazakhstanneftegas was formed to run and manage the country's oil and gas assets.

In the 90s, private sector oil companies began to play an increasing role in the development and modernisation of Kazakhstan's oil and gas industry. The remaining state-controlled assets were eventually grouped into the newly formed National Company KazMunayGas ('NC KMG') in 2002.

Founding of the business, subsequent IPO and beyond

In 2004, JSC OzenMunaiGas and JSC EmbaMunaiGas, subsidiaries of NC KMG mainly focused on exploration and production, were merged to form JSC KazMunaiGas Exploration and Production (KMG EP, 'the Company').

OzenMunaiGas has exploration and production interests in the Uzen and Karamandybas fields. EmbaMunaiGas has exploration and production interests in the following assets: Balgimbayev (Zhaiykmunaigas); West Prorva (Zhilioymunaigas); Zholamanov and Kondybay (Kainarmunaigas); Baishonas and Dossor (Dossormunaigas).

In September 2006 KMG EP carried out its Initial Public Offering (IPO) on the Kazakhstan Stock Exchange along with a placing of global depositary receipts (GDRs) on the London Stock Exchange (LSE). Subsequently the Company has been conducting an expansion of the exploration and production assets it holds in Kazakhstan and has acquired further subsidiary, joint venture and associate assets within the oil and gas sector in Kazakhstan.

Mission, strategy, values and aims

The Company's mission is the effective exploitation of hydrocarbons to maximise shareholder value, while providing long-term economic and social benefits for the regions where the Company's businesses operate. Further information about the Company's strategy and values is outlined on page 11.

Relationship with holding company, subsidiaries and associates

NC KMG retains a 57.9%[3] majority shareholding and has a majority presence on the Board of Directors. However, minority shareholders' interests are protected by the presence of three independent Non-Executive Directors. The Company's approach to corporate governance is competent and transparent. Minority shareholders' rights are protected by the Relationship Agreement and by the performance to international standards of corporate governance.

NC KMG's shares are owned 90% by JSC Sovereign Wealth Fund Samruk-Kazyna, and 10% by the Republic of Kazakhstan's National Bank.

Further information about the Company's structure can be found on page 11.

Development of our infrastructure

A key aim for the Company is developing its efficiency levels, increasing automation and making greater use of modern technology. Key developments in 2016 included the implementation of the "Smartfields" project at EMG's UAZ field and the initiation of the Block 3 project at OMG which was conducted jointly with the LLP Scientific Research Institute of Production Technology and Drilling KazMunaiGas ('Technical Institute').

[3] As % of total issued common and preferred shares.

Our key exploration and production interests

Name	Ownership interest	Principal operations	Financial statement reflection
JSC Ozenmunaigas ("OMG")	100%	Crude oil upstream	Consolidated entity
JSC Embamunaigas ("EMG")	100%	Crude oil upstream	Consolidated entity
Kazakh Gas Processing Plant ("KazGPZ")	100%	Natural gas upstream and refining	Consolidated entity
JV Kazgermunai LLP ("KGM")	50%	Crude oil upstream	Equity-accounted entity
PetroKazakhstan Inc ("PKI")	33%	Crude oil upstream	Equity-accounted entity
CITIC Canada Energy Limited ("CCEL")	50%	Crude oil upstream	Financial asset
Ural Oil and Gas LLP ("UOG")	50%	Oil and gas exploration	Equity-accounted entity
KS EP Investments BV ("KS")	51%	Oil and gas exploration	Equity-accounted entity

KMG EP's social programmes

The Company is committed to supporting and developing its people and working closely with the communities where it is based. It conducts a variety of activities throughout the year to support these objectives. In 2016 these included:

- The first Alternates Day in July as part of the Young People Engagement Policy which aims to develop them for future managerial roles;
- The launch of the In-House Trainer School to support the development of training and development throughout the Company;
- The Uzdik Maman Professional Excellence Contest, which aims to encourage motivation and innovation throughout the business;
- The creation of an art space in the Company's head office in Astana to encourage the development of local artistic talent; and
- Financial assistance for the provision of a specialist boarding school in the Kyzylorda region.

Further information about the Company's social projects can be found on pages 83 – 87.

Strategy

Since its listing on the London and Kazakhstan Stock Exchanges in 2006 the activities of KMG EP have been pursued in accordance with the strategy approved by its shareholders.

After successfully meeting medium-term targets in 2006–2009, Strategy 2020 was adopted in 2010. The Company's strategy for operational fields is geared towards supporting production levels, optimising costs, raising the Company's business process efficiency and technological process efficiency, intensifying production and improving recovery factors of the producing reservoirs. All these measures are geared towards optimisation of production and operational processes.

The Company is focused on realising its maximum potential. Further development will be defined by the interests of the Company's shareholders and will be in line with good oil field practice and established market trends. This will involve searching for opportunities to raise the level of reserves in line with delivery of the Company's strategy.

Plans for the future

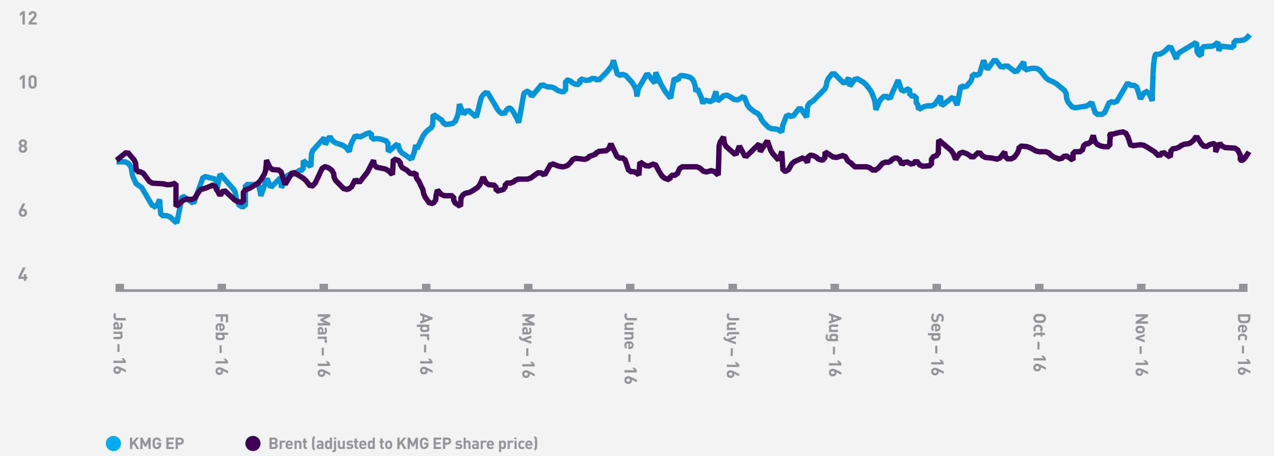
The Company's key objectives for 2017-2018 are set out below:

- Maintaining stable production volumes at existing fields;
- Increasing oil recovery rate at existing fields;
- Reserve replacement by appraisal of existing fields and exploration of territories adjacent to these fields;
- Greater efficiency in use of labour and material resources;
- Implementing the "Smartfields" project at core fields of KMG EP;
- Maintaining capital expenditure and operating expenses within current levels;
- Providing long-term economic and social benefits for the regions where the Company's businesses operate;
- Optimisation of management procedures;
- Transparency and compliance of corporate governance standards;
- Conducting regular staff training and development; and
- Expanding portfolio of exploration assets.

Share listings

In 2016, the price of one GDR of KMG EP on the London Stock Exchange ranged from a maximum of US$8.32 to a minimum of US$6.05, averaging US$7.31 per GDR.

GDR and Brent price dynamics



Source: Bloomberg.

On the Kazakhstan Stock Exchange, the maximum price of one KMG EP common share in 2016 was 16,579 tenge, and the minimum price was 12,400 tenge, averaging 14,882 tenge. The maximum price of a KMG EP preferred share in 2016 was 9,600 tenge, and the minimum price was 5,501 tenge, averaging 7,200 tenge per share.

On June 17, 2016, KMG EP announced that its majority shareholder National Company KazMunayGas JSC had made a request to hold an Extraordinary General Meeting of shareholders (EGM) in accordance with paragraph 10.6 of the Company's Charter. At this meeting, which was held on August 3, 2016, independent shareholders voted against Resolutions 1 and 2 to make amendments to the Relationship Agreement and the Charter of the Company. As the independent shareholders failed to approve both Resolutions, the Purchase Offer did not come into effect and the proposed amendments were not made to the Relationship Agreement and the Charter on the terms and conditions specified in the Circular of NC KMG.

Based on 2016 results the Board has recommended a dividend per ordinary and preferred share of KMG EP at 289 tenge (including taxes withheld in accordance with the legislation of Kazakhstan) to be paid from 2016 earnings. This is equivalent to approximately 19.8 billion tenge[4] (US$63m[5]), or 15% of the Company's net profit for 2016. This decision is subject to approval by the shareholders at the Annual General Meeting of Shareholders ("AGM").

As of the end of 2016, analytical coverage of KMG EP stock was provided by ten sell-side analysts. The average target price at the end of 2016 was US$10 per GDR with 60% of recommendations to "Buy" and 40% to "Hold" the Company's shares.

In their reports, analysts repeatedly noted the positive effect of the transition to the new oil processing scheme as demonstrated by the 2016 year-end financial performance.

[4] Calculated based on number of shares outstanding as of April 11, 2017.

[5] Converted at the official National Bank of the Republic of Kazakhstan rate as of April 11, 2017.

About Kazakhstan

Kazakhstan is a very large country located in Central Asia which covers approximately the same land area as Western Europe. It is the ninth largest country in the world. It has vast mineral resources and significant economic growth potential.

1.8%
of the world's total proven oil and gas reserves

- Population approximately 17.9 million (as of January 1, 2017)
- Capital – Astana (population approximately 1.0 million)
- Largest city – Almaty (population approximately 1.7 million)
- One of the most diverse countries in the world in terms of ethnicity
- Urban/rural employment – approximately 53% and 47% respectively
- GDP per capita – US$10,510 in 2015
- Oil and gas reserves – about 1.8% of the world's total
- Ninth largest country in the world by area
- Home to five UNESCO World Heritage Sites
- Consistent economic growth and political stability since independence in 1991
- Founder member of the EAEU
- Over US$200 billion of foreign investment in the ten years to 2015

17.9 million
population of Kazakhstan

Kazakhstan is a very large country located in Central Asia which covers approximately the same land area as Western Europe. It is the ninth largest country in the world. It has vast mineral resources and significant economic growth potential.

Kazakhstan has five UNESCO World Heritage sites: the Saryarka plains and lakes, a world-famous birdwatching site; Tamgaly, home to 5,000 ancient rock carvings; a 5,000 km section of the Silk Roads route network that stretches from Chang'an/Luoyang, the central capital of China in the Han and Tang dynasties, to the Zhetysu region of Central Asia; Western Tien-Shan, one of the largest mountain ranges in the world, which is of global importance as a centre of fruit cultivation and for its great diversity of forest types and unique plant community associations; and the Mausoleum of Khoja Ahmed Yasawi.

The country originally became an autonomous republic of the USSR in 1920 and a full union republic in 1940. In 1991, Kazakhstan declared independence from the Soviet Union and joined the Commonwealth of Independent States (CIS).

Since 1991, the Kazakh Government has carried out a series of structural reforms that have significantly advanced the economy. This, coupled with the country's political and domestic stability and strong international relations, has led to consistent and rapid economic growth. In 2000, Kazakhstan became the first former Soviet republic to repay all its debt to the International Monetary Fund. In the period 2005–2015, the country received over US$200 billion of foreign direct investment.

The Eurasian Economic Union (EAEU) was established at the beginning of 2015. The founder members were Kazakhstan, Russia and Belarus with Armenia and Kyrgyzstan joining shortly afterwards. The EAEU is a purely economic union with the members opting to keep their political independence and sovereignty.

One of the country's current main objectives is to develop a capital market with a broad range of financial instruments to address the capital markets access requirements of companies based in Kazakhstan, the EAEU and other neighbouring countries. This will be based in Astana.

5
UNESCO World Heritage Sites

Sources: Committee on Statistics of Ministry of the National Economy of the Republic of Kazakhstan, World Bank website, WTO, UNESCO, BP statistical review.

Strategic Report

Kazakhstan oil and gas sector

Kazakhstan is a country with an abundance of natural resources. These include about 1.8% of the world's proven total oil reserves.

More than 90% of oil reserves are concentrated in the 15 largest oil fields. These are:

- Tengiz
- Kashagan
- Karachaganak
- Uzen
- Zhetybai
- Zhanazhol
- Kalamkas
- Kenkiyak
- Karazhanbas
- Kumkol
- North Buzachi
- Alibekmola
- Central and Eastern Prorva
- Kenbai
- Korolevskoye

Around 62% of the country has been divided up by the Government into oil and gas exploration and production blocks. There are currently 172 oil fields, of which more than 80 are under development.

Production summary

- Total production of oil and condensate – 78 million tonnes in 2016 (2015: 79.5 million tonnes)
- According to the forecasts of the Ministry of Energy of the Republic of Kazakhstan, oil and condensate production in 2017 will be 81 million tonnes and will gradually grow to 88 million tonnes by 2020.

Production growth drivers

The country's large oil and gas projects are expected to be the main drivers of growth in the medium term. These are the Tengiz field, where expansion should increase production to 39 million tonnes from the current 27 million tonnes by 2023, and the Kashagan field which came on-stream in October 2016.

Tengiz

Tengiz field is one of the largest in the world. It is being developed by the TengizChevroil consortium (TCO). The licence area includes the Tengiz field and the Korolevskoye field. The extractable crude reserves of the Tengiz and Korolevskoye fields are estimated at between 750 million and 1.1 billion tonnes. The total explored reserves in drilled and undrilled areas of the Tengiz field are estimated at 3.1 billion tonnes or 26 billion barrels of oil.

Kashagan

Kashagan is a very large offshore oil and gas field lying in the north of the Caspian Sea. Geological reserves are estimated at 4.8 billion tonnes of crude. Overall oil-in-place volume is 38 billion barrels, of which about 10 billion barrels are extractable. Kashagan also has significant natural gas-in-place reserves of over 1 trillion cubic metres.

Production at Kashagan commenced in September 2013, but was suspended a month later due to a gas leak in one of the main pipelines. The field eventually resumed production in October 2016. In 2016 Kashagan produced almost 1 million tonnes of oil. In 2017 Kashagan is expected to produce around 9 million tonnes of oil and 5.6 billion cubic metres of gas.

Refined and transport statistics

The overall volume of Kazakhstan's crude oil refined in 2016 dropped slightly to 14.5 million tonnes, 0.5% less than in 2015.

According to the Ministry of Energy's plan it is expected that 14.5 million tonnes of crude oil will be refined in 2017. Currently Kazakhstan imports some light oil products to satisfy its domestic demand. Following the completion of the ongoing reconstruction and modernisation of the three domestic oil refineries, total crude refining capacity will rise to 17.5 million tonnes of crude annually after 2019 and will be able to fully satisfy the domestic demand for light oil products.

The 84.6 million tonnes of crude oil transported last year in Kazakhstan were comparable to 2015 volumes. The volumes transported included 62.2 million tonnes of crude oil and gas condensate which were exported, again slightly higher than the previous year at 102% of 2015 volumes. 40.8 million tonnes of crude were exported via the Caspian Pipeline Consortium (CPC) pipeline to Novorossiysk. 14.1 million tonnes were transported north via the Atyrau-Samara pipeline. 3.1 million tonnes went east to China via the Atasu-Alashankou pipeline.

A further 2.2 million tonnes of crude were shipped through the port of Aktau while some 0.8 million tonnes of gas condensate were sent to the Orenburg oil refinery and 0.8 million tonnes were shipped by rail.

Following expansion of the CPC – a pipeline connecting the Tengiz field with the Russian Black Sea port of Novorossiysk – its throughput capacity may increase up to 67 million tonnes per year. The capacity of the CPC pipeline in 2016 was 57.5 million tonnes of crude, including 39.4 million tonnes from Kazakhstan. By the end of 2017 the expansion project is expected to be completed and to achieve its designed capacity.

Gas statistics

The volume of gas exports rose by 7.9% in 2016 to 13.7 bcm. The volume of international gas transit through the country was 75.8 bcm, or 87% of the volumes transported in 2015.

A gas swap arrangement between Kazakhstan and Russia entails the substitution of Karachaganak gas, which has historically been supplied to Orenburg for processing, with imports of Central Asian and Russian gas, which are delivered to the southern part of Kazakhstan and the Kostanay region respectively.

78
million tonnes
of oil and condensate produced in 2016

Sources: Committee on Statistics of Ministry of the National Economy of the Republic of Kazakhstan, Ministry of Energy of the Republic of Kazakhstan, National Bank of the Republic of Kazakhstan .

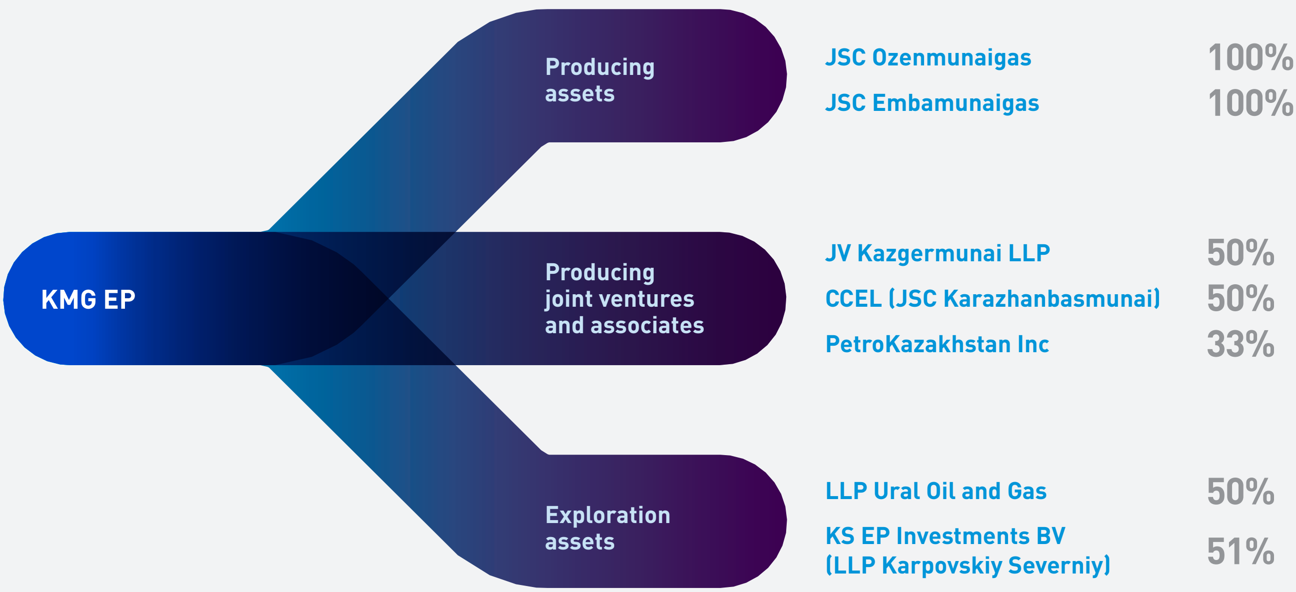
Mission, strategy and values

The Company's mission is the effective exploitation of hydrocarbons to maximise shareholder value, while providing long-term economic and social benefits for the regions where the Company's businesses operate.

Values

- The Company will provide safe working conditions for its employees, and will adhere to the best standards of environmental and health protection in the conduct of its business activities.
- The Company will ensure the development of its human capital through the necessary training and education and the provision of a conducive working environment.
- The Company will maintain the highest standards of corporate governance.
- The Company will conduct all its business in a responsible manner.

Ownership structure



Business model

Four key business attributes underpin the Company's business model and are key to the achievement of its objectives.

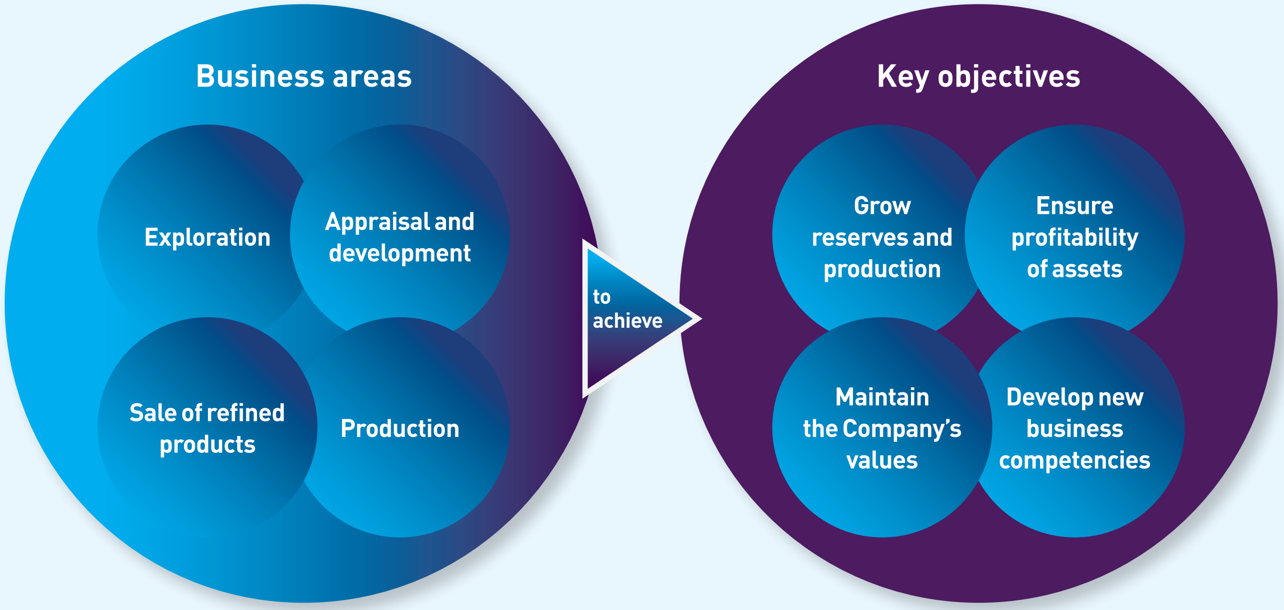
Key attributes

Operational excellence
The Company strives to achieve operational excellence across all its activities. It aims to achieve this through working with its business partners, and by aiming to increase the use of automation and technology, focusing on cost management, improving its business processes and optimising its asset structure.

Regional knowledge and contacts
The Company is the largest public exploration and production company in Central Asia. It has pre-emptive access to onshore oil and gas assets in Kazakhstan. NC KMG, the Company's major shareholder, has the right to enter into agreement for subsurface usage in unlicensed blocks through direct negotiations with the Government, without having to go through a tender process. Consequently, KMG EP has opportunities to benefit from this arrangement because of a mutual economic interest.

Corporate governance
The Company aims to put in place corporate governance procedures that are in accordance with international standards and fully provide for the protection of minority shareholders' interests.

Corporate responsibility
The Company recognises that the long-term success of the business is dependent on it conducting its activities responsibly. The organisation is:
— Committed to working with and supporting its local communities;
— Providing facilities for employee training and development;
— Arranging for the provision of a conducive, healthy and safe workplace;
— Protecting the environment; and
— Ensuring that its activities comply with the highest standards of business conduct.



Four business areas

Production
The core production assets of KMG EP consist of two main divisions: JSC OzenMunaiGas (OMG) and JSC EmbaMunaiGas (EMG). The Company is prioritising the achievement of optimal production levels in a cost-effective manner through increased use of innovation and technology and by updating production methods.

Sale of refined products
In April 2016, KMG EP switched to an independent crude oil processing scheme for domestic supply. Under this framework, the Company sells oil products after crude oil processing.

Exploration
The Company believes that the potential for exploration in Kazakhstan is considerable, both offshore and onshore.

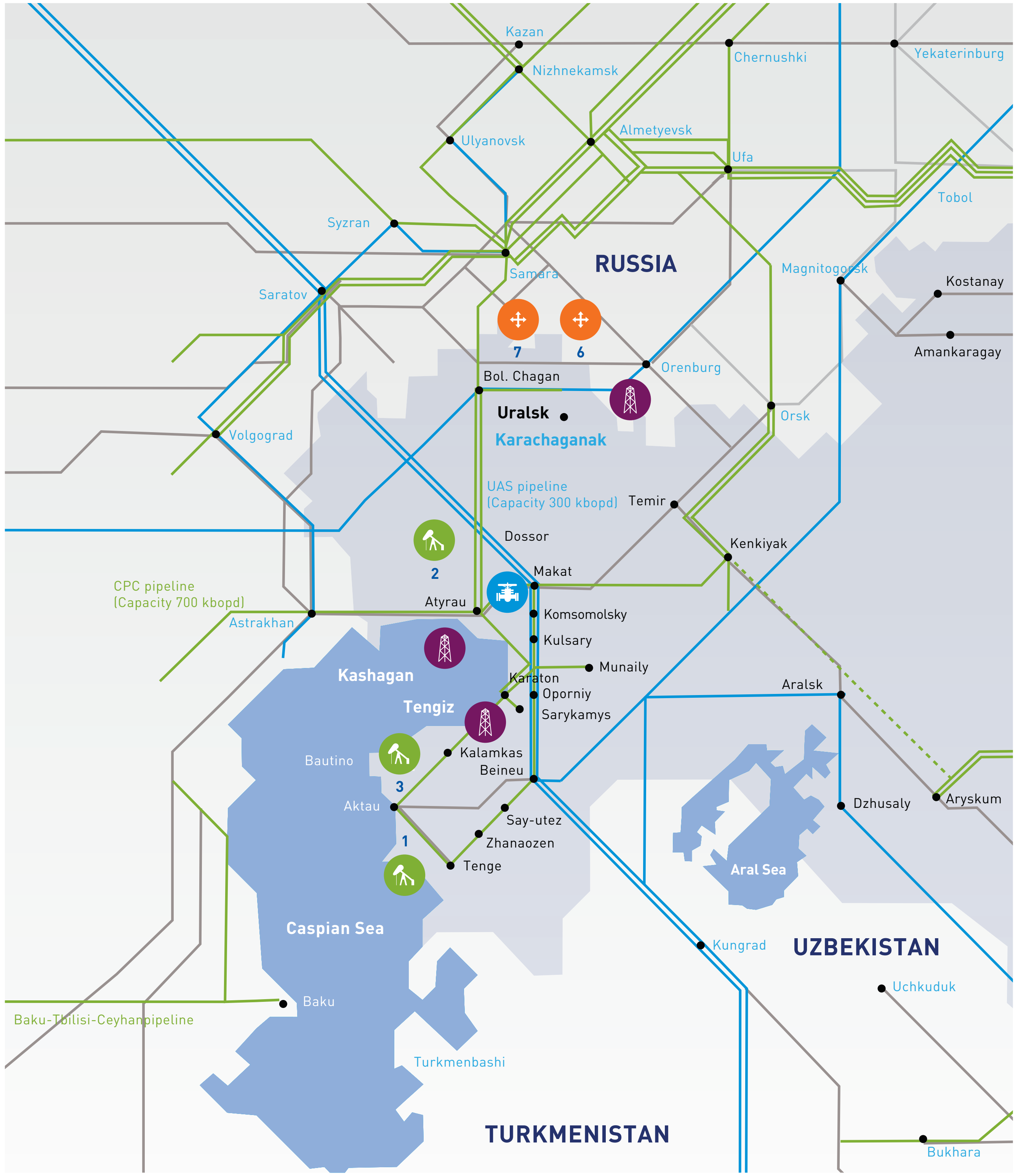
The Company is planning to continue a programme of exploration at its existing fields and to drill exploration wells at greater depth targeting prospective subsalt structures. It is also looking for additions to the Company's exploration portfolio using NC KMG's right of direct negotiation with the Government for acquisition of new exploration licences.

Appraisal and development
The Company's technical team is responsible for assessing new areas for exploration campaigns and ensuring that the Company can replenish its exploration and production portfolio. The team identifies prime opportunities and prioritises exploration options. After reviewing the initial exploration programme, the team designs an appraisal campaign to ascertain and prove the size of the discovery and deem whether it is commercial.

Key objectives

— Replacing and increasing the resource base and maintaining production levels;
— Ensuring profitability of assets;
— Developing new business competencies; and
— Maintaining the Company's values.

Operations footprint



KMG EP Production assets

KMG EP Exploration assets

Oil refinery

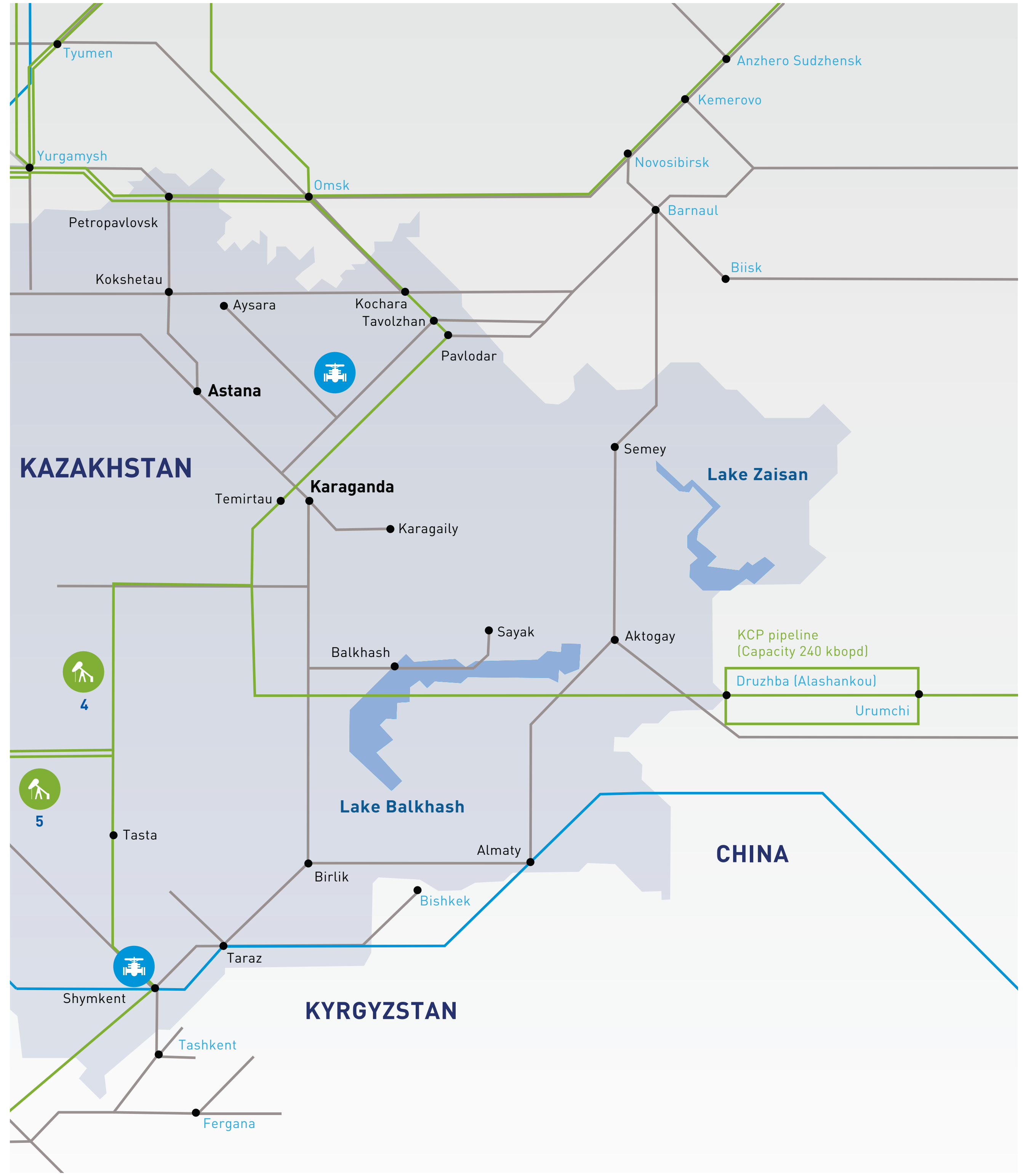
Oil field

Gas line

Oil line

Railway

1 Ozenmunaigas JSC
2 Embamunaigas JSC
3 Karazhanbasmunai JSC
4 JV Kazgermunai LLP
5 PetroKazakhstan Inc
6 Ural Oil and Gas LLP (Fyodorovskiy block)
7 Karpovskiy Severniy LLP (Karpovskiy Severniy block)



Chairman's Statement

Dear Shareholders,

I am pleased to report that the efforts of the Company's workforce and management in 2016 were fruitful, despite the challenging circumstances facing the international oil and gas sector.

We successfully accomplished a number of significant Company objectives and, as a result, achieved positive operating and financial results. We have also continued working on accomplishment of the Company's strategic goals.

Strategic goal – organic growth through increased oil recovery efficiency

Ensuring organic growth through increased oil recovery at the producing oil fields and exploration programme at the existing assets should be among the priority objectives of KMG EP's strategy. KMG EP's Board of Directors devotes special attention to this issue and undertakes comprehensive actions for the early achievement of significant positive results. Thereby, at the beginning of 2017, the Board of Directors instructed the Company's management to prepare proposals for updating KMG EP's Strategy with account of this task and other challenges the Company is facing, including the current oil price levels.

The Board of Directors is making every effort in maximisation of KMG EP's shareholder value. One way to achieve this target is increased oil recovery at the existing assets. Besides stabilising production levels, the Company conducted a number of initiatives to improve knowledge, increase the use of technology and develop the efficiency of geological and technical measures. A lot of work has been conducted within the Block 3 project jointly with the Technical Institute. Further implementation and replication of this project will allow the Company to identify the potential of each well and increase oil recovery. We aim to reduce the number of production wells with an extremely high watercut, lower drilling costs and extend the period between work-overs. This is expected, however, to lead to a more rigid control of operating overheads and increased efficiency in the future.

Improvement of KMG EP's business environment

As you will remember, for the first time in its history the Board of Directors of KMG EP was obliged to confirm a budget for 2016 with negative cash flow. The main objectives were to achieve at least a neutral level of KMG EP's profitability, to draw up clear principles for more effective operational management, and to optimise our business model.

Previously the Company's activities were focused on exploration and production of oil and gas. Following extensive negotiations and consultations with NC KMG and the Board of Directors, KMG EP switched to the processing scheme and the sale of the resulting oil products to domestic and export markets. Therefore, the Company successfully combines its obligations

> ***"We are confident that with the successful implementation of measures undertaken today, KMG EP will not only come through the crisis period with minimal losses, but will lay a solid foundation for future development, leading to maximisation of shareholder value."***

regarding domestic supplies with receiving additional revenues, which depend solely on market conditions.

Due to NC KMG's comprehensive support within the framework of the Company's interactions with the government authorities, there was a substantial liberalization of prices for oil products in 2016, which are sold in the Republic of Kazakhstan. In particular, the ECD rate for mazut was reduced and the price caps for diesel fuel and gasoline AI 92/92 were abolished. Currently, oil products prices, with the exception of gasoline AI 80, are not regulated by the Government, and the prices are set by means of market pricing.

To date, as a result of NC KMG's and the Board of Directors joint efforts, the Company without intermediaries, disposes of the produced oil products and sells these at the market prices. KMG NC has no plans to make any changes to this scheme. The share of domestic supply volumes increased to around 40% in 2016. Following the completion of modernisation programmes at three Kazakh refineries, it is likely that domestic supply volumes will continue to increase. At the same time, well-coordinated and fruitful work of the Company, the Board of Directors and NC KMG in relation to the liberalization of the domestic market will allow to partially offset the negative impact of this increase on revenue for KMG EP compared to the previous year, as domestic netback approached export netback.

Also because of NC KMG's cooperation during the course of 2016, the Company made progress on a series of tax issues, including obtaining a lower Mineral Extraction Tax levy for OMG fields and resolving an issue on VAT recoverability, which contributed to an improvement in KMG EP's financial results.

Clearly, it was important that the Company returned to the positive free cash flow generation and positive operating margin. These results have enabled the Company to lay the foundation for 2017 with confidence in the business and its management approach. At the same time, the Board decided not to pay dividends based on 2015 results. During the discussion of this matter, it was decided that dividends should be paid subject to presence of operating profitability, which in turn will be provided by real improvements in the Company's operations and efficiency. I would like to note that all the objectives were achieved in the conditions of maintaining social stability in the regions of our activity – with full interaction with the team of the KMG EP group.

We are confident that with the successful implementation of measures undertaken today, KMG EP will not only come through the crisis period with minimal losses, but will lay a solid foundation for future development, leading to maximisation of shareholder value.

On behalf of the Board, I would like to take this opportunity to express my gratitude to all the Company's employees and to the top management team for their hard work and dedication to the interests of the Company. Your professionalism and effectiveness are the guarantee of today's success, and future success, of our Company!

Igor Goncharov
Senior Vice President for Oil and Gas Production at NC KMG,
Chairman of the Board of Directors,
KMG EP

Chief Executive Officer's Statement

12,155

thousand tonnes of crude oil produced in 2016

Aside from the complex environment that prevails in the global oil market, a number of factors, including devaluation of the tenge, increased crude oil supply to the domestic market and higher tariffs by monopolists had a significant impact on our business.

In this context, the Company's primary objectives in 2016 were to maintain production levels, improve operating efficiency and preserve financial sustainability with particular focus on safeguarding social responsibility and development in our operational regions.

Thanks to the teamwork of all KMG EP employees we successfully met our goals, boosting operating profit and delivering positive cash flow. In 2016, the Company produced 12,155 thousand tonnes of crude oil, while its net cash increased by about US$300 million and stood at US$3.5 billion as of the year-end.

These results were achieved amid rather adverse foreign and domestic conditions, including managing relations between the Company, NC KMG, and state authorities.

Production and efficiency

In 2016 Ozenmunaigas produced 5,555 thousand tonnes of crude oil, up 1% compared to 2015. Embamunaigas extracted 2,832 thousand tonnes, an increase of 0.3% on 2015. This progressive growth demonstrated by our two major production assets helped to offset the production decline in our joint ventures. KMG EP's share in production at CCEL, KGM and PKI reached 3,768 thousand tonnes in 2016, down 6% in year-on-year terms, mainly due to the natural decline in oil production from PKI assets. Thus, the consolidated volume of the Company's crude oil production showed a slight decrease of 2% in 2016, totalling 12,154 thousand tonnes.

The year 2016 was both a challenging and a milestone year for KMG EP. We managed to effectively meet the challenges facing the international oil and gas sector, while closing the period with positive results that give us confidence in our success going forward.

Following our previous success in preserving social stability for the Company's employees, in 2016 this objective was especially challenging as pressure on expenditure risked eroding this progress. However, as a result of the positive contribution of Embamunaigas in forging a new Collective Bargaining agreement that, for the first time, was agreed for a five-year term, total costs did not increase and we were able to maintain the high standards set in social stability for our employees.

The Company's capital spending was efficiently managed in line with the approved plan. Cost-cutting initiatives moved forward, while measures were taken to reduce the scope and cost of development drilling at Ozenmunaigas. The Company also secured a 15% discount from its drilling contractor.

The savings allowed the Company to partially offset additional costs associated with the construction of a gas processing plant for the Prorva group of fields and with exploration drilling at Embamunaigas. Thus, capital expenditures in 2016 totalled 115 billion tenge (US$337 million), up about 17%. In the medium term, 2018– 2021, we aim to contain our capital expenditures at approximately 100 billion tenge pa.

Indeed, 2016 was a tough year, but the challenges we faced drove us to develop projects in the most cost-effective manner and ensured a rigorous focus on reducing operating expenditure. The Company pressed ahead with its programme to transform the business by implementing best management practices and technology to enhance operating performance.

One of the projects in this programme is the "Smartfields" project, which was successfully tested at the subsidiaries of Embamunaigas. Following the initial results of the pilot project, we plan to scale it up to other fields operated by KMG EP.

Also in 2016, the Company initiated the Uzen Field Block 3 project, developed and approved the project budget, and signed appropriate contracts with the relevant parties. Implemented in close coordination with the Research and Development Institute of Production and Drilling Technology, this project is designed to increase production and decrease per-unit production costs by enhancing field development efficiency.

Changing the business model

The Company responded to external challenges by optimising its business model. In April 2016 we switched over to independent crude oil processing that helped mitigate the effect of low prices. With growing crude supply to the domestic market, this move allowed KMG EP to avoid the negative consequences of non-transparent pricing under the previous scheme. From April until December 2016, the net income from the sale of petroleum products (excluding all processing, refining and marketing costs) totalled 42,366 tenge per tonne at ANPZ refinery and 51,743 tenge per tonne at PNHZ refinery, which is higher than production costs and domestic crude prices in 2015.

Given the anticipated completion of the upgrade programme at ANPZ and PNHZ, improvement of the petroleum products basket, and the ongoing deregulation of the domestic market in general, we expect the new processing model to provide a positive contribution to the Company's revenue and profit in 2017. As a new area of operations for KMG EP, a good performance because of the upgrade programme could be further enhanced through optimising the supply chain for domestic sales, removing intermediary agents and developing closer links with international traders, etc.

"The Company responded to external challenges by optimising its business model. In April 2016 we switched over to independent crude oil processing that helped mitigate the effect of low prices."

Resolution of tax issues

Resolving a number of tax issues contributed to the improvement of our financial results.

The year 2016 saw the resolution of some critical tax issues that had not been settled over the past few years, including VAT recovery of a total of 24.5 billion tenge for 2012. Moreover, KMG EP intends to continue work in order to recover the remaining amount.

Furthermore, KMG EP managed to achieve positive results in a number of courts at different levels concerning tax audits conducted in 2006–2008 and 2009–2012.

According to the Government decree, the MET rate for OMG fields was reduced to 9.0% (compared to 13.0% in 2015) for 2016 provided that the OMG fields showed full-year losses in tax records. According to the Company's estimates, the effect of a lower MET rate in 2016 totalled 15 billion tenge.

Business outlook and forecast for 2017

In 2017 we are committed to maintaining stable production levels, improving operating efficiency, and ensuring financial sustainability, while safeguarding social stability and development across all regions where the Company has a footprint.

Production in 2017 is expected to be about 5.8 million tonnes for Ozenmunaigas, and 2.8 million tonnes for Embamunaigas, with the total volume increasing by 3% above the 2016 level.

KMG EP's share of planned production from KGM, CCEL and PKI in 2017 is expected to reach 3.5 million tonnes, or 6% less than in 2016. This is mainly due to a natural decline in oil production at Kazgermunai and PetroKazakhstan.

The Company also has a strong focus on reserves replacement. In 2017 we plan to continue further appraisal of producing fields in the Atyrau, Mangistau and West Kazakhstan regions, continue exploration at the Fedorovsky block in order to expand the commercial potential of the discovered Rozhkovskoye gas condensate field, and continue a further exploration programme at Karpovskiy Severniy block.

KMG EP's medium-term exploration programme includes several options currently under examination, such as appraising developed fields, purchasing new assets, and entering new exploration projects through direct negotiations with the Ministry of Energy of the Republic of Kazakhstan.

Negotiations are currently under way with the Ministry of Energy of the Republic of Kazakhstan to conduct exploration and appraisal operations at three appraisal blocks adjacent to the producing Embamunaigas fields. The main targets in the new areas are subsalt layers at depths of 5,500–7,500 metres containing Devonian and possibly Ordovician carbonate and clastic sediments.

The Company also plans to boost its profit and positive cash flow through working with state authorities and NC KMG to achieve transparency for all subsoil users in setting quotas for supply to the domestic market and in optimisation of the tax burden of producing assets. As part of the tax work, we will continue efforts to recover the VAT balance for 2012–2015 and seek to obtain MET relief for OMG for the entire duration of contracts.

The above-mentioned challenges, alongside our efforts to achieve production targets, without dramatically increasing capital investment and operating expenditures, and to replace the resources base of core production assets, will be the focal points for delivering positive operating and financial results in 2017.

Let me conclude by expressing my gratitude to all our employees for their invaluable contribution to the Company during such a challenging time for all companies operating in the industry. We are looking forward to realising our numerous opportunities for developing business with all interested parties in 2017.

Kurmangazy Iskaziyev
General Director
Chairman of the Management Board

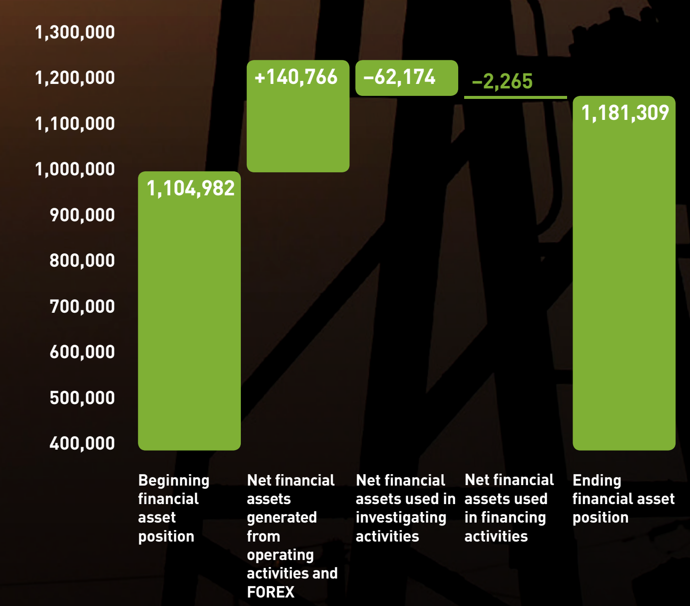
Strategic Report

Cash and cash equivalents combined with deposits increased from 1,105 billion tenge as at the beginning of the year to 1,181 billion tenge as at December 31, 2016 or from US$ 3.2 billion to US$ 3.5 billion.

Making progress

The Company responded to external challenges by optimising its business model.

Financial asset movement for 2016
million tenge



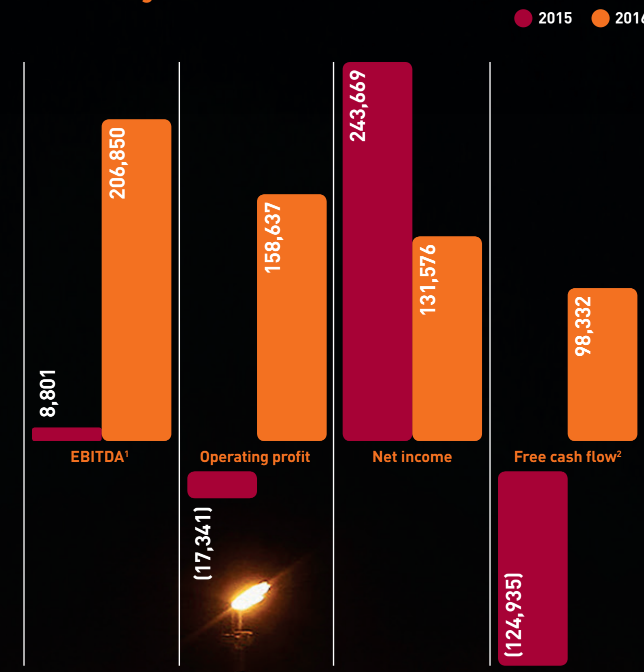
We returned to positive free cash flow and maintained profitability.

Maintaining profit

Progress has been made throughout 2016 on achieving positive free cash flow and maintaining profitability.

As evidenced in the financial results the Company has been generating positive free cash flow since Q2 2016.

Maintaining profitability and returning to positive FCF in 2016
million tenge



[1] EBITDA includes income from joint ventures and finance income.

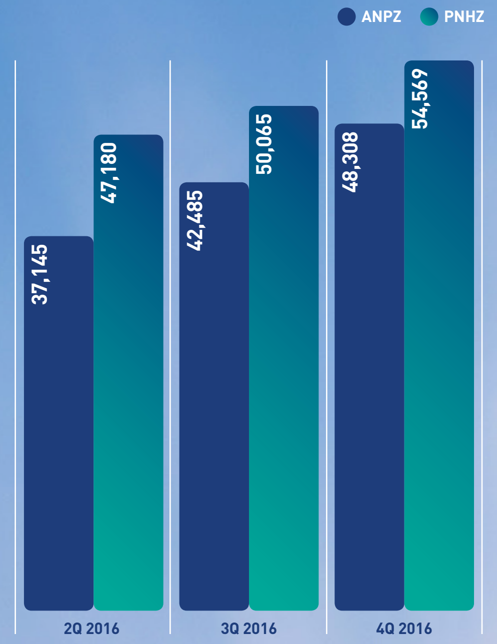
[2] Free Cash Flow is calculated as CFO-Capex (per CFS)+Dividends received from JV's+Interest received+CCEL priority payment.

Starting from April 2016 KMG EP switched to an independent crude oil processing scheme.

The main aim of the scheme was to maximise revenue in the current oil price environment.

Net profit from oil products sales covers production costs after the switch.

Net revenue from sales of oil products
tenge per tonne



Maximising revenue

Independent Directors' Statement

Since August 2016 cooperation between KMG EP and Kazmunaygas National Company ('KMG NC') has improved as demonstrated by the progress on issues such as VAT recovery and the marketing of oil products in the domestic market.

Dear Shareholders,

2016 was another challenging year for KMG EP's Independent Non-Executive Directors ('INEDs'), who have sought to uphold corporate governance and represent the interests of minority shareholders at Board level.

Since August 2016 cooperation between KMG EP and KazMunayGas National Company ('KMG NC') has improved as demonstrated by the progress on issues such as VAT recovery and the marketing of oil products in the domestic market. The INEDs set out below their principal areas of governance focus during 2016.

The Relationship Agreement

During the year, the INEDs spent a considerable amount of time responding to the proposals put forward by KMG NC to amend the terms of the Relationship Agreement entered into between KMG EP and KMG NC at the time of KMG EP's IPO in 2006 ('the Proposals').

The effect of KMG NC's Proposals would have been to weaken minority shareholder protection and increase its own control over KMG EP. In addition, the Proposals would have undermined corporate governance and other commitments made by KMG NC at the time of KMG EP's IPO.

KMG NC published the Proposals on June 17, 2016 and the INEDs provided their response to the Proposals on the same day. An EGM was convened for August 3, 2016 with the agenda proposed by KMG NC in order to allow independent shareholders to vote on the Proposals. At the EGM, 75.7% of the independent shareholders who voted rejected the Proposals.

The rejection of the Proposals has not adversely impacted the subsequent ability of KMG EP and KMG NC to cooperate to progress initiatives to improve the efficiency and performance of KMG EP.

The Purchase Offer

Conditional on the Proposals being approved at the EGM, KMG NC proposed a purchase offer to independent shareholders who wished to sell some or all of their holdings in KMG EP ('the Purchase Offer'). Initially the Purchase Offer was proposed at US$7.88 per GDR and was intended to reflect solely the value of the cash asset of KMG EP and as such ascribed no value to KMG EP's oil and gas assets. On July 14, the proposed Purchase Offer was revised to US$9 per GDR. The INEDs, who had been advised by NM Rothschild & Sons Limited and HSBC Bank plc, did not consider the revised proposed Purchase Offer was fair or reasonable as far as independent shareholders of KMG EP were concerned.

Because the EGM rejected the Proposals, the Purchase Offer was not made. At 11 April (being the latest practical the date to write this letter), the closing price of a GDR of KMG EP was US$10.25, approximately 14% higher than KMG NC's revised Purchase Offer.

Strategy

The INEDs believe that, since the EGM in August 2016, the relationship between KMG EP and KMG NC has improved compared to the situation through 2015 and up to the EGM. In particular, KMG NC assisted KMG EP with its VAT refund claim which resulted in KMG EP receiving a partial VAT refund of 24.5 billion tenge (US$71 million) in October 2016.

However, KMG EP still remains unable to pursue its strategy to invest its cash resources to acquire assets within the Republic of Kazakhstan or to pursue a significant exploration programme. Together with the improvements in production efficiency these are critical elements in creating value for KMG EP and its shareholders.

The INEDs believe that KMG NC has an overriding imperative to be able to consolidate KMG EP's cash balances in its group financial statements, given the financial and liquidity challenges that confront KMG NC. Accordingly, while there have been some allusions to a possible sale of assets by KMG NC to KMG EP, no progress has been made on this subject. KMG EP's cash resources, therefore, continue to accumulate and remain available for consolidation in KMG NC's financial statements. A financially robust KMG NC would be in the best interests of KMG EP as it may provide the opportunity for KMG EP's cash resources to be invested.

Domestic oil supplies

With respect to domestic supplies, the transition from April 2016 from the sale of oil to a tolling arrangement has been a beneficial development for minority shareholders. The net revenues achieved from the sale of refined products during the nine months ended December 31 was 42,366 tenge per tonne at Atyrau and 51,743 tenge per tonne at Pavlodar. Nevertheless, the reported processing yield of oil products shows significant losses and the INEDs continue to probe the reasons for those processing losses.

KMG NC remains responsible for the modernisation of those refineries and the INEDs look forward to the resultant processing efficiencies that completion of that modernisation programme, anticipated in 2017 for Atyrau and Pavlodar, is expected to bring.

The INEDs engaged the accounting firm EY to perform procedures agreed by the INEDs to assess the reasonability of crude oil sales prices received by KMG EP for sales to Kazmunaigas Refining and Marketing ('RM') during the first quarter of 2016. The results of those procedures were helpful to the INEDs in concluding contractual terms with RM in respect of the first quarter of 2016.

The Company has, with the agreement of KMG NC, taken over the marketing activity for 2017 from RM.

During 2016 the Government of the Republic of Kazakhstan increased the quota of KMG EP's oil supplies to domestic refineries to approximately 40% of its total production. There is no transparency over how the Government sets quotas to supply the domestic refineries and this lack of transparency remains an area of concern for the INEDs.

Dividend and cash balances

In 2016 the KMG EP management recommended that the Board of Directors ('the Board') approve the payment of a dividend on KMG EP's common shares in respect of the 2015 financial year. The INEDs had proposed a dividend at a higher level than that recommendation and had also proposed a special dividend. Despite KMG EP's strong financial position, KMG NC used its control of the Board to pay no dividends on the Company's common shares.

The Board of KMG EP announced on 12 April 2017 its decision to pay a dividend of 289 tenge per share (US$0.15 per GDR converted at an exchange rate of 311.37) in respect of the financial period ended 31 December 2016.

During that year, the Company's executives made good operational progress and reported a profit after taxation ("PAT") of 132 billion tenge (approximately US$385 million, converted at the 2016 average exchange rate of 341.8) and generated free cashflow ("FCF") of 98.3 billion tenge (approximately US$288 million). As at 31 December 2016 the Company held net cash balances of US$3.5 billion compared with US$3.2 billion at the beginning of the financial period.

The INEDs considered that a dividend payment of 1,155 tenge per share (US$0.62 per GDR) would have been more appropriate against the background of: the Company's strong operational performance; its achieved PAT; its FCF generation; strong balance sheet; and, comparable market dividend yields in the oil and gas sector. The total cost of such a dividend payment (US$249 million) would have represented 64.7% of the Company's PAT and 86.5% of its FCF and would have provided a dividend yield of 6.2%. That proposed dividend payment would have left a residual pro forma net cash balance of US$3.27 billion as at the financial year end.

As noted in the Strategy section of this letter, 2016 was another year during which KMG EP neither acquired significant oil and gas assets nor invested heavily in an exploration programme. Against that background, the INEDs recommended again (for the fourth successive year) that the Board should pay a special dividend to return surplus cash to shareholders. KMG NC has, however, used its control of the Board to rebuff the INED's dividend recommendations. The INEDs consider that, while the vote by KMG NC's directors to continue to maintain very large cash balances in the Company is in the best interests of KMG NC, it is not in the best interests of the Company or shareholders taken as a whole.

INEDs

After ten years of exceptional service as an INED, Edward Walshe will not be offering himself for re-election to the Board at the forthcoming AGM. The remaining INEDs wish to place on record their gratitude for his significant contribution and wish him and his family all the best for the future.

In accordance with the provisions of the Relationship Agreement, the Nominations Committee has commenced a search for a replacement INED. After a competitive tender, the Committee has appointed a firm of international search consultants to assist it and, after a series of interviews, the Committee has identified a candidate with a relevant background in the oil and gas industry, who will be proposed as an INED at the forthcoming AGM.

The INED fees have not been revised for six years and an EGM was convened in February 2017 to approve revised fees. At that EGM, 71.3% of the minority shareholders who voted approved those revised fees and the INEDs would like to thank them for their support. The resolution, however, was defeated by KMG NC.

Conclusion

The INEDs will continue to work during 2017 to uphold corporate governance and protect the interests of the minority shareholders of KMG EP. The recent constructive relationship with KMG NC demonstrates that, with the right cooperation and focus, significant progress can be made to further improve performance and provide a platform for growth.

Philip Dayer
Independent Non-Executive Director

Alastair Ferguson
Independent Non-Executive Director

Edward Walshe
Independent Non-Executive Director

2016 Milestones

Q1

— The Company announced the results of exploration activities on the north-eastern flank of S. Nurzhanov field, and at the Liman and Akkuduk blocks. Preliminarily, prospective resources of the new deposit on the north-eastern flank of S.Nurzhanov field are estimated at 3.9 million tonnes of recoverable hydrocarbons.

— Independent consultants DeGolyer and MacNaughton (D&M) performed the estimates of liquid hydrocarbon reserves as at December 31, 2015. According to the D&M report, proved plus probable (2P) reserves of liquid hydrocarbons excluding the Company's stakes in JV Kazgermunai LLP (KGM), CCEL (Karazhanbasmunai) and PetroKazakhstan Inc (PKI) were 152 million tonnes (1,115 million barrels), which is 15% more than at the end of 2014. Proven (1P) reserves of liquid hydrocarbons were 99 million tonnes (723 million barrels), and proved, probable and possible (3P) reserves stand at 204 million tonnes (1,491 million barrels).

— Over the first three months of 2016, KMG EP produced a total of 3,043 thousand tonnes of crude oil (247 kbopd), which includes the Company's stakes in KGM, CCEL and PKI, almost at the level of the same period of 2015.

— The first quarter revenue of 2016 was 121 billion tenge (US$341 million), net profit was 0.9 billion tenge (US$3 million), the net cash position was 1,051 billion tenge (US$3.1 billion) and CAPEX was 28 billion tenge (US$80 million).

Q2

— A new Board of Directors ('Board') of KMG EP was elected for a one-year term ending May 25, 2017 inclusive. On the decision of an Extraordinary General Meeting (EGM) Gustave Louis Eugene van Meerbeke replaced Yerzhan Zhangaulov on the Board as the representative of NC KMG.

— The Company switched to an independent crude oil processing scheme for domestic supply in April 2016. Under the new framework, KMG EP supplies oil directly to ANPZ and PNHZ for processing into oil products. Under the agency agreement, these oil products are then sold via JSC KazMunaiGas – Refining and Marketing ('KMG RM').

— According to a decision of an Annual General Meeting (AGM), shareholders decided that no dividend will be paid on ordinary shares. In accordance with KMG EP's Charter, an annual minimum guaranteed dividend of 25 tenge (including taxes to be withheld in accordance with Kazakhstan's legislation) will be paid per preferred share. This is equivalent to 52 million tenge (US$153,000).

— During the first half of 2016 consolidated production, taking into account shares in KGM, CCEL and PKI, was 6,078 thousand tonnes of crude oil (246 kbopd), which is a 0.7% decrease over the same period of 2015. In Q2 2016, KMG EP sold 761.2 thousand tonnes of oil products as per the independent oil processing scheme.

— The Company's revenue in the first six months of 2016 was up 30% year on year to 313 billion tenge (US$907 million). Net profit for the first six months of 2016 was 17.2 billion tenge (US$50 million) compared with 2.9 billion tenge (US$16 million) in the same period of 2015. The net cash position on June 30, 2016 was 1,065 billion tenge (US$3.1 billion), US$85 million higher than the net cash position as at the end of the first quarter of 2016.

Q3

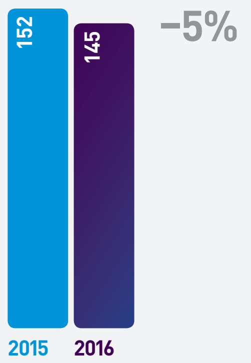
- KMG EP received a payment of 44 billion tenge (US$130 million) from KMG RM for crude oil that KMG EP supplied to the domestic market in 2015.
- The Company held an EGM at the request of the majority shareholder NC KMG. The Independent Shareholders voted against the introduction of changes and amendments to the Relationship Agreement and Charter of the Company. Consequently, the Purchase Offer did not enter into force.
- In accordance with the decision of the Supreme Court of the Republic of Kazakhstan, the 2006–2008 tax charge has been reduced by 5.4 billion tenge from 12.2 billion tenge.
- OMG, a subsidiary of KMG EP, has received approval of its application for a temporary reduced rate of Mineral Extraction Tax ('MET') for the Uzen and Karamandybas fields in Mangistau oblast. The reduced MET rate is set at 9.0% (compared to 13.0% in 2015) for the whole of 2016 on the condition that in 2016 Uzen and Karamandybas fields record losses under tax accounting.
- Christopher Hopkinson has resigned as Chairman of the Board for family reasons. Igor Goncharov, who has been a member of the Board since November 2015 and is Senior vice-president for production of oil and gas at NC KMG, was elected as the new Chairman.
- KMG EP, including its stakes in KGM, CCEL and PKI, produced 9,134 thousand tonnes of crude oil (246 kbopd) for the nine months of 2016, which is a 1% decrease over the same period of 2015. In April–September 2016, KMG EP sold 1,519 thousand tonnes of oil products as per the independent oil processing scheme.
- Revenue for the first nine months of 2016 was up 47% year on year and amounted to 515 billionn tenge (US$1,496 million). Net profit for the first nine months of 2016 was 76 billion tenge (US$220 million) and net cash generated from operating activities was 108 billion tenge (US$314 million). The net cash position at September 30, 2016 was 1,145 billion tenge (US$3.4 billion).

Q4

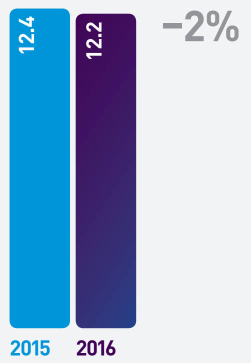
- A positive decision was made regarding the Company's recent application for recovery of value added tax (VAT) with a confirmed recoverable amount of around 24.5 billion tenge (US$74 million).
- The Company announced positive test results of an exploratory appraisal well at the Rozhkovskoye field, located in the Fedorovsky block.
- Following the decision of an EGM, Serik Abdenov, Vice-President for Human Resources at NC KMG, was elected as a new member of the KMG EP Board, replacing Christopher Hopkinson, whose duties as a member of the Board were duly terminated.
- The Company's Board approved the budget for 2017 and the business plan for 2017–2021. The budget for 2017 assumes a Brent price of US$45 per barrel and an exchange rate of 360 tenge per US$. The total planned production volume in 2017 from OMG and EMG is 8.7 million tonnes (175 kbopd), a 3% increase in expected production in 2016 due to the comprehensive measures with existing well stock and additional geological and technical measures.
- KMG EP, including its stakes in KGM, CCEL and PKI, produced 12,155 thousand tonnes of crude oil (245 kbopd) for 2016, a 2% decrease on 2015. As per the independent oil processing scheme, sales of oil products between April and December of 2016 were 2,324 thousand tonnes.
- Revenue in 2016 was up 37% year on year and amounted to 727 billion tenge (US$2,128 million). Net profit in 2016 was 132 billion tenge (US$385 million) and net cash generated from operating activities was 159 billion tenge (US$466 million). Net cash position at December 31, 2016 was 1,172 billion tenge (US$3.5 billion) representing a 79 billion tenge (US$295 million), or 7%, increase over the net cash position as of December 31, 2015.

Key performance indicators

2P reserves
million tonnes*



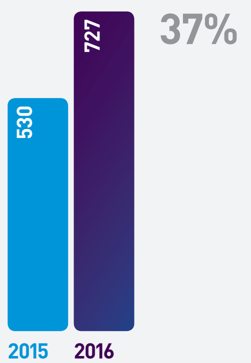
Production of crude
million tonnes p/annum**



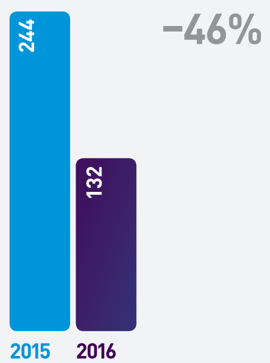
Volume of sales
million tonnes p/annum**

Export
million tonnes p/annum**

Revenue
billion tenge*



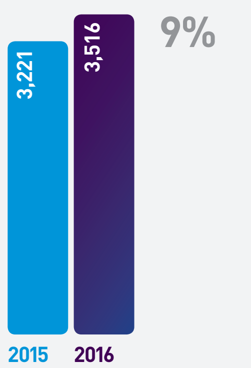
Net income
billion tenge*



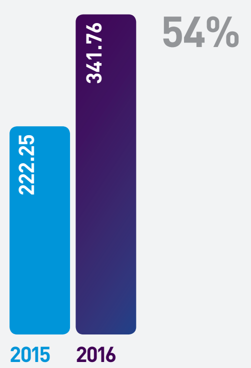
Capex
billion tenge*

Net cash
billion tenge***

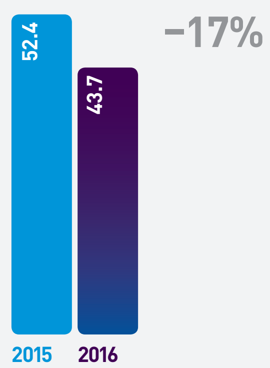
Net cash
US$ million***



Average exchange rate
tenge/US$



Average Brent
US$/bbl



*Excluding interest in KGM, CCEL and PKI.

**Including interest in KGM, CCEL and PKI.

***Cash, cash equivalents and other financial assets less borrowing.

Market overview

Macroeconomic factors affecting the Company's financial performance for the period under review include movements in crude oil prices, domestic inflation and foreign exchange rates, specifically the tenge/US$ exchange rate.

	2016	2015	Change
Average Brent (DTD) (US$ / bbl)	43.73	52.39	-17%
Kazakhstan inflation (%)	8.5%	13.6%	-38%
Average tenge/US$ exchange rate	341.76	222.25	54%
Tenge/US$ exchange rate at the reporting date	333.29	339.47	-2%

On August 20, 2015, the Government of the Republic of Kazakhstan and NBK made a decision to switch to a free-floating exchange rate regime of the tenge.

Marketing of crude oil and refined products in the Republic of Kazakhstan

In 2016, oil and condensate production in Kazakhstan totalled 78 million tonnes (98.2% against 2015 and 103.4% against 2016 plan). In 2017, oil production is projected at about 81 million tonnes in accordance with the production plan approved by the Ministry of Energy of the Republic of Kazakhstan.

The export of crude oil and condensate from Kazakhstan in 2016 amounted to 62.2 million tonnes (102% versus 2015 plan) or around 80% of the total production volume. The oil is exported from Kazakhstan via the CPC and Atyrau-Samara pipeline to Europe, to export terminals on the Black and Baltic seas, and also through the Kazakhstan-China pipeline.

In 2016, Kazakhstan refineries processed 14.5 million tonnes of crude oil (99.5% versus 2015 and 102.3% versus 2016 plan). Atyrau Refinery (ANPZ) processed 4.7 million tonnes of oil, Pavlodar Refinery (PNHZ) processed 4.6 million tonnes, and Shymkent Refinery (PKOP) processed 4.5 million tonnes. In 2017, the Oil Refining and Petroleum Products Plan approved by the Kazakhstan Ministry of Energy is targeting refinery throughput of approximately 14.5 million tonnes of oil.

In 2016, about 30% of the total AI-92 gasoline consumed by the domestic market was imported from Russia. According to the Kazakhstan Ministry of Energy, the upgrading of the above refineries (ANPZ and PNHZ upgrades are expected to be completed in 2017, and PKOP in 2018) will boost the total throughput up to 17.5 million tonnes of crude oil per year and the light products yield by 3.3 million tonnes per year. By 2019, the upgraded facilities will enable Kazakhstan to fully meet domestic demand for light oil products using its own resources.

Marketing of KMG EP crude oil and refined products

According to Article 18 of the RK Law "On subsoil and subsoil management" dated June 24, 2010, the Kazakhstan Ministry of Energy, which is vested with regulatory authority in the oil and gas sector, can, if deemed necessary, determine the quantities of crude oil for processing and transportation in the Republic of Kazakhstan and beyond that are required to cover the needs of the domestic market in fuel and lubricants. Therefore, KMG EP will transport its crude oil to ANPZ and PNHZ as a matter of priority to meet the crude oil demand of the domestic market. The produced oil can be exported only after obligations have been fulfilled with regard to domestic crude oil supplies.

Before April 2016, the Company supplied part of the produced oil to KazMunaiGas Refining and Marketing JSC (KMG RM). In April 2016, KMG EP switched to independent oil processing in order to optimise its business processes in response to market challenges and to increase the Company's free cash flow from the domestic market.

The Company began refining crude oil at ANPZ and PNHZ and to sell their refined products independently through KMG RM as a marketing agent. Since January 1, 2017, the Company has stopped using KMG PM as its marketing agent and begun selling its refined products on an independent footing.

In Q1 2016, before the transition to the independent refining model, domestic crude oil sales were 830 thousand tonnes. Over the rest of 2016, the Company supplied 2,629 thousand tonnes of crude oil to the domestic market for subsequent refining. In April–December 2016, under the independent oil processing scheme, the Company produced 2,436 thousand tonnes of refined products and marketed 2,324 thousand tonnes. In April–December 2016, about 20% of light oil products supplied to the domestic market from Kazakhstan refineries was produced from OMG and EMG resources.

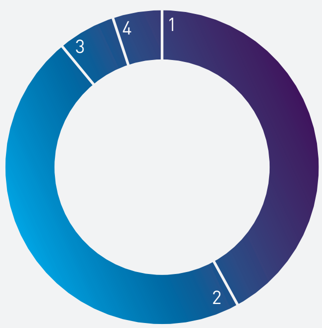
Refined oil products production in April–December 2016 — ANPZ

thousand tonnes

Total

1,999

1	Light	42%
2	Heavy	47%
3	Losses	6%
4	Other	5%



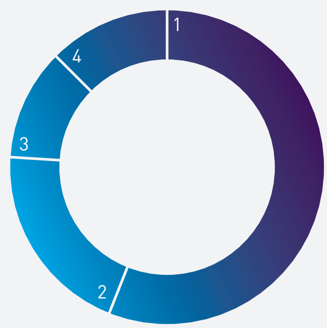
Refined oil products production in April–December 2016 — PNHZ

thousand tonnes

Total

617

1	Light	56%
2	Heavy	20%
3	Losses	11%
4	Other	13%



Most of the light refined products produced by ANPZ are sold by the Company to the domestic market. Heavy and other oil products such as fuel oil and vacuum gasoil are exported. All the light and heavy products made by PNHZ are sold by the Company to the domestic market.

The main pricing drivers for the refined products supplied to the domestic market are refining and transportation costs, taxes, various duties, crude oil production costs, macroeconomic factors and the legislation of the Republic of Kazakhstan.

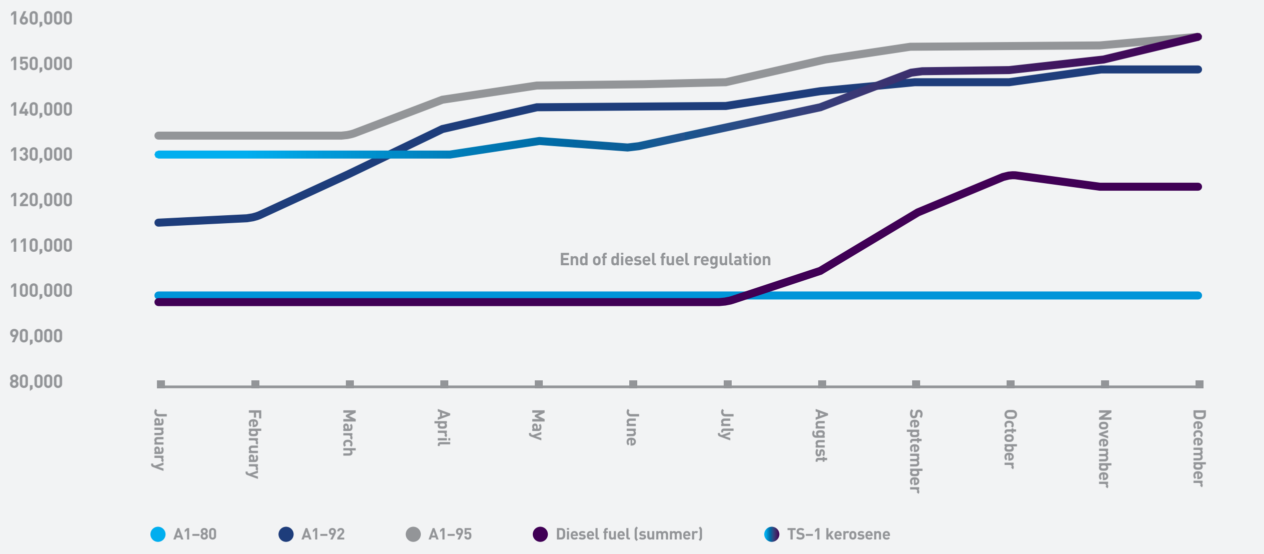
For the marketing of its light refined products in Kazakhstan, KMG EP uses the data published in the Argus Caspian Market review that contains price quotations for the main petroleum product grades traded in the Caspian Region and Central Asia, which are indicators for domestic pricing.

Prices of light refined products, such as AI-92 gasoline and diesel fuel, are controlled by market conditions. Only AI-80 gasoline prices are regulated by the Government as per amendments made on July 29, 2016 to Order No. 183 of the Kazakhstan Ministry of Energy dated December 8, 2014: "On approval of the list of refined oil products that are subject to government regulation". The retail price limit for AI-80 gasoline in Kazakhstan is set at 89 tenge per litre.

In September 2015, the Government of Kazakhstan abolished price regulation regarding AI-92-93 gasoline to avoid supply shortages. In August 2016, diesel prices were also deregulated. From the time of the price deregulation to the end of 2016, the average monthly price of diesel fuel on the market increased by approximately 30%. According to Argus Caspian Market, average monthly prices for light refined products, such as AI-92 and AI-95 gasoline and TS-1 kerosene, demonstrated an upward trend in 2016. The refined product market in Kazakhstan is significantly influenced by a big share of imported Russian gasoline and diesel fuel.

The diagram below shows the 2016 trends of average monthly prices for light refined products (on FCA terms) sold by the Company to the domestic market since April 2016 under its independent refining scheme.

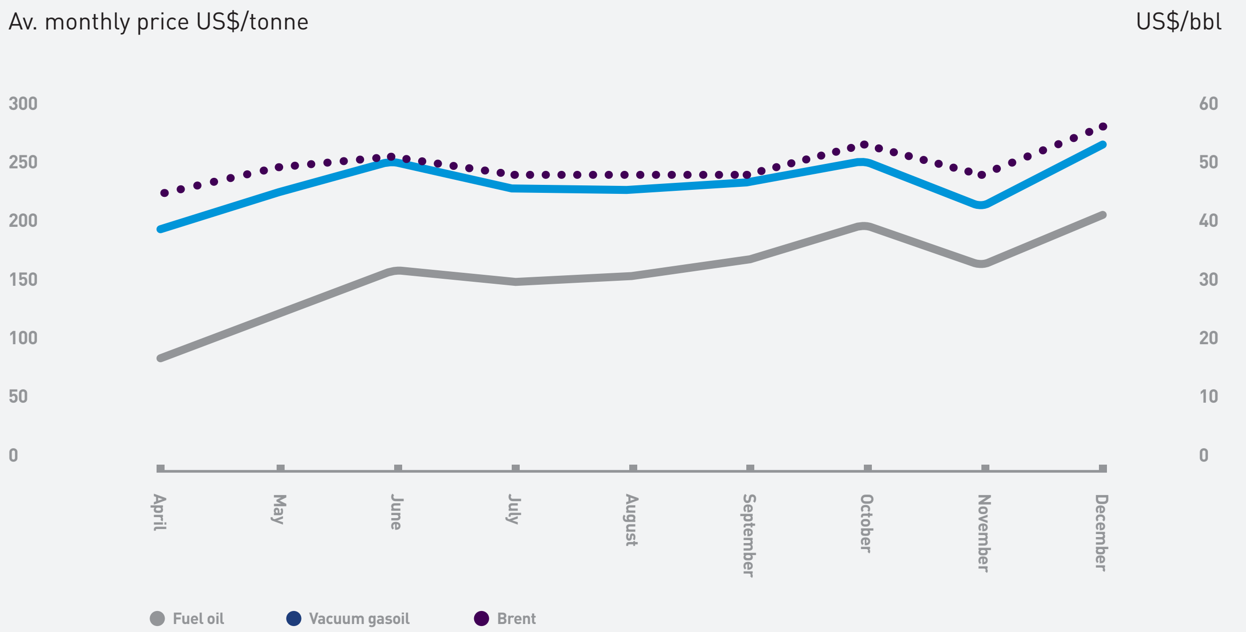
Price variations for light refined products in 2016
Av. monthly price tenge / tonne



With regard to the pricing of exported refined products produced by ANPZ, KMG EP uses quoted prices for oil products formed by the market, which are published by the information agency Platts, net of the differential. Such products include mazut and vacuum gasoil.

The diagram below shows average monthly prices for exported ANPZ products demonstrating upward movement in April–December 2016 as well as a positive correlation with the Brent oil price.

Price variations for exported refined products



Sources: Committee on statistics of Ministry of the National Economy of the Republic of Kazakhstan, Ministry of Energy of the Republic of Kazakhstan, Argus Caspian Market, Platts

Strategic Report

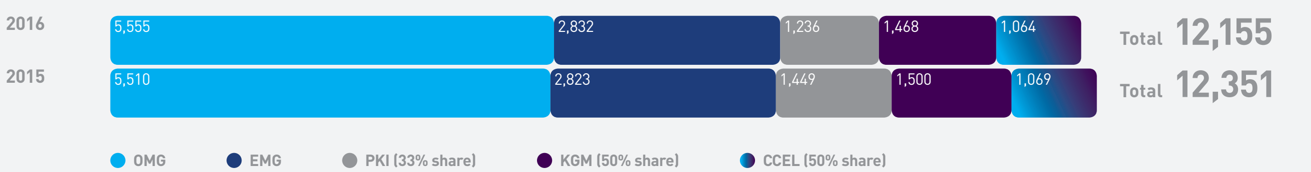
Operational activities overview

Oil production

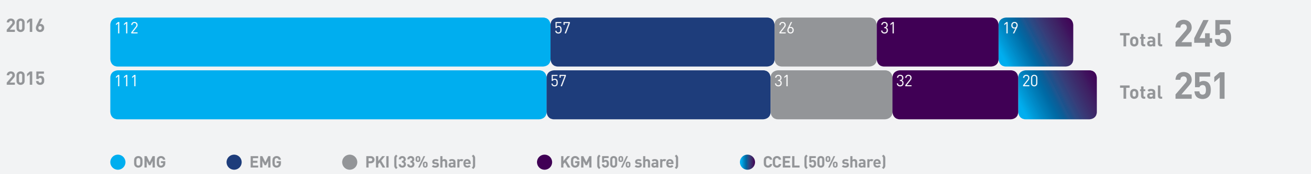
A key component of the Company's business development is the work to boost brownfield production performance. To this end, steps are taken across all KMG EP production assets to continuously monitor and optimise operational processes, enforce energy saving policies, and look for ways to enhance oil recovery.

Together with its shares in JV Kazgermunai LLP (KGM), JSC Karazhanbasmunai (CCEL) and PetroKazakhstan Inc (PKI), KMG EP produced in 2016 a total of 12,155 thousand tonnes of oil (245 kbopd), 2% down from 2015.

Crude oil production for the period
thousand tonnes



Average daily production
kbopd



OMG and EMG production

JSC Ozenmunaigas (OMG) produced 5,555 thousand tonnes (112 kbopd), a 1% increase compared to 2015. For the period 2012–2016, OMG achieved a gradual increase in production of 605 thousand tonnes in four years or about 150 thousand tonnes per year on average.

JSC Embamunaigas (EMG) produced 2,832 thousand tonnes (57 kbopd), 0.3% up versus 2015. The production at EMG is stabilised.

The total volume of oil OMG and EMG produced in 2016 was 8,387 thousand tonnes (169 kbopd), which amounts to a 1% increase compared to production in 2015.

In 2016, OMG and EMG drilled in their key assets 245 production and injection wells, 13% fewer than in 2015.

New OMG wells brought on line in 2016 produced 485 thousand tonnes versus 523 thousand tonnes in 2015 due to a smaller number of new wells coming into operation in 2016 than in 2015. Over the reporting period, OMG worked over 949 wells that contributed 403 thousand tonnes of incremental production; in 2015 workovers were carried out in 921 wells, helping deliver 433 thousand tonnes of incremental production.

Wells as of reporting date*	Drilled in 2016*	Drilled in 2015*		Well workovers 2016	Well workovers 2015	Well servicing 2016	Well servicing 2015
Number of wells				Number of well workovers		Number of well servicing	
5,141	169	229	OMG	949	921	13,512	14,335
2,652	47	54	EMG	246	248	3,398	3,541
1,309	19	84	PKI (100%)**	150	195	623	831
245	23	33	KGM (100%)**	62	56	114	101
3,657	51	112	CCEL (100%)**	59	20	3,794	3,370

*Development wells, including injection wells.
** Includes 100% of the number of well operations related to JVs and associated company.

Oil production from new wells in EMG in 2016 totalled 78 thousand tonnes against 66 thousand tonnes in 2015. In 2016, workovers were performed at 246 wells, thus contributing incrementally 122 thousand tonnes; in 2015, 248 wells were worked over, adding 97 thousand tonnes of incremental production. In total, in 2016 OMG and EMG carried out major repairs to 1,195 wells, compared to 1,169 wells in 2015. Operations were carried out for underground repair at 16,910 wells.

JSC Ozenmunaigas (OMG) and JSC Embamunaigas (EMG) performance results as of the end of 2016

	OMG	EMG	KMG EP
Number of hydrocarbon fields	2	41	43
Production wells	3916	2215	6131
Injection wells	1226	437	1663
Average daily flowrate per well, tonnes of oil per day	4.5	3.8	4.2
2P oil reserves, mmbbl	681	284	965
Lifting costs, US$/bbl	9.9	7.8	9.3
Lifting costs, tenge/tonne	25,087	19,786	23,297
Oil production in 2016, thousand tonnes per day	15.2	7.7	22.9
Oil production in 2016, thousand barrels per day	112	57	169

The production target for 2017 is 5.8 million tonnes (117 kbopd) in JSC Ozenmunaigas (OMG) and 2.8 million tonnes (57 kbopd) in JSC Embamunaigas (EMG).

The combined production of OMG and EMG in 2017 is expected to total 8.7 million tonnes (175 kbopd), or 3% above the 2016 production, as a result of a comprehensive stimulation programme in legacy wells and additional well interventions.

KGM, CCEL and PKI production

The Company's share in production from CCEL, KGM, and PKI in 2016 amounted to 3,768 thousand tonnes of crude oil (76 kbopd), 6% less than in 2015, mainly due to a natural decline in production of oil from PKI assets.

The share of KMG EP in the projected 2017 oil production of JV Kazgermunai LLP (KGM), Karazhanbasmunai (CCEL) and PetroKazakhstan Inc (PKI) is expected to be 3.5 million tonnes (72 kbopd), or 6% down from 2016 expectations, mostly due to the expected natural production decline in PKI and KGM.

Key performance indicators of KGM, CCEL and PKI in 2016

	KGM	CCEL	PKI
Number of fields	3	1	12
Number of wells	215	2,755	850
Number of injection wells	30	809	361
Oil reserves 2P, mmbbl	67	154	45
Lifting costs, US$/bbl	2.0	16.0	3.7
Oil production, kbopd	31	19	26

OMG Block 3 Project

In 2016, OMG together with the Research and Development Institute of Production and Drilling Technology initiated Block 3 Project in order to work out measures for improving efficiency and enhancing production at OMG fields.

This project is designed to identify improvements in operational performance to boost oil production at the Uzen field and cut dollar-per-barrel production costs as a result of increasing Uzen Block 3 development efficiency by applying, among other things, commercially effective and robust techniques and technologies, streamlined management processes, real-time reservoir surveillance ("Smartfield" technology), and by scaling up project management practices tested in the course of Uzen Block 3 development to other hydrocarbon fields.

Additionally, an improvement of the tender documentation's quality and compliance (technical specification) was achieved during 2016 at OMG, which led to substantial procurement savings due to enhancement of the competitive environment among potential suppliers.

"Smartfield" Project at EMG

KazMunaiGas EP JSC was one of the first in Kazakhstan to implement the "Smartfield" concept, which is now used to manage production processes at the EMG-operated Uaz field on the basis of an innovative system.

Introduction of "Smartfield" technology at EMG is one of the pilot projects for achieving better cost-efficiency and productivity. Its primary objective is to integrate different models and systems, linking together all major production assets and enabling the Company to enhance its operational potential, quickly identify and locate production losses, improve the process for identifying causes of such losses, control production equipment, increase efficiency of production and injection wells, and cut equipment-related operational costs.

With the new systems in place, well parameters across the Uaz field are transferred online to the control room of the Oil and Gas Production Directorate (NGDU). Simultaneously, all the data is fed to the Production Process Visualisation Centre at EMG where it is also analysed and used for long-term planning. Therefore the process of remote oilfield monitoring and control involves specialists at all operational management levels.

Today, we can confirm that the Uaz "Smartfield" project helped optimise energy costs, specifically by cutting power consumption by 33% in 2016, increase the uptime ratio for active wells, and reduce the number of well servicing interventions. It also resulted in significant improvements in the accuracy of production allocation to individual wells.

Although it takes a longer period of time to make a detailed performance assessment, the Project has already clearly demonstrated that it can add good value.

The plan is to roll out the "Smartfield" technology in other KMG EP hydrocarbon fields such as Uzen, Karazhanbas, S. Nurzhanov, Aktobe, Dosmukhambetovskoye, and West Prorva.

Crude oil exports and domestic sales

OMG and EMG export their produced crude oil via two main routes: the Caspian Pipeline Consortium (CPC) system and the Uzen-Atyrau-Samara (UAS) pipeline. OMG and EMG also supply crude oil to the domestic market.

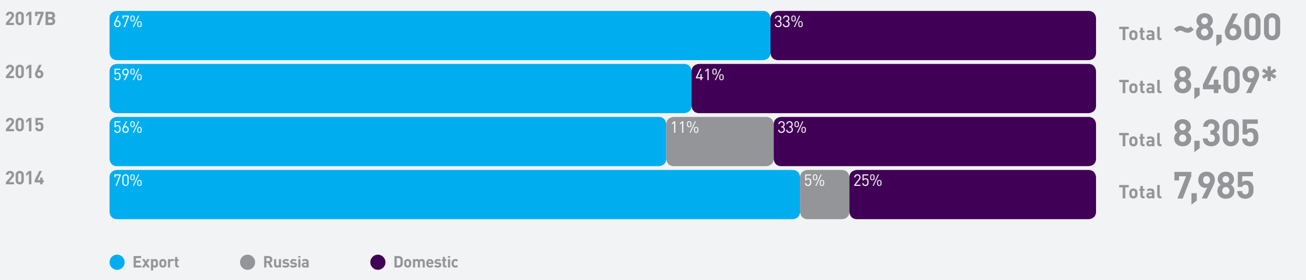
In 2016, combined sales of OMG and EMG were 8,405 thousand tonnes (165 kbopd), of which 59% or 4,946 thousand tonnes (97 kbopd) of oil were exported and 3,459 thousand tonnes (68 kbopd) of oil were sold to the domestic market. In addition, 4,000 tonnes of oil products were sold to the domestic market.

Of 3,459 thousand tonnes (68 kbopd) of oil supplied by OMG and EMG to the domestic market, 2,578 thousand tonnes (51 kbopd) were supplied to the Atyrau Refinery (ANPZ) and 881 thousand tonnes (17 kbopd) were supplied to the Pavlodar Refinery (PNHZ).

In Q1 2016, before the Company switched over to an independent oil processing scheme, domestic supplies were 830 thousand tonnes of crude oil. For the remainder of 2016, the Company supplied 2,629 thousand tonnes of crude oil to the domestic market for further refining. Sales of oil products in April–December 2016, in accordance with the new independent processing scheme, amounted to 2,324 thousand tonnes of petroleum products.

The share of domestic supplies from the resources of OMG and EMG increased to 41% in 2016 compared to 33% in 2015. In 2017, OMG and EMG are expected to deliver 33% of the total crude sales or 2.9 million tonnes (57 kbopd) directly to ANPZ and PNHZ refineries for further processing and product marketing in line with the independent oil processing scheme that has been in place since April 2016. Of 2.9 million tonnes of crude oil supplied to the domestic market, 1.9 million tonnes (38 kbopd) will go to ANPZ and 1.0 million tonnes (20 kbopd) to PNHZ.

Crude oil sales
thousand tonnes



*Includes 830 thousand tonnes of oil supplied to the domestic market in Q1 2016. Starting from April 2016 KMG EP began to supply oil directly to the Atyrau and Pavlodar refineries for processing into oil products.

The Company's share in the sales from CCEL, KGM and PKI was 3,676 thousand tonnes of crude oil (75 kbopd), including 1,832 thousand tonnes (36 kbopd) supplied to the export market, or 50% of the total sales volume. The domestic sales volume was 1,844 thousand tonnes (39 kbopd).

The share of KMG EP in the expected 2017 domestic crude oil sales of KGM, CCEL and PKI is estimated at 1.6 million tonnes (33 kbopd), or approximately 45% of the total sales to be made by those companies. In 2018–2021, the domestic sales by KGM, CCEL and PKI are projected to stay at around 50% of their total sales.

In 2017, the average crude oil price in the domestic market is expected to be 31,188 tenge per tonne (US$11.25/bbl) for KGM, 49,837 tenge per tonne (US$17.86/bbl) for PKI, and 26,786 tenge per tonne (US$11.14/bbl) for CCEL.

Crude oil processing

Until April 2016, the Company supplied part of its extracted crude oil to KazMunaiGas – Refining and Marketing JSC (KMG RM), in order to fulfil the obligation to supply it to the domestic market. In April 2016, KMG EP transitioned to an independent scheme of processing the crude oil intended for the domestic market.

Under the new arrangement, KMG EP supplies oil to ANPZ and PNHZ for refining and subsequent marketing of petroleum products through KMG RM, acting as marketing agent. From January 1, 2017, the Company has stopped using the services of KMG RM as its marketing agent and started selling refined products independently.

Petroleum product portfolio and prices in April–December 2016

	ANPZ		PNHZ	
Oil product	**Output %**	**Price thousand tenge/tonne**	**Output %**	**Price thousand tenge/tonne**
Petrol Normal AI-80	1%	86.9	4%	86.9
Petrol Regular AI-92	9%	125.3	18%	128.4
Petrol Premium AI-95	2%	131.8	2%	132.0
Diesel	31%	93.6	32%	98.7
Jet fuel	1%	125.5	0%	N/A
Total light oil products	**43%**	**101.3**	**56%**	**108.4**
Vacuum gasoil	17%	76.6	2%	35.7
Mazut export	30%	47.9	14%	24.4
Bitum	0%	N/A	4%	42.4
Total dark oil products	**47%**	**58,2**	**20%**	**29.3**
Liquid gas	1%	19.2	4%	17.7
Furnace oil	1%	69.7	0%	N/A
Sulphur	0%	10.2	1%	N/A
Coke calcinated	1%	54.6	0%	N/A
Coke crude	1%	22.2	4%	13.4
Other	0%	185.1	4%	N/A
Total other oil products	**5%**	**50.3**	**13%**	**17.4**
Losses	6%	N/A	11%	N/A
Total	**100%**	**77.2**	**100%**	**83.4**

The approved budget and business plan assume further use of an independent oil processing and product marketing model similar to the one which has been in place since April 2016.

The Company continues to work with NC KMG and the Ministry of Energy to increase transparency of the mechanism for determining domestic supply volumes and ensure a good balance between stakeholder interests.

In 2017, the net revenue from oil product sales (excluding all processing and marketing costs) is expected to be 43,800 tenge per tonne of oil for ANPZ and 43,700 tenge per tonne of oil for PNHZ. The net sales revenue depends on the market situation (except for Government-regulated AI-80 gasoline) and the refinery's product portfolio. According to operational data, the net proceeds from the sale of oil products in January 2017 amounted to 58,409 tenge per tonne of oil at ANPZ and 55,733 tenge per tonne of oil at PNHZ.

It is expected that following the upgrade programme at ANPZ and PNHZ scheduled for completion during 2017 the share of light product yields will increase. Accordingly, post-upgrade processing fees are expected to rise by 25% at ANPZ and by 10% at PNHZ. For reference, 2016 processing fees were 20,501 tenge per tonne at ANPZ and 14,895 tenge per tonne at PNHZ.

Net revenue from oil product sales in April–December 2016

				ANPZ				PNHZ
tenge per tonne	**Q2 2016**	**Q3 2016**	**Q4 2016**	**Q2-4 2016**	**Q2 2016**	**Q3 2016**	**Q4 2016**	**Q2-4 2016**
Revenue	67,281	72,187	79,939	72,791	68,916	72,258	77,962	74,465
Less costs:	**(30,137)**	**(29,702)**	**(31,631)**	**(30,425)**	**(21,736)**	**(22,193)**	**(23,393)**	**(22,722)**
—Processing	(20,423)	(20,296)	(20,713)	(20,464)	(15,606)	(15,493)	(16,266)	(15,940)
—Additives	(126)	(267)	(552)	(302)	(622)	(1,168)	(1,034)	(953)
—Excise tax	(1,302)	(1,145)	(1,890)	(1,421)	(3,066)	(3,032)	(3,496)	(3,290)
—Export customs duty	(5,601)	(5,244)	(5,745)	(5,516)	–	–	–	–
—Selling and transportation expenses	(435)	(491)	(628)	(512)	(422)	(412)	(597)	(514)
—KMG RM commission fee	(2,250)	(2,258)	(2,103)	(2,209)	(2,018)	(2,088)	(2,004)	(2,024)
= Net revenue	**37,145**	**42,485**	**48,308**	**42,366**	**47,180**	**50,065**	**54,569**	**51,743**

Reserves

Based on the audit of liquid hydrocarbon reserves performed by independent consultancy DeGolyer and MacNaughton (D&M), proved plus probable (2P) reserves of liquid hydrocarbons were 145 million tonnes (1,061 million barrels) as at December 31, 2016, excluding KMG EP's share in JV Kazgermunai LLP (KGM), JSC Karazhanbasmunai (CCEL) and PetroKazakhstan Inc (PKI). Taking into account the amount of oil produced during 2016, the 2P reserves increased by 0.7 million tonnes (8 million barrels).

The reserves replacement ratio (the ratio of the added reserves to annual production) was 8%.

Proved (1P) reserves of liquid hydrocarbons as at December 31, 2016 were 93 million tonnes (684 million barrels), and proved, probable and possible (3P) reserves stand at 196 million tonnes (1,433 million barrels).

Liquid hydrocarbon reserves as at December 31, 2016

	million tonnes			million barrels		
	1P	**2P**	**3P**	**1P**	**2P**	**3P**
Reserves as at 31/12/2015[6]	99	152	204	723	1,115	1,491
Production	8.4	8.4	8.4	62	62	62
Reserves increase	2.5	0.7	0.1	22	8	3
Reserves as at 31/12/2016	**93**	**145**	**196**	**684**	**1,061**	**1,433**
Present worth at 10%, US$ million				3,053	3,560	4,011

The reserves of joint ventures are estimated separately by independent auditors[7]. As of the end of 2016, the share of KMG EP in the total 2P reserves of liquid hydrocarbons in KGM (50%), CCEL (50%) and PKI (33%) is 37 million tonnes (266 million barrels). So the combined 2P liquid hydrocarbon reserves, including KMG EP's shares in KGM, CCEL and PKI, as of December 31, 2016 total 182 million tonnes (1,327 million barrels).

Consolidated 2P reserves as at December 31, 2016	**million tonnes**	**million barrels**
KMG EP	145	1,061
KGM 50%, CCEL 50%, PKI 33%	37	266
Consolidated reserves	182	1,327

[6] Assessment of reserves as at December 31, 2015 was made by DeGolyer and MacNaughton.

[7] Assessment of reserves as at December 31, 2016 of KGM was made by Neftegaz Consult Kazakhstan, assessment of reserves of PKI was made by McDaniel and Associates, and assessment of reserves of CCEL was made by Miller&Lents.

Exploration and appraisal

KMG EP continues its exploration and appraisal activities in the Atyrau, Mangistau and Western Kazakhstan regions.

In February 2016, appraisal results were announced for the north-eastern flank of the S. Nurzhanov field, Liman block, and Akkuduk field in the Atyrau region. The activity in these areas will help in the longer term to extend the potential and boost oil production of the brownfields.

In 2016, the Company launched an exploration and appraisal programme in the Mangistau region. In areas adjacent to the Uzen and Karamandybas fields that have been developed since the early 1960s large-scale 3D seismic data acquisition was carried out in order to study the potential of pre-Jurassic formations at depths of over 6 km.

KMG EP continued operations to appraise the assets owned jointly with its Hungarian and Chinese partners (MOL and FIOC) in the Western Kazakhstan region. This year, appraisal activity will continue at the Fedorovsky block to extend the production potential of the discovered gas condensate Rozhkovskoye field.

In November 2016, KMG EP announced appraisal results at the Rozhkovskoye field within the Fedorovsky block. Appraisal well U-25 drilled in 2016 tested 111 thousand m^3 day of gas and 245 m^3 day of condensate through an 11 mm choke from the lower unit of the Tournaisian horizon over the 4,418–4,430 metre interval. 192 thousand m^3 day of gas and 233 m^3 day of condensate were received through a 9.5 mm choke from the main unit of Tournaisian horizon over the 4,374–4,396 metre interval. Considering that the tested reservoir is deeper than the known gas/water contact, which is based on the data from previously drilled appraisal wells, hydrocarbon reserves are expected to increase as a result of both the appraisal test and the updated area of C1 reserves.

Additionally, negotiations are currently under way with the Ministry of Energy of the Republic of Kazakhstan concerning registration of contracts to conduct exploration and appraisal operations at three appraisal blocks adjacent to the producing Embamunaigas-operated fields. The main targets in the new areas are deep subsalt layers at depths of 5,500–7,500 metres.

The exploration objects will be containing Devonian and possibly Ordovician carbonate and clastic sediments.

Today, the Company is also taking steps to develop its business beyond the above projects and is actively reviewing geological and geophysical data on oil and gas fields currently under appraisal or pilot production in order to access new assets based on in-house and independent evaluations of their production potential.

The following map depicts the Company's exploration projects as of December 31, 2016.

The following table shows exploration activity of the Company and its equity accounted entities during the reporting period:

Block (interest)	Date of acquisition	Prospect	Well	Drilling period	Depth	Status as of reporting date
Liman (100%)	19.01.2006	Novobogat SE	PR–4 PR–5 PR–7	08.04.2016–21.08.2016 01.04.2016–29.09.2016 20.09.2016–27.01.2017	2,262m 2,500m 2,290m	Agreement on drilling of the PR-4, PR-5, PR-7, PR-8 (project depth: 2,500m.) wells is concluded. Completed drilling PR-4, PR-5 and PR-7 wells. PR-4 and PR-7 wells are in testing. PR-5 well is under preparation for testing.
Temir (100%)	18.07.2011					Return of the contract area to the State is completed.
Zharkamys Eastern (100%)	30.06.2011	Tuskum				Return of the contract area to the State is completed.
Uzen-Karamandybas (100%)	18.07.2011	South-western part of the exploration block				Received approval from the Ministry of Energy of the Republic of Kazakhstan on an extension of the exploration period of the contract until 2018. 3D-MOGT field works with an area of 550 sq.km are under way.
Taisoigan (100%)	29.01.2004	Uaz	U–22 U–24	15.04.2016–11.05.2016 20.05.2016–22.06.2016	651m 825m	Agreement on drilling of the U-22 (project depth: 850m.) and U-24 (project depth: 1,265m.) wells is concluded. Completed drilling the U-22 well; the well is suspended. Completed testing the U-24 well; the well is suspended. 2-D MOGT (common depth point technique) seismic field works on the Taisoigan block are completed. Completed processing of 2-D seismic field data on the Taisoigan block.
R-9 (100%)	10.06.2007					The Company is in the process of returning the contract area to the State.
Karaton-Sarkamys (100%)	18.07.2011	North-eastern wing of the S. Nurzhanov field	NSV–1	25.12.2014–20.07.2015	3,818m	Processing and interpretation of 3D seismic data of the Birlestik cube is completed. Received approval from the Ministry of Energy of the Republic of Kazakhstan on an extension of the exploration period of the contract until July 2018. Completed drilling of the NSV-1 well to a depth of 3,818m. The well is suspended.

Block (interest)	Date of acquisition	Prospect	Well	Drilling period	Depth	Status as of reporting date
Karpovskiy Severniy (KS-51%)	18.10.2011	Orlovskaya Central	SK–2	01.07.2013–18.08.2015	5,755m	Four intervals of the well are being tested.
Fedorovskiy block (UOG-50%)	11.03.2011	Rozhkovskiy Pavlovskaya, Yanvartsevskaya	U–25	10.09.2015–01.08.2016	5,211.3m	Completed drilling and testing the U-25 well. Completed geophysical exploration works. U-25 well is suspended. Processing and interpretation of 3-D seismic data on the block is completed.
Doszhan-Zhamansu (24.75% through PKI)	22.12.2009	South Doszhan, South-Eastern Doszhan, Zhamansu	Doszhan–48	08.07.2016–30.07.2016	1,527m	Completed drilling of the Doszhan-48, Doszhan-64, South-Eastern Doszhan-50 and 51 exploration wells; the wells are flowed oil.
			Doszhan–64	09.11.2016–27.11.2016	850m	
			South-Eastern Doszhan–50	26.11.2016–16.12.2016	1,550m	
			South-Eastern Doszhan–51	22.10.2016–16.11.2016	1,500m	
Karaganda (PKI-33%)	22.12.2009	Karabulak, Buharsai	Northern Karabulak–3	14.07.2016–31.07.2016	1,475m	Completed drilling the Northern Karabulak-3, Karabulak-19 and Karabulak-31 exploration wells. Northern Karabulak-3 well – dry. Karabulak-19 and Karabulak-31 wells – flowed oil.
			Karabulak–19	24.05.2016–12.06.2016	1,350m	
			Karabulak–31	26.09.2016–18.10.2016	1,377m	
Karavanchi (PKI – 33%)	22.12.2009	Karavanchi	Karavanchi–28	06.07.2016–27.07.2016	1,875m	Completed drilling of the Karavanchi-28, Karavanchi-29, Karavanchi-30 and Karavanchi-32 exploration wells. Karavanchi-28 well – dry. Karavanchi-29 and Karavanchi-30 wells – flowed oil. Karavanchi-32 well – in testing.
			Karavanchi–29	10.09.2016–24.09.2016	1,100m	
			Karavanchi–30	28.10.2016–14.11.2016	1,100m	
			Karavanchi–32	17.12.2016–31.12.2016	1,120m	
Western Tuzkol (PKI – 33%)	22.12.2009	Western Tuzkol	Ketekazgan–17	26.08.2016–16.09.2016	1,943m	Completed drilling of the Western Tuzkol-93, Western Tuzkol-96, Ketekazgan-17 exploration wells and Ketekazgan-34, Zhanbyrshy-7 appraisal wells. Zhanbyrshy-7 well – dry. Western Tuzkol-96 well – flowed oil. Western Tuzkol-93 well – water well. Ketekazgan-17 – flowed oil.
			Ketekazgan–34	02.08.2016–21.08.2016	1,504m	
			Western Tuzkol–93	09.08.2016–26.08.2016	910m	
			Western Tuzkol–96	24.11.2016–07.12.2016	1,191m	
			Zhanbyrshy–7	29.09.2016–15.10.2016	802m	

Capital expenditure[8] overview

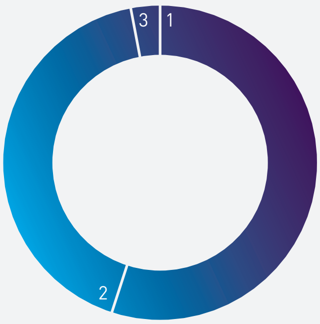
Capital expenditure[9] in 2016 totalled 115 billion tenge (US$337 million), up 17% year on year and in line with expectations.

This was primarily due to increased spending on the construction of a gas treatment unit (GTU) for the Prorva group of fields at EMG and additional capital expenditure associated with exploration drilling at EMG, which was partially offset by a reduction in the scope and cost of production drilling at OMG and a 15% discount negotiated with the drilling service contractor. In 2016 245 wells were drilled in OMG and EMG, compared to 283 wells in 2015.

Capital expenditures for OMG, EMG, Head office and other subsidiaries
million tenge

Total
115,050

1	OMG	63,210
2	EMG	48,706
3	Head office & other subsidiaries	3,134



The construction of GTU is intended for the processing of associated petroleum gas at the Prorva group of fields at EMG. The construction of GTU is designed to comply with EMG's commitments in terms of gas utilization in accordance with the requirements of Kazakh legislation. The implementation of such project will allow to stop flaring gas and ensure achieving planned oil production volumes.

Capital expenditure of OMG, EMG, Head office and other KMG EP subsidiaries

OMG capital expenditure for 2016 amounted to 63.2 billion tenge, 5.3 billion tenge less than in 2015 mainly due to a decrease in production drilling as a result of a decrease in drilling volumes and a discount obtained from the contractor for drilling services, which was partially offset by higher costs for construction and modernisation of production facilities compared to 2015 and higher fixed asset purchases in the reporting period.

EMG capital expenditures amounted to 48.7 billion tenge in 2016, which is 23.3 billion tenge more than in 2015, mainly due to a construction of a gas treatment unit for the Prorva group of fields, as well as an increase in exploration drilling in the reporting period compared to 2015.

Head office and other subsidiaries' capital expenditures in 2016 amounted to 3.1 billion tenge, which is 1.4 billion tenge less than in 2015, primarily due to the lower level of exploration drilling and fixed asset purchases in 2016.

[8] Capital expenditure figures presented in this section represent actual additions to the property, plant and equipment ("PPE") and intangible assets ("IA") accounts during the reporting period. The amounts indicated in the consolidated cash flow statement of the Company as purchases of PPE and intangible assets, reflect additions presented herein adjusted for the changes in related working capital accounts, such as advances prepaid and accounts payable for PPE and IA.

[9] Starting from Q4 2013, CAPEX has been reported as acquisition of fixed and intangible assets. Previously it had been posted as procurement of fixed and intangible assets in accordance with the cash flow statement.

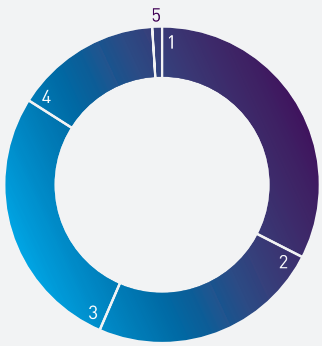
Capital expenditure of equity-accounted entities

PKI capital expenditures in 2016 amounted to 18.1 billion tenge (KMG EP 33% share: 6.0 billion tenge), which is 14.6 billion tenge less than in 2015, mainly due to the decrease in drilling volumes in the current period.

Capital expenditure of equity– accounted entities
million tenge

Total
18,434

1	PKI	5,984 (33%)
2	CCEL	4,396 (50%)
3	KGM	5,065 (50%)
4	UOG	2,805 (50%)
5	KS	184 (51%)



KGM capital expenditures for the period were 10.1 billion tenge (KMG EP 50% share: 5.1 billion tenge), which is 5.0 billion tenge less than in 2015, mainly due to the lower construction and modernization of production facilities and production drilling in the reporting period, which was partially offset by the higher purchase of fixed assets in 2016 compared to 2015.

CCEL capital expenditures in 2016 were 8.8 billion tenge (KMG EP 50% share: 4.4 billion tenge), which is 1.8 billion tenge less than in 2015, primarily due to the decrease in drilling volumes and fixed asset purchases in the current period.

UOG capital expenditures amounted to 5.6 billion tenge (KMG EP 50% share 2.8 billion tenge), which is 1.4 billion tenge more than in 2015, mainly due to an increase in exploration drilling in the reporting period.

KS capital expenditures amounted to 0.4 billion tenge (KMG EP 51% share: 0.2 billion tenge), which is 0.4 billion tenge less than in 2015, as further operations on the oilfield are pending internal approval.

Capital expenditure in 2017 is planned at 133 billion tenge (US$369 million), 16% higher than the capital expenditure for 2016. The increase is mainly due to investment in fixed assets (primarily oilfield equipment and machinery) and higher expenditure on production and exploration drilling, partially offset by lower expenditure on construction and modernisation of production facilities. The increase in expenditure on production drilling is due to the higher cost of drilling per well at OMG, partly offset by a decline in drilling activity. The Company expects to drill 191 wells in 2017 compared to 245 wells in 2016.

Financial overview

The following section is based on the Company's audited Consolidated Financial Statements.

The amounts shown in US$ are included solely for the convenience of the user at the average exchange rate over the respective period for the consolidated statement of comprehensive income and the consolidated cash flow statement and at the closing rate for the consolidated statement of financial position.

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
million tenge unless otherwise stated					million tenge unless otherwise stated		
212,448	**201,340**	**180,475**	**18%**	**Revenue**	**727,154**	**529,812**	**37%**
(79,389)	(72,155)	(65,012)	22%	Production expenses	(274,753)	(225,049)	22%
(20,508)	(31,917)	(28,341)	-28%	SG&A	(115,022)	(118,601)	-3%
(29,628)	(36,493)	(49,917)	-41%	Taxes other than on income	(145,431)	(181,501)	-20%
(2,484)	(51)	(229)	985%	Exploration expenses	(2,535)	(1,892)	34%
(8,252)	(9,175)	(4,952)	67%	DD&A	(30,776)	(20,110)	53%
72,187	**51,549**	**32,024**	**125%**	**Operating profit / (loss)**	**158,637**	**(17,341)**	**-100%**
–	20,298	(46,753)	-100%	Net reversal / (allowance) for VAT recoverable	13,362	(46,753)	-129%
(4,997)	(893)	(16,576)	-70%	Share of results of associate and JVs	(12,600)	(20,062)	-37%
(1,518)	(250)	(3,689)	-59%	Loss on disposal of PP&E	(2,050)	(4,618)	-56%
4,872	6,914	9,540	-49%	Finance income / (costs), net	24,195	11,095	118%
(5,608)	(8,733)	187,206	-103%	Foreign exchange gain / (loss), net	(12,892)	448,869	-103%
(9,083)	(10,411)	(55,856)	-84%	Income tax expense	(37,076)	(127,521)	-71%
55,853	**58,474**	**105,896**	**-47%**	**Net income**	**131,576**	**243,669**	**-46%**

The decrease in net income for 2016 compared to 2015 is mainly due to a foreign exchange loss recognized in 2016 as compared to foreign exchange gain in 2015, which resulted from the decision of the Government of the Republic of Kazakhstan and NBK to switch to the freely floating exchange rate regime of the tenge in Q3 2015. This was partially offset by an increase in export sales income that resulted from a higher average tenge/US$ exchange rate in 2016 compared to 2015 and higher export volume, as well as an increase in oil products sales income due to the Company's switch to an oil processing scheme starting from April, 2016, which were partially offset by a drop in the average Brent price from US$52.4 per barrel in 2015 to US$43.7 per barrel in 2016. Net income also decreased in 2016 compared to 2015 due to an increase in production expenses as well as an increase in depreciation, depletion and amortisation, which were partially offset by the decrease in share in loss of associate and joint ventures, the decrease in income tax expense, the decrease in selling, general and administrative expenses, taxes other than on income and the increase in net finance income.

Additionally, the Company accrued an allowance for VAT recoverable in the amount of 11.2 billion tenge related to both past and current periods, which was offset by the VAT received by the Company in the amount of 24.5 billion tenge as the result of the positive decision achieved regarding the Company's application for the VAT recovery in the amount of 57.4 billion tenge. This VAT claim is related to the accumulated excess for the period of 2012-2015, including the formation of JSC Ozenmunaigas and JSC Embamunaigas in 2012. The Company intends to further engage with the relevant parties to work on the recoverability of the remaining amount. Also in September 2016 JSC Ozenmunaigas, a subsidiary of the Company, received the approval of its application for a temporary reduced rate of Mineral Extraction Tax ("MET") for the Uzen and Karamandybas fields in Mangystau oblast. The reduced MET rate is set at 9.0% (compared to 13.0% in 2015) for the whole of 2016 on the condition that in 2016 Uzen and Karamandybas fields record losses under tax accounting. The effect of this reduction equals to 14.9 billion tenge, which was included in the Company's financials, as management expects that JSC Ozenmunaigas will claim a taxable loss in its final 2016 tax filing.

Revenue

The following table shows sales volumes and realised prices of crude oil:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
				Export sales of crude oil			
				UAS pipeline			
80,803	76,507	66,583	21%	Net sales (million tenge)	282,054	213,635	32%
719	719	779	-8%	Volume (thousand tonnes)	2,797	2,797	0%
112,382	106,408	85,472	31%	Average price (tenge/tonne)	100,842	76,380	32%
46.39	43.12	39.35	18%	Average price (US$/bbl*)	40.81	47.53	-14%
				CPC pipeline			
58,529	62,182	53,759	9%	Net sales(million tenge)	230,645	150,849	53%
483	561	565	-15%	Volume (thousand tonnes)	2,149	1,850	16%
121,178	110,841	95,149	27%	Average price (tenge/tonne)	107,327	81,540	32%
50.02	44.91	43.80	14%	Average price (US$/bbl*)	43.44	50.74	-14%
139,332	138,689	120,342	16%	Total sales of crude oil-exported (million tenge)	512,699	364,484	41%
1,202	1,280	1,344	-11%	Total crude oil exported (thousand tonnes)	4,946	4,647	6%
				Domestic sales of crude oil			
–	–	55,058	-100%	Net domestic sales (million tenge)	15,459	99,183	-84%
–	–	825	-100%	Volume (thousand tonnes)	830	2,680	-69%
–	–	66,737	-100%	Average price (tenge/tonne)	18,625	37,009	-50%
–	–	30.72	-100%	Average price (US$/bbl*)	7.54	23.03	-67%
				Shipments of crude oil to Russia			
–	–	–	0%	Net sales (million tenge)	–	46,102	-100%
–	–	–	0%	Volume (thousand tonnes)	–	916	-100%
–	–	–	0%	Average price (tenge/tonne)	–	50,330	-100%
–	–	–	0%	Average price (US$/bbl*)	–	31.32	-100%
				Total sales of crude oil			
139,332	138,689	175,400	-21%	Total net sales of crude oil (million tenge)	528,158	509,769	4%
1,202	1,280	2,169	-45%	Total volume (thousand tonnes)	5,776	8,243	-30%
115,917	108,351	80,867	43%	Average price (tenge/tonne)	91,440	61,843	48%
47.85	43.90	37.23	29%	Average price (US$/bbl*)	37.01	38.49	-4%
				Sales of oil products			
68,371	57,662	332	100%	Net sales (million tenge)	181,409	1,393	100%
798	753	19	100%	Volume (thousand tonnes)	2,315	62	100%
85,678	76,576	17,474	390%	Average price (tenge/tonne)	78,362	22,468	249%
255.70	224.34	58.16	340%	Average price (US$/tonne)	229.29	101.09	127%
4,745	4,989	4,743	0%	Other sales (million tenge)	17,587	18,650	-6%
212,448	**201,340**	**180,475**	**18%**	**Total revenue (million tenge)**	**727,154**	**529,812**	**37%**

* Converted at 7.23 barrels per tonne of crude oil.

The Company exports crude oil using two principal routes: via the pipeline owned by the Caspian Pipeline Consortium ("CPC") and via the Uzen-Atyrau-Samara pipeline ("UAS") owned by KazTransOil JSC (in Kazakhstan). In 2015 the Company made counter-oil supply to the Russian Federation as part of an intergovernmental agreement.

The relative profitability of the two export routes depends on the quality of crude oil in the pipeline, the prevailing international market prices and the relevant pipeline tariffs. It should be noted that the volume of crude oil that can be shipped through the pipelines has to be agreed with the Ministry of Energy of the Republic of Kazakhstan ("ME"). Thus, crude oil volume allocations between different routes change from period to period primarily due to greater or lower ME quotas for a certain route.

In 2015, the Company fulfilled its obligation under the counter-oil supply agreement between the Government of Kazakhstan and the Russian Government and, as a result, there were no shipments of crude oil to Russia in 2016.

Prior to April 2016 the Company sold a portion of produced crude oil to KazMunaiGas Refining and Marketing JSC ("KMG RM"), a related party, in order to meet its domestic supply obligation. KMG RM further processed this crude oil and sold refined products. Starting from April 2016 the Company ceased sales of crude oil to KMG RM and started tolling crude oil at the Atyrau Refinery ("ANPZ") and Pavlodar Refinery ("PNHZ") and selling refined products on its own account using KMG RM as a sales agent.

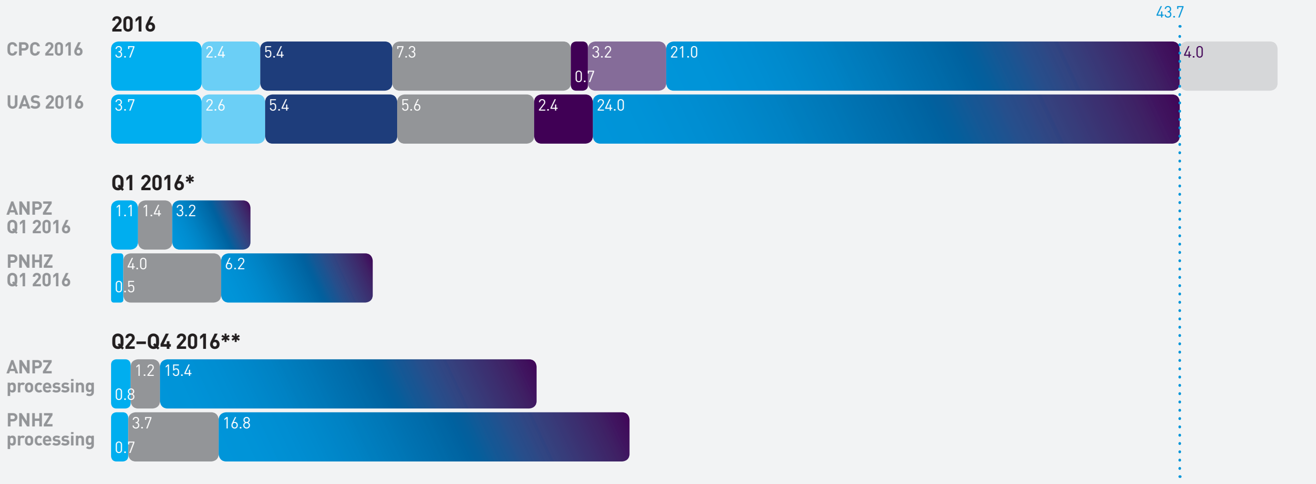
Statement of Net Revenue from sales of Refined Products (Atyrau Refinery and Pavlodar Refinery)

Atyrau Refinery Q2	Pavlodar Refinery Q2	Atyrau Refinery Q3	Pavlodar Refinery Q3	Atyrau Refinery Q4	Pavlodar Refinery Q4		Atyrau Refinery April-December 2016	Pavlodar Refinery April-December 2016
(million tenge, unless otherwise stated)							(million tenge, unless otherwise stated)	
45,415	9,703	50,379	7,812	46,301	22,726	Revenue	142,095	40,241
(20,342)	(3,060)	(20,729)	(2,400)	(18,321)	(6,819)	Costs, including:	(59,392)	(12,279)
(13,786)	(2,197)	(14,164)	(1,675)	(11,997)	(4,742)	Processing	(39,947)	(8,614)
(85)	(88)	(186)	(126)	(320)	(301)	Additives	(591)	(515)
(879)	(432)	(799)	(327)	(1,095)	(1,019)	Excise tax	(2,773)	(1,778)
(3,781)	–	(3,660)	–	(3,327)	–	Export customs duty	(10,768)	–
(293)	(59)	(343)	(46)	(364)	(173)	Selling and transportation expenses	(1,000)	(278)
(1,518)	(284)	(1,577)	(226)	(1,218)	(584)	KMG Refinery and Marketing commission fee	(4,313)	(1,094)
25,073	**6,643**	**29,650**	**5,412**	**27,980**	**15,907**	**Net revenue**	**82,703**	**27,962**
635.3	125.9	661.4	96.6	544.2	260.2	Volume of oil products sold, thousands of tonnes	1,840.9	482.7
39.7	14.9	36.5	11.5	35.0	31.3	Processing losses, thousands of tonnes	111.2	57.7
675.0	**140.8**	**697.9**	**108.1**	**579.2**	**291.5**	**Total volume of crude oil processed and sold, thousands of tonnes**	**1,952.1**	**540.4**
37,145	**47,180**	**42,485**	**50,065**	**48,308**	**54,569**	**Net revenue tenge per tonne of crude oil**	**42,366**	**51,743**

The following chart shows the realised prices adjusted for crude oil transportation, rent tax, export customs duty ("ECD"), mineral extraction tax and other expenses based on the shipment route (netback analysis).

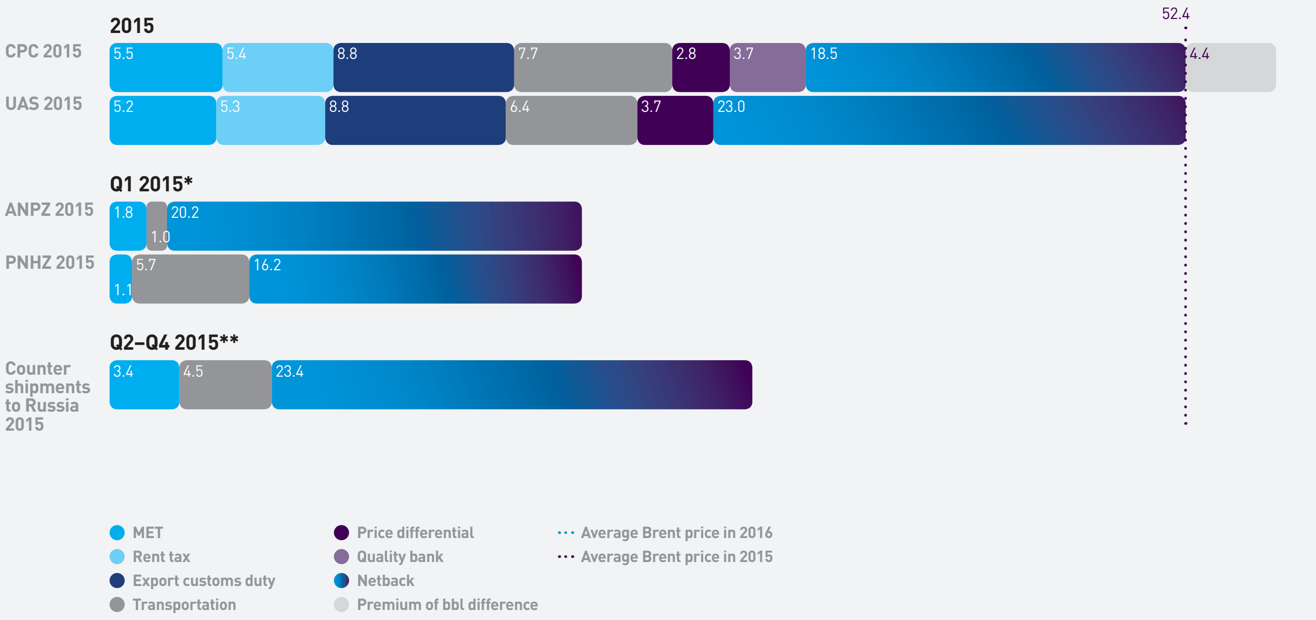
Netback analysis for 2016

US$/bbl*



Netback analysis for 2015

US$/bbl*



*Converted at actual barrels per tonne of crude oil.

** The Company switched to the oil processing scheme starting from April 2016. As the result the Company shipped OMG and EMG crude oil for processing to ANPZ and PNHZ in Q2-Q4 2016. Netbacks of ANPZ and PNHZ for Q2-Q4 2016 are based on the net revenue tenge per tonne of crude oil shipped to ANPZ and PNHZ for oil processing reflected in the Statement of Net Revenue from sales of refined products.

Export netbacks in 2016 increased compared to 2015, primarily due to a decrease in the rent tax, MET and ECD, which was partially offset by a decrease in the average Brent price from US$52.4 per barrel in 2015 to US$43.7 per barrel in 2016.

Domestic market netbacks decreased in 2016 due to the drop in average sales prices in tenge terms and the increase of the average tenge-US$ exchange rate.

Prior to April 2016, the Company supplied crude oil to the domestic market by selling to KMG RM, a subsidiary of the Parent Company. Prices for domestic market sales were previously determined through an annual negotiation process with KMG RM and the Parent Company. In Q1 2016, KMG RM unilaterally set the domestic price. On October 3, 2016 the Company contractually agreed prices for Q1 2016 at levels close to those that were unilaterally set by KMG RM and recognised revenue for the sale of crude oil in Q1 2016 at contractually agreed prices.

Production expenses

The following table shows a breakdown of the Company's production expenses, resulting mainly from OMG and EMG operations:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
million tenge unless otherwise stated					million tenge unless otherwise stated		
44,328	37,734	40,017	11%	Employee benefits	152,422	153,928	-1%
16,725	15,853	554	100%	Refinery processing costs	48,548	1,109	100%
7,472	7,180	6,200	21%	Repairs and maintenance	24,434	20,206	21%
5,424	5,113	4,647	17%	Energy	20,958	18,389	14%
6,862	4,052	4,601	49%	Materials and supplies	20,003	18,357	9%
1,535	1,446	1,455	5%	Transportation services	5,435	5,345	2%
1,722	(1,505)	3,159	-45%	Change in crude oil balance	1,303	3,356	-61%
(3,463)	–	(346)	901%	Change in estimate of environmental remediation obligation	(3,463)	127	-100%
(3,790)	–	2,313	-264%	Movement in asset retirement obligation	(3,790)	(1,686)	125%
2,574	2,282	2,412	7%	Other	8,903	5,918	50%
79,389	**72,155**	**65,012**	**22%**	**Total production expenses**	**274,753**	**225,049**	**22%**

Production expenses in 2016 increased 49.1 billion tenge or 22% compared to 2015, primarily due to an increase in refinery processing costs, repairs and maintenance expenses and energy expenses. This was partially offset by a change in estimate of environmental remediation obligation, a change in estimate of asset retirement obligation in excess of capitalized asset, a change in crude oil balance and a decrease in employee benefits.

Refinery processing costs in 2016 increased compared to 2015, due to the Company's decision to switch to an oil processing scheme starting from April 2016. As a result, the Company sold 2,315 thousand tonnes of oil products in 2016 compared to 62 thousand tonnes in 2015.

Repairs and maintenance expenses in 2016 increased by 21% compared to 2015, mainly due to the increase of hydrofracturing expenses primarily as the number of wells subject to hydrofracturing increased from 80 wells in 2015 to 105 wells in 2016.

The increase in energy expenses by 14% compared to 2015 is primarily related to the increase in tariffs of energy suppliers.

Employee benefit expenses in 2016 decreased by 1% compared to 2015, mainly due to a decrease in actuary obligations by 7.3 billion tenge, which was partially offset by a 7% indexation increase in basic salaries for production personnel from January 1, 2016 according to the terms of the collective agreement.

In Q4 2016, the Company changed its estimate of the environmental remediation provision, which relates to certain soil contamination and oil waste disposal, and recognised a reversal of the related provision in the amount of 3.5 billion tenge as the result of an increase in the interest rate used for discounting assets and obligations from 7.93% to 10.0%.

A decrease in asset retirement obligation in excess of capitalized asset in 2016 resulted mainly from a change in estimate of asset retirement obligation due to the increase in interest rate used for discounting assets and obligations from 7.93% to 10.0%.

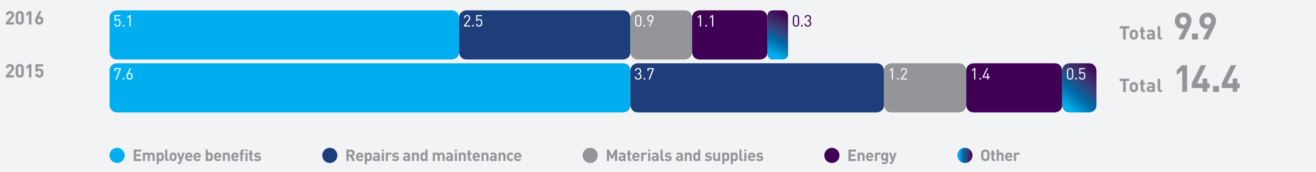
Lifting Costs

Lifting cost per barrel is calculated as production costs of OMG and EMG subsidiaries, including materials and supplies, production payroll, repairs and maintenance, and other production expenses except for the DD&A, taxes, contractual social obligations, actuarial costs, obligatory professional pension deductions and other expenses not directly related to the production process divided by total crude oil produced.

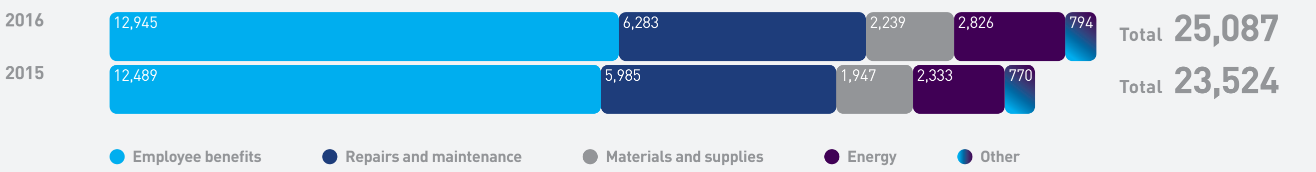
As most of the OMG and EMG production expenses are denominated in tenge, lifting costs in US$ per bbl decreased mainly due to an increase in the average tenge/US$ exchange rate that resulted from the decision of the Government of the Republic of Kazakhstan and NBK to switch to the free-floating exchange rate regime of the tenge in Q3 2015.

The following charts depict production lifting costs of OMG and EMG in US$/bbl* and tenge/tonne:

Lifting costs of OMG
US$ per bbl*

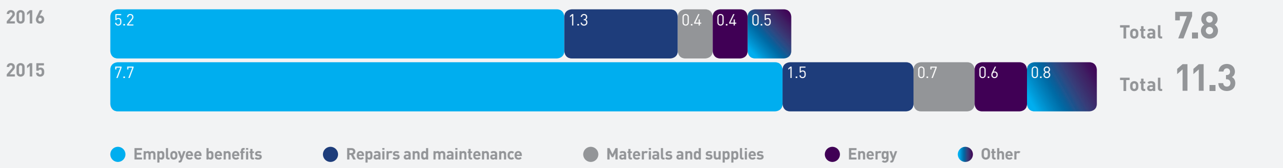


Lifting costs of OMG
tenge per tonne

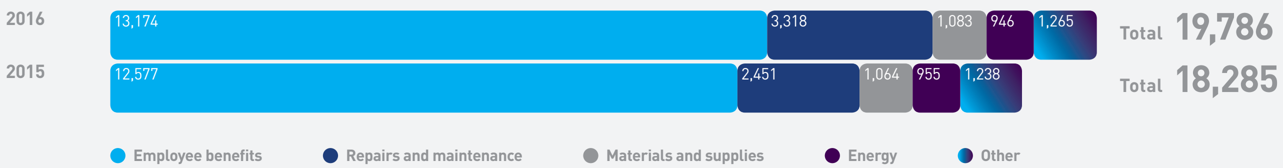


*Converted at 7.36 barrels per tonne of crude oil.

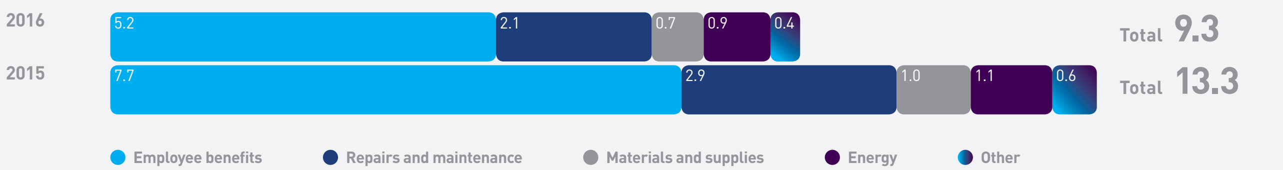
Lifting costs of EMG
US$ per bbl*



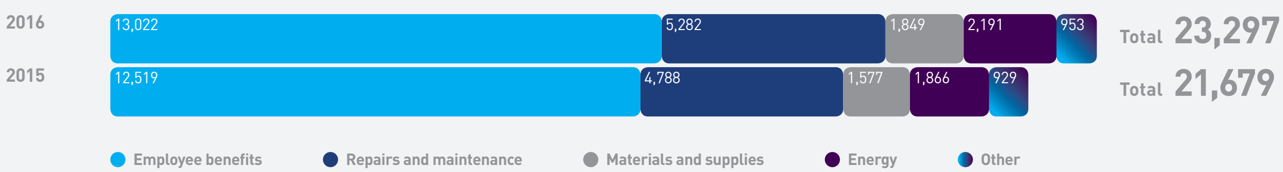
Lifting costs of EMG
tenge per tonne



OMG and EMG lifting costs
US$ per bbl*



OMG and EMG lifting costs
tenge per tonne



*Converted at 7.36 barrels per tonne of crude oil.

Selling, general and administrative expenses

The following table presents a breakdown of the Company's selling, general and administrative expenses resulting mainly from the OMG, EMG and KMG EP Head office operations:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
million tenge, unless otherwise stated					million tenge, unless otherwise stated		
23,072	22,826	21,036	10%	Transportation expenses	91,851	66,637	38%
6,352	3,960	5,623	13%	Employee benefits	18,331	19,364	-5%
1,802	1,803	–	100%	Agency fee	5,407	–	100%
319	1,865	759	-58%	Consulting and audit services	3,238	1,889	71%
565	377	281	101%	Sponsorship	2,093	726	188%
311	494	423	-26%	Repairs and maintenance	1,212	1,026	18%
–	–	(3,338)	-100%	Management fees	–	–	0%
(13,516)	(2,029)	2,392	-665%	Net (reversal) / accrual of fines and penalties	(14,117)	24,737	-157%
1,603	2,621	1,165	38%	Other	7,007	4,222	66%
20,508	**31,917**	**28,341**	**-28%**	**Total SG&A expenses**	**115,022**	**118,601**	**-3%**

Selling, general and administrative expenses in 2016 amounted to 115.0 billion tenge, 3% less than in 2015. The decrease is mainly due to a reversal of previously accrued expenses for fines and penalties as well as a decrease in employee benefits, which were partially offset by an increase in transportation expenses and the agency fee.

The increase in transportation expenses in 2016 compared to 2015 resulted primarily from higher transportation costs for the CPC route due to an increase in the average tenge/US$ exchange rate as the CPC tariff is mostly US$-denominated, as well as an increase in volume of export via the CPC route. Moreover, transportation costs for domestic routes increased in 2016 compared to 2015 due to an increase in domestic sales volumes and in the transportation tariffs of JSC KazTransOil for domestic routes of 10%.

Employee benefits in 2016 decreased by 5% compared to 2015, mainly due to a decrease in actuary obligations of 1.4 billion tenge, which was partially offset by a 7% indexation in basic salaries for administrative personnel from January 1, 2016

The agency fee accrued in 2016 in the amount of 5.4 billion tenge corresponds to commissions paid to KMG RM for the sale of the Company's oil products.

In 2016, the Company reversed the administrative fine in the amount of 3.6 billion tenge and the penalty related to CIT and EPT in the amount of 1.7 billion tenge in accordance with the positive court decision concerning the Tax Revision Act covering the period 2006–2008. Additionally, in 2016 the Company reversed penalties of 9.6 billion tenge related to CIT, EPT and MET provisions based on the decision of the Committee of State Revenue to reduce the tax principle and penalty on the results of the 2009–2012 comprehensive tax audit.

Taxation

Taxes other than on income

The following table presents a breakdown of the Company's taxes other than on income as represented mainly by OMG and EMG operations:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(million tenge, unless otherwise stated)					(million tenge, unless otherwise stated)		
20,881	22,067	22,648	-8%	Export customs duty	76,411	65,588	17%
(473)	7,394	16,114	-103%	Mineral extraction tax	39,188	67,160	-42%
4,753	3,768	8,453	-44%	Rent tax	18,164	39,838	-54%
1,671	1,704	1,734	-4%	Property tax	6,699	6,265	7%
2,796	1,560	968	189%	Other taxes	4,969	2,650	88%
29,628	**36,493**	**49,917**	**-41%**	**Total taxes other than on income**	**145,431**	**181,501**	**-20%**

Taxes other than on income in 2016 decreased by 36.1 billion tenge or 20% compared to 2015, mainly due to the decreases in mineral extraction tax and rent tax, which were partially offset by the increase in export customs duty.

The decrease of MET in 2016 compared to 2015 mainly resulted from applying a reduced MET rate for JSC Ozenmunaigas for the Uzen and Karamandybas fields in Mangistau oblast as the result of a request for MET relief being approved by the Kazakh Government as well as the drop in the average Brent price from US$52.4 per barrel in 2015 to US$43.7 per barrel in 2016. The reduced MET rate is set at 9.0% (compared to 13.0% in 2015) for the whole of 2016 on the condition that in 2016 Uzen and Karamandybas fields record losses under tax accounting. Additionally, the Company reversed 6.6 billion tenge of MET liabilities related to 2012 based on the decision of the Committee of State Revenue to reduce the tax principle and penalty on the results of the 2009–2012 comprehensive tax audit. The MET liabilities were reversed as the result of applying MET rates for 2012 for OMG and EMG, corresponding to the production volume of each company. Moreover, the Company reversed 6.1 billion tenge of MET provision based on the decision of the Committee of State Revenue to reduce the tax principle and penalty on the results of the 2009-2012 comprehensive tax audit. This was partially offset by an increase in production volumes and an increase in the average tenge/US$ exchange rate.

Rent tax decreased in 2016 compared to 2015 mainly as the result of a reduction in the Company's tax payable of 11.7 billion tenge, which was the amount of the reduction in rent tax using the new revised rates for 2012–2015. In 2016 changes in the tax legislation were introduced in relation to the methodology of rent tax calculation. On the basis of these changes, and following correspondence with the tax authorities, the Company has refiled its rent tax declarations for 2012–2015. Additionally, rent tax decreased due to the average Brent price drop, which resulted in a reduction in the tax rate to 0% in Q1 2016, which was partially offset by an increase in the average tenge/US$ exchange rate and export volumes.

ECD expenses increased in 2016 compared to 2015, mainly due to the increase in export volumes and export of oil products as the result of the Company's decision to switch to an oil processing scheme starting from April 2016 as well as an increase in the average tenge/US$ exchange rate, which was partially offset by the average ECD rate drop from US$66 per tonne of crude oil in 2015 to US$39 per tonne of crude oil in 2016. The ECD rate was reduced from US$80 to US$60 per tonne of crude oil effective from March 19, 2015, and from US$60 to US$40 per tonne of crude oil effective from January 1, 2016. A floating ECD rate was introduced from March 1, 2016.

Income tax expense

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(million tenge, unless otherwise stated)					(million tenge, unless otherwise stated)		
64,936	68,885	161,752	-60%	Profit before tax	168,652	371,190	-55%
69,933	69,778	181,828	-62%	Profit before tax (with adjustments*)	181,252	395,610	-54%
9,083	10,411	55,856	-84%	Income tax	37,076	127,521	-71%
9,083	10,411	55,856	-84%	Income tax (with adjustments*)	35,374	127,521	-72%
14%	15%	35%	-60%	Effective tax rate	22%	34%	-35%
13%	15%	31%	-58%	Effective tax rate (with adjustments*)	20%	32%	-38%

* Profit before tax and income tax expense without share in results of JV's and associated company, impairment charges and related amounts for past periods and deferred tax benefit.

The main reason for the lower income tax in 2016 compared to 2015 is the lower taxable profit from the decrease in the average Brent price and the recognition of the foreign exchange loss in 2016 compared to the foreign exchange gain in 2015.

Strategic Report

Overview of JVs and associate operations

Below is the Company's share in income of associate and joint ventures as reflected in the Company's audited condensed Consolidated Financial Statements:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
million tenge unless otherwise stated					million tenge unless otherwise stated		
334	1,495	(5,296)	-106%	Share in income / (loss) from KGM	4,312	2,626	64%
(4,768)	(2,135)	(6,395)	-25%	Share in loss from PKI	(15,334)	(17,772)	-14%
(563)	(253)	(4,885)	-88%	Share in loss from UOG	(1,578)	(4,916)	-68%
(4,997)	**(893)**	**(16,576)**	**-70%**	**Share in loss in associate and JVs**	**(12,600)**	**(20,062)**	**-37%**

KGM

KGM's core operating activity is the production and sale of hydrocarbons in the Akshabulak, Nuraly and Aksai oilfields in the South Turgai basin, Kyzylorda region. The Company acquired a 50% stake in JV Kazgermunai LLP in April 2007.

KGM's oil production in 2016 was 2,936 thousand tonnes (50% share is 1,468 thousand tonnes), which is 64 thousand tonnes or 2% lower than in 2015.

KGM key financial and operational indicators (100%) are shown below:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(thousand US$, unless otherwise stated)					(thousand US$, unless otherwise stated)		
128,059	144,164	112,082	14%	Revenue	455,391	628,154	-28%
(95,602)	(95,661)	(80,605)	19%	Operating expenses	(339,728)	(398,697)	-15%
(386)	(4)	(237)	63%	Finance income / (cost), net	(835)	(790)	6%
(1,130)	(720)	35,329	-103%	Foreign exchange gain / (loss), net	(6,459)	25,907	-125%
(22,560)	(32,830)	(114,608)	-80%	Income tax (expense) / benefit	(58,148)	(218,532)	-73%
8,381	14,949	(48,039)	-117%	Net income	50,221	36,042	39%
736	741	745	-1%	Crude oil production, thousand tonnes	2,936	3,000	-2%

The decrease in 2016 revenue mainly resulted from a decrease in the average export and domestic prices, as well as a lower domestic and export sales volume in comparison with 2015.

KGM's crude oil sales, split by routes, are as follows:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(thousand tonnes)							(thousand tonnes)
578	425	552	5%	Domestic market	2,061	2,102	-2%
156	317	194	-20%	Export via KCP	867	880	-1%
734	**742**	**746**	**-2%**	**Total crude oil sales**	**2,928**	**2,982**	**-2%**

A decrease in average export and domestic prices, as well as domestic and export sales volume, also resulted in a decrease in operating expenses, particularly transportation expenses (by US$26.0 million), export customs duty (by US$23.3 million) and rent tax (by US$18.9 million).

ECD expenses decreased by US$23.3 million due to the average ECD rate drop from US$66 per tonne of crude oil in 2015 to US$39 per tonne of crude oil in 2016, and a decrease in export sales volumes in 2016 compared to 2015.

Operating expenses on a per barrel sold basis are as follows:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(US$ per bbl sold*)							(US$ per bbl sold*)
4.2	4.9	3.0	40%	DD&A	4.7	3.7	27%
2.1	2.7	3.1	-32%	Transportation expenses	2.2	3.3	-33%
1.1	2.3	2.2	-50%	Export customs duty	1.6	2.6	-38%
1.5	2.3	1.1	36%	Mineral extraction tax	1.6	1.8	-11%
1.2	0.8	1.1	9%	Repairs and maintenance	0.9	1.2	-25%
1.1	0.8	1.0	10%	Employee benefits	0.8	1.1	-27%
0.7	1.3	0.6	17%	Rent tax	0.7	1.5	-53%
0.9	0.4	0.7	29%	Materials and supplies	0.5	0.6	-17%
–	0.5	(0.4)	-100%	Fines and penalties	0.2	0.4	-50%
4.2	0.6	1.7	147%	Other	1.9	1.2	58%
17.0	**16.6**	**14.1**	**21%**	**Total operating expenses**	**15.1**	**17.4**	**-13%**

*Converted at 7.7 barrels per tonne of crude oil.

The share in KGM income, reflected in the audited Consolidated Financial Statements of the Company, represents a proportionate share of the results of KGM for 2016, adjusted for the impact of amortisation of the fair value of the licences, partially offset by a related deferred tax benefit of 4.2 billion tenge (1.4 billion tenge in 2015).

For the capital expenditure analysis of JV's and associate please refer to the "Capital Expenditure Overview" section.

PKI

PKI is an oil and gas group involved in field exploration and development, oil and gas production and the sale of crude oil. The Company acquired a 33% stake in PKI in December 2009.

During 2016, PKI produced 3,747 thousand tonnes of oil (33% share: 1,236 thousand tonnes) which is 15% less than in 2015. The decline in production was due to the reserve depletion of some of PKI's mature fields and a decrease in drilling activity. PKI's key financial and operational indicators (100%) are shown below:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(US$ thousand, unless otherwise stated)							(US$ thousand, unless otherwise stated)
197,487	184,521	170,411	16%	Revenue	682,357	984,943	-31%
(222,496)	(160,262)	(224,710)	-1%	Operating expenses	(672,955)	(1,012,943)	-34%
5,027	(1,085)	(10,835)	-146%	Finance cost, net	(19,719)	(41,796)	-53%
1,761	(17,424)	(27,725)	-106%	Income tax expense	(27,214)	(124,683)	-78%
(18,221)	5,750	(92,859)	-80%	Net income / (loss)	(37,531)	(194,479)	-81%
905	917	1,069	-15%	Crude oil production, thousand tonnes	3,747	4,390	-15%

The decrease in revenue in 2016, in comparison with 2015, occurred mainly due to lower export and domestic volumes and a decrease in average Brent prices and domestic prices.

PKI's crude oil sales split by routes are as follows:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(thousand tonnes)							(thousand tonnes)
554	565	727	-24%	Domestic sales	2,405	2,804	-14%
198	125	166	19%	Export via KCP (PKKR 100%)	616	762	-19%
77	159	97	-21%	Export via KCP (KGM 50%)	433	440	-2%
28	23	31	-10%	Export via KCP (Kolzhan 100% & PKVI 75%)	102	105	-3%
20	23	–	100%	Export Uzbekistan (TP 50%)	72	–	100%
14	8	43	-67%	Export via KCP (TP 50%)	61	181	-66%
891	**903**	**1,064**	**-16%**	**Total crude oil sales**	**3,689**	**4,292**	**-14%**

Operating expenses decreased mainly due to lower export and domestic sales volume, and a drop in average export and domestic prices that primarily resulted in lower transportation expenses (by US$50.0 million), ECD (by US$43.7 million) and rent tax (by US$32.6 million).

Operating expenses on a per barrel sold basis are as follows:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(US$ per bbl sold*)							(US$ per bbl sold*)
4.5	9.8	5.2	-13%	DD&A	7.6	8.4	-10%
2.9	2.7	3.0	-3%	Transportation expenses	2.7	3.8	-29%
2.1	2.0	2.3	-9%	Export customs duty	1.8	2.9	-38%
1.4	1.4	1.1	27%	Repairs and maintenance	1.4	2.1	-35%
1.6	1.3	1.4	14%	Employee benefits	1.4	1.9	-26%
1.5	1.6	1.2	25%	Mineral extraction tax	1.4	1.8	-22%
1.1	0.8	1.1	0%	Materials and supplies	0.9	1.1	-18%
1.3	1.2	0.9	44%	Rent tax	0.8	1.7	-53%
0.1	0.6	2.7	-96%	Fines and penalties	0.1	1.1	-91%
15.7	1.6	8.4	87%	Other	5.5	5.8	-5%
32.2	**23.0**	**27.3**	**18%**	**Total operating expenses**	**23.6**	**30.6**	**-23%**

*Converted at 7.75 barrels per tonne of crude oil.

The share in PKI's results reflected in the Company's audited Consolidated Financial Statements represents a proportionate share of the results of PKI in 2016 adjusted for the impact of amortisation of the fair value of the licences in the amount of 11.1 billion tenge (7.3 billion tenge in 2015).

For the capital expenditure analysis of JVs and associate please refer to the "Capital Expenditure Overview" section.

CCEL

As per the purchase agreement arrangements, interest in CCEL is reflected as a financial asset in the audited Consolidated Financial Statements of the Company in accordance with IFRS. CCEL results included herein are presented for information purposes only and are not consolidated or equity accounted in the audited condensed consolidated financial statements of the Company.

In December 2007, the Company acquired a 50% stake in CCEL Karazhanbasmunai ('CCEL'). CCEL explores heavy oil in the Karazhanbas field, which is situated on the Buzachi peninsula, 230 km from Aktau. The field was discovered in 1974 and is the largest shallow field of high-viscosity oil in the CIS; its exploitation is carried out by applying thermal methods.

As of December 31, 2016 the Company had 34.3 billion tenge (US$103.0 million) as a receivable from CCEL. The Company has accrued 4.6 billion tenge (US$13.4 million) of interest income in 2016, relating to the US$26.87 million annual priority return from CCEL. Payments are usually made twice a year, in Q2 and Q4.

In 2016, CCEL produced around 2,127 thousand tonnes (50% share: 1,064 thousand tonnes) of crude oil, which decreased by 1% compared to 2015. CCEL's key financial and operational indicators (100%) are as follows:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(thousand US$, unless otherwise stated)					(thousand US$, unless otherwise stated)		
155,263	139,268	99,734	56%	Revenue	565,317	569,399	-1%
(139,177)	(126,248)	(163,330)	-15%	Operating expenses	(488,334)	(763,435)	-36%
4,217	(5,227)	(8,220)	-151%	Finance cost, net	(11,305)	(28,503)	-60%
(11,109)	25	(21,264)	-48%	Income tax (expense) / benefit	(4,766)	(7,707)	-38%
9,194	7,818	(93,080)	-110%	Net income / (loss)	60,912	(230,246)	-126%
539	535	534	1%	Crude oil production, thousand tonnes	2,127	2,138	-1%

The decrease in revenue in 2016 is mainly a result of a decrease in average export sales prices. CCEL crude oil sales split by routes is as follows:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(thousand tonnes)					(thousand tonnes)		
280	238	210	33%	Export via Novorossiysk	1,105	885	25%
175	207	217	-19%	Export via Ust'–Luga	843	666	27%
38	–	63	-40%	Domestic market	38	382	-90%
–	–	–	0%	Shipments of crude oil to Russia	–	139	100%
493	**445**	**490**	**1%**	**Total crude oil sales**	**1,986**	**2,072**	**-4%**

Total operating expenses in 2016 decreased by 36% compared to 2015 mainly due to the decrease in employee benefits, repairs and maintenance, rent tax, ECD and DD&A.

Rent tax decreased in 2016 compared to 2015 as a result of the decrease in average Brent price. ECD expenses decreased due to the ECD rate drop from US$80 to US$60 per tonne of crude oil effective from 19 March 2015, from US$60 to US$40 per tonne of crude oil effective from 1 January 2016, as well as the introduction of a floating ECD rate from 1 March 2016. The decrease in ECD expenses was partially offset by an increase in export sales in 2016 compared to 2015.

Employee benefits, as well as repairs and maintenance costs, decreased in 2016 compared to 2015 mainly as a result of the decision of the Government of the Republic of Kazakhstan and NBK to switch to the free-floating exchange rate regime of the tenge in Q3 2015. Repairs and maintenance costs also decreased due to a decrease in the cost of well servicing in 2016 compared to 2015, which was partially offset by an increase in volume of well servicing.

Operating expenses on per barrel sold basis are as follows:

Q4 2016	Q3 2016	Q4 2015	Change		2016	2015	Change
(US$ per bbl sold*)							(US$ per bbl sold*)
8.6	5.9	10.1	-15%	Employee benefits	7.9	11.1	-37%
7.5	8.7	7.5	0%	Transportation benefits	7.2	7.1	1%
6.4	6.9	8.7	-26%	Export customs duty	5.8	7.4	-22%
3.7	3.8	2.8	32%	Energy	3.8	3.9	-3%
3.2	3.6	(2.3)	-239%	DD&A	3.2	4.9	-35%
3.6	3.5	2.5	44%	Rent tax	2.4	4.3	-44%
1.2	1.8	2.9	-59%	Repairs and maintenance	1.7	3.8	-55%
1.0	0.8	0.6	67%	Materials and supplies	0.8	0.9	-11%
0.3	0.3	0.2	50%	Mineral extraction tax	0.3	0.3	0%
6.9	7.0	16.9	-59%	Other	3.7	11.4	-60%
42.4	**42.3**	**49.9**	**-15%**	**Total operating expenses**	**36.8**	**55.1**	**-33%**

* Converted at 6.68 barrels per tonne of crude oil.

For the capital expenditure analysis of JV's and associate please refer to the "Capital Expenditure Overview" section.

Lifting cost and netback analysis of JVs and associated company

Lifting costs of producing JVs and associate company are represented as follows:

	KGM	PKI	CCEL
	(thousand US$, unless otherwise stated)		
Employee benefits	12,555	25,230	93,164
Materials	12,055	24,877	10,435
Repair and maintenance	9,387	22,721	22,706
Energy	9,515	16,357	50,981
Other	2,695	17,114	49,679
Total lifting expenses	46,207	106,299	226,965
Production (thousand tonnes)	2,936	3,747	2,127
Lifting cost US$ per bbl*	**2.0**	**3.7**	**16.0**

* Following average tonne / bbl conversion factors were used KGM 7.7, PKI 7.75, CCEL 6.68.

Netback of export sales at major producing JVs and associate company is represented as follows:

	KGM	PKI	CCEL
	(US$ per bbl sold*, unless otherwise stated)		
Benchmark end-market quote (Brent)	43.7	43.7	43.7
Price differential and premium of bbl difference, net	(8.2)	(8.0)	(4.1)
Average realised price	**35.5**	**35.7**	**39.6**
Rent tax	(2.2)	(2.3)	(2.3)
Export customs duty	(5.4)	(5.2)	(5.5)
Transportation expenses	(3.7)	(5.0)	(6.7)
MET	(4.3)	(2.7)	(0.2)
Netback price	**19.9**	**20.5**	**24.9**

* Following average tonne / bbl conversion factors were used KGM 7.7, PKI 7.75, CCEL 6.68.

Netback of domestic sales at major producing JVs and associate company is represented as follows:

	KGM	PKI	CCEL
	(US$ per bbl sold*, unless otherwise stated)		
Average realised price	**13.6**	**17.3**	**13.9**
Transpotation expenses	(1.4)	(1.3)	(1.4)
MET	(0.4)	(0.5)	(0.1)
Netback price	**11.8**	**15.5**	**12.4**

* Following average tonne / bbl conversion factors were used KGM 7.7, PKI 7.75, CCEL 6.68.

Liquidity and capital resources

The Company's liquidity requirements arise principally from its need to finance existing operations (working capital), the need to finance investment (capital expenditure) and to reach its growth targets via acquisitions. The management believes that the Company has an adequate liquidity position to meet its obligations and pursue investment opportunities.

Financial asset movement for 2016
million tenge

During 2016, net financial assets inflow from operating activities and FOREX amounted to 140.8 billion tenge, 316.8 billion tenge less than in 2015. The decrease is primarily attributable to lower exchange gain recognition in 2016 compared to 2015.

Net financial assets outflow from investing activities in 2016 was 62.2 billion tenge versus an outflow of 56.7 billion tenge in 2015.

The increase in net outflows primarily resulted from higher capital expenditure (13.1 billion tenge more) and lower loan repayments received from related parties (6.8 billion tenge less), which was partially offset by higher dividends received from joint ventures and associate company (13.7 billion tenge more).

Net financial asset outflow from financing activities in 2016 was 2.3 billion tenge (outflow of 30.2 billion tenge in 2015). The decrease in outflows is mainly associated with the lower dividends paid to the Company's shareholders in 2016 compared to 2015 (28.9 billion tenge less), which were partially offset by the higher repayment of borrowings made in 2016 compared to 2015 (0.9 billion tenge more).

Net cash position

The table below shows a breakdown of the Company's net cash position:

	As at December 31, 2016	As at December 31, 2015	Change
	(million tenge, unless otherwise stated)		
Current portion	5,483	5,585	-2%
Non-current portion	3,844	5,990	-36%
Total borrowings	**9,327**	**11,575**	**-19%**
Cash and cash equivalents	162,091	237,310	-32%
Other current financial assets	983,257	833,912	18%
Non-current financial assets	35,961	33,760	7%
Total financial assets	**1,181,309**	**1,104,982**	**7%**
Foreign currency denominated cash and financial assets, %	**97%**	**99%**	
Net cash	**1,171,982**	**1,093,407**	**7%**

Risk factors

The Company's activity is subject to multiple risks and uncertainties of an economic, political, legislative, social, production and financial nature. When taking decisions, interested parties should bear in mind that these risk factors could have an impact on the Company's financial and operating performance.

Risk Management Policy is an integral part of the Company's corporate governance, and is a constantly developing process which helps it systematically identify, assess and manage its risk portfolio by analysing historical and current growth, as well as future growth prospects.

Further details on risk policy may be found in the Company's Prospectus for ordinary shares and GDR issues, while an analysis of key financial risks may be found in the annual audited financial statements.

An additional incomplete list of principal risks is presented below.

Key risk	Description	How we manage it
Political risks	— The country's political leadership has the capacity to change foreign or domestic policy in ways that could significantly affect the investment attractiveness of the country in general and the Company in particular; — The Government could substantially cut export quotas or change the rules governing the volume and price of deliveries to the domestic market in ways which could have a significant impact on the Company's financial performance; — The Government may also oblige the Company to supply it with sufficient oil to fulfil the Government's own oil delivery obligations according to inter-governmental agreements, and at below-export prices; — There is also the possibility of changes to legislation, including tax legislation, aimed at maximising budget revenues from the energy and natural resource industries; — The Government could also limit the Company's ability to manage its own cash flow, including the allocation of its deposit and cash portfolio. Changes to the Government's foreign exchange management policy could also influence the financial results of the Company; — The state's representatives, SWF Samruk-Kazyna and NC KMG, could also have an impact on KMG EP which conflicts with the interests of KMG EP's minority shareholders by taking or not taking a range of substantial decisions in the interests of the state.	The Company is taking appropriate measures to maintain its economic sustainability in the current political conditions. The Company is working jointly with the Parent Company and respective authorities in the energy field to ensure a good balance between stakeholder interests. The Company is actively cooperating with industry, professional unions and alliances (Association of Kazakhstan tax payers, Kazenergy, National chamber of entrepreneurs, etc.) with a goal of attending in legislation setting works, statement on behalf of mentioned unions to state organs in the interest of KMG EP group of companies.

Strategic Report

Key risk	Description	How we manage it
Economic risks	— Changes in the global market prices for oil and oil products which remain extremely volatile. High volatility is due to a number of factors affecting the global balance of supply and demand, especially the international political environment and international conflicts affecting key oil-producing countries and the political environment in key energy producing regions. Low oil and oil products prices over an extended period of time, in either domestic or foreign markets, will have a negative impact on the Company's financial performance, especially if prices fall below the cost of production. — Current legislation regulating the procurement of goods and services does not permit improvement in the efficiency of technical support and logistics; — The lack of a competitive environment among suppliers and contractors could reduce the quality of work and services provided to the Company; — Adverse changes to the financial system of Kazakhstan may worsen conditions for the placing of free cash funds — Due to the switch to the independent crude oil processing scheme, there is a risk of processing fees increasing at the refineries.	The Company pays special attention to this risk and carries out the following measures: — preparation of annual budgets and periodic forecasts, using a conservative choice of forecast prices, including sensitivity analysis to different levels of crude oil future prices; — monitoring of forecasts for crude oil prices from leading global analytical agencies and analysis of economic feasibility of oil price hedging; — publication of procurement announcements in open sources for expansion of competitive environment; and — quality control of provided services by suppliers and contractors.
Strategic and investment risks	KMG EP's production assets are at mature fields in the later stages of operation, characterised by high water cut. Depletion of reserves might have a substantial effect on the Company's long-term strategy and its equity value. The following measures may be taken for replacement of the Company's resource base: — Limits on the number of new onshore assets in Kazakhstan available for purchase; — Increased competition from large international oil companies for access to oil and gas assets; KMG EP might experience difficulty implementing its strategy, in particular being unable to invest its cash in furtherance of its strategy; In addition, because KMG EP is the largest oil and gas company in the Government's portfolio, the state, through SWF Samruk-Kazyna and NC KMG, could direct KMG EP to act in the wider interests of the state as a whole which may run contrary to the interests of KMG EP's shareholders. This could happen if the Relationship Agreement between KMG EP and NC KMG, which provides for the business independence of KMG EP, is altered in a way that negatively affects the corporate governance of KMG EP. All these factors, either separately or together, could lead to an under-estimate or over-estimate of the attractiveness of KMG EP's projects and could lead to inefficient investment decisions and, consequently, to a fall in the level of reserves and the value of the Company.	The Company seeks maximum realisation of its potential and targets opportunities to increase resources. In February 2015, KMG EP and the Committee of Geology and Subsoil Use of the Ministry for Investment and Development of the Republic of Kazakhstan signed a Memorandum of Mutual Cooperation in the field of exploration. Under the terms of the Memorandum, the Company will proceed with geological studies in promising areas to explore for potential oil and gas fields and to increase hydrocarbon resources.

Key risk	Description	How we manage it
Regional risks	— The risks of social and economic upheaval in the regions where the Company operates are potentially high. The Company's assets in the Mangistau region, as has been shown several times, are at risk of social conflicts and strikes causing a material impact on the Company's operations and performance.	The Company has consistently sought to promote and maintain social stability in its operating regions and actively interacts with local governments and communities to ensure that its social programmes are carefully targeted.
	— Climatic conditions in these regions vary widely according to the seasons, and their geographical remoteness requires a special emphasis on secure transport and electricity supplies to ensure continuous operations.	In order to minimise the possible consequences of risks associated with climatic events, including the threats posed by natural disasters, the Company pays special attention to measures ensuring continuity of business operations and industrial safety.
Exploration	— The risks associated with exploration activities are related to the non-confirmation of the planned increase of the resources being explored and the rising costs of current geological exploration projects. — Conducting exploration work carries the risk of accidents, a well being out of control and/or harm to the health of workers and/or environment, which can entail property damage, additional expenditure to fix the well, compensation expenses for the damage to the health of workers, and/or compensation for harm caused to the environment, all of which would negatively affect the cost and timing of the implementation of the exploration programme.	To increase the success rate of the exploration programme and reduce associated risks the Company carries out comprehensive geological and geophysical analyses in addition to traditional seismic surveys, which include geochemical and gravimetric exploration techniques and special methods for geophysical data processing.

Key risk	Description	How we manage it
Production	Key factors that may affect the efficiency of the Company's production include: — The status and condition of the main stock of wells; — Increase of water cut level at the Company's fields; — Technical integrity of equipment; — Continuity of power supply; — Weather conditions; — Timeliness of procurement and supply of equipment; — Quality of delivered equipment; — Rising costs of services, materials and fixed assets outstripping productivity growth; — Limited control over operating and capital costs; — Problems with the timeliness and quality of service provided by contractors; — Non-fulfillment of planned organizational-technical and geological-technical measures; — Safety of operating personnel; — Environmental security; — Effectiveness of planning; — Compliance with state regulators; — Social instability; — Failure or breakdown of primary equipment.	The Company uses the latest methods and technologies to control key business production processes. To reduce these risks the Company employs preventive measures and a modernisation programme together with major repairs of equipment. The core production equipment is insured against loss by fire, explosion, natural or other hazards, and the Company also insures against the risk of well blowouts.
Health, safety and environment	— The Company's production activities involve a wide range of risks to workers' health and the environment. These risks include unsafe work practices, industrial accidents, environmental damage and pollution, and natural disasters. The consequences can be extremely severe, including fatal accidents in the workplace, air, soil and water pollution, fire, and the suspension or termination of production. — There is always a risk of ambiguity in the interpretation of environmental laws and regulations that may not always work in the Company's favour, and which could potentially lead to claims and penalties.	The Company undertakes various measures to prevent the occurrence of such threats, including control over occupational health and safety environments, hazard identification and safety training for personnel. The Company's current labour protection systems and health, safety and environmental protection policies function in accordance with ISO 14001 and OHSAS 18001. Every year the Company insures against occupational safety and environmental risks associated with its own activities and projects.

Key risk	Description	How we manage it
Financial risks – Currency risks, inflation	— The Company conducts its principal operations in the Republic of Kazakhstan and uses the Kazakhstan tenge as the base currency for accounts. The payment of wages, energy costs, and logistics services are all sensitive to the tenge inflation rate. — Much of the Company's revenues are denominated in US$ or are linked to the US$. Part of the Company's expenses are also denominated in foreign currencies, or otherwise significantly dependent on the fluctuations of foreign currencies (mainly the US$ and, to a lesser extent, the euro and the Russian ruble) against the Kazakhstan tenge. Currently, approximately half the Company's operating costs are denominated in tenge. A rise in the value of the US$ would make oil exports more profitable.	The Company's treasury department implements an efficient centralized treasury policy
Financial risks – Credit risks	— Operations associated with the movement of material and cash flows for counterparties are most susceptible to credit risks. These risks start with the financial institutions which service the financial flows of the Company itself and extent right through to the financial operations of the end buyers of products and contractors providing various services to the Company.	An efficient centralised cash management system has been implemented by the Company's Treasury department.
Tax risks	— The tax system of the Republic of Kazakhstan is characterised by low levels of law enforcement practice in respect of recently adopted regulations. It is also characterised by the risk of additional taxation, fines and penalties being levied on the basis of a broad interpretation of the legislation. These factors complicate the planning of the Company's tax payments.	The Company takes actions to minimise such risks by taking part in work to improve the quality of the Tax Code and by suggesting amendments. In addition, the Company continues to defend its interests in the courts.

Key risk	Description	How we manage it
Changes in customs regulations and duties	— As the Company is engaged in foreign trade, factors such as changes to customs regulations, the volatility of export customs duty (ECD) rates, and lack of a transparent formula for calculating ECD, could all adversely affect the Company's financial results.	The Company continuously monitors changes in the current legislation of the Republic of Kazakhstan, and takes part in work on changes to customs regulations and on the harmonisation of the fiscal environment for subsoil use companies.
Partner risks	— The Company cooperates with and engages both foreign and local companies in various areas of its business. It may have limited or no impact, however, on the way its partners conduct business or operate, even though this may affect the completion of specific projects and the operating and financial performance of the Company. — Changes are probable in the terms and timing of payment for the supply of crude oil by purchasers due to the unforeseen deterioration of the financial position and/or other internal and external factors faced by the purchaser.	The Company pays particular attention to the selection of appropriate partners and seeks to develop long-term and mutually beneficial partner relationships.
Information technology	— The Company is subject to risks in the area of IT security.	The Company pays particular attention to providing for the integrity of important information and the secure storage and confidentiality of business data.
Corporate governance risks	— One of the major factors affecting the efficient operation of the Company is a reduction in its organisational capacity.	The Company has developed a series of measures aimed at increasing the loyalty, motivation and professional skills of its staff. Considerable attention is also paid to improving management's leadership skills and the development of a personnel reserve.

Key risk	Description	How we manage it
Fraud and corruption	— Resource allocation contrary to the best interests of the Company, the causing of damage to the Company for the sake of personal gain, or any other evidence of corruption is totally unacceptable, regardless of the extent of the financial damage caused. — The facts of fraud and corruption may lead to such consequences as imposition of significant monetary fines, suspension or termination of trading of the Company's securities, bringing employees and/or senior officials to disciplinary, administrative or criminal responsibility in accordance with the legislation of Republic of Kazakhstan or United Kingdom.	The Company takes all possible steps to prevent illegal activities and actions that could cause it reputational damage. The Company is subject to the Kazakh Law on Counteracting Corruption, as well as the UK Bribery Act 2010 which came into force in July 2011. The Company has set up its own internal policies and procedures in strict accordance with these laws. The Company provides the means for employees, business partners and third-party contractors engaged by the Company to report concerns regarding any possible or potential violations of the anti-corruption legislation by Company employees or other persons associated with the Company. Information on the Whistleblowing Policy can be found on the corporate website. All employees are acquainted with the Company's anti-corruption policies and policy on proactive information and are required to confirm their understanding of the requirements of the anti-corruption legislation and the Company's internal documents on combating corruption. Employees of the Company and its subsidiaries are trained in compliance with anti-corruption laws and with internal Company policies.

Key risk	Description	How we manage it
		continued The Company strives to ensure compliance with anti-corruption laws by third parties engaged by the Company. To this end, an appropriate clause is provided in all contracts concluded by the Company with third parties. This requires employees of third- party companies to comply with anti-corruption legislation and to inform the Company of any suspected breaches, and confirms the right of the Company to conduct a comprehensive assessment of the reliability of a third party if there is suspicion of violation of anti-corruption legislation.

Environment and Health & Safety

For KMG EP, implementing a leadership strategy does not mean simply achieving higher production and financial results. Achieving new production horizons and targets requires raising the overall quality of environmental management and environmental safety.

The Board of KMG EP carefully monitors management's progress in raising safety levels and constantly lowering the incident rates of accidents, workplace injuries and professional illnesses.

Policy

Highlights of the Company's approach to environmental matters, as recorded in the Company's HSE policy, are recorded below.

- The Company will comply with the legislative and regulatory legal requirements of the Republic of Kazakhstan and with the international laws and agreements governing oil companies.
- The Company will strive to improve its environment performance and achieve its targets.
- The Company will aim to achieve a level of environmental performance that is in line with that of the world's leading oil companies.
- The Company will strive to minimise the effects of its activities on the environment.
- The Company will improve the effectiveness of environmental controls by installing state-of-the-art information technology, engineering diagnostics methods, and remote sensing.
- The Company will provide sufficient training and development to employees and contractors to ensure that they are fully aware of its health & safety and environmental obligations and responsibilities, and to encourage resource saving such as the application of re-use and re-cycling processes.

Environmental protection

As its business operations are directly related to the use of natural resources, KMG EP acknowledges it has a social responsibility to use these resources sustainably and preserve the environment.

The Company recognises its responsibility to society to ensure that the impacts of its activities on the environment are kept to a minimum. The Company annually allocates considerable funds to finance environmental protection measures.

In 2016, 3,110 million tenge (US$9.1 million) was spent on environmental protection programmes at the four main production operations, which is 1,530 million tenge less than the level of expenditure in 2015.

Expenditure on environmental protection 2015-2016
million tenge

Name of development organisation	2015	2016
OMG	1,760	1,430
EMG	1,530	690
KBM	770	560
KGM	580	430
Total	**4,640**	**3,110**

In accordance with the Environment Monitoring Programme, the following activities have been carried out in 2016 in the contract areas of OMG, EMG, KBM and KGM.

In order to remove the potential risk of penalties, in 2016 EMG completed an analysis to identify remaining and new oil-contaminated areas within EMG fields, where EMG will subsequently perform remediation.

During the reporting period 70.9 thousand tonnes of production and consumption waste were processed and disposed of on the territory of OMG's deposits. This included the processing of 8,100 tonnes with OMG's own resources using thermocracking, and 60,000 tonnes using humate composite additive, while 2,800 tonnes of waste were transferred to subcontracting organisations for disposal. In addition, 4,000 tonnes of radioactively contaminated pipes and equipment were cleaned on the territory of OMG.

On EMG's territory some 15,200 tonnes of production and consumption waste were processed and disposed of. This includes 1,700 tonnes of waste, which was processed by EMG's own resources using the thermocracking method, 10,400 tonnes of waste processed through biological remediation, and 3,100 tonnes of waste disposed of by third-party organisations.

On the territory of KBM, 19.4 thousand tonnes of production and consumption waste were processed and disposed of by subcontracting organisations in 2016.

3,110 million

tenge spent on environmental protection

Organisation's name	Volume of disposed of waste (thousand tonnes)		Volume of cleaned radioactive waste, post de-activation (thousand tonnes)	
	2015	2016	2015	2016
OMG	123.7	70.9	6.0	4.0
EMG	10.5	15.2	–	–
KBM	29.2	19.4	–	–
KGM	17.1	10.7	–	–
Total	**180.5**	**116.2**	**6.0**	**4.0**

10,700 tonnes of production and consumption waste accumulated at KGM were also fully disposed of by subcontracting organisations.

Compliance with environmental protection requirements necessitates carrying out ecological control at the production level. Ecological control is organised in accordance with the Programme of Ecological Control and also with the requirements of environmental legislation and the regulatory and procedural guidelines that regulate this type of environmental protection activity.

To prevent negative impacts of production on the environment, OMG, EMG, KBM and KGM all implement the Programme of Ecological Control. This determines the order and methods for monitoring environmental factors such as air quality, effluent run-off and ground water and the condition of soil, vegetation and fauna during the production process.

Dynamics of gaseous pollutant emissions
tonnes

Organisation	Permitted volume of emissions	Actual volume of emissions	Permitted volume of emissions 2016	Actual volume of emissions 2016
	2015	2015	2016	2016
OMG	6,661	5,134	6,973	5,018
EMG	13,353	6,954	11,727	8,295
KBM	5,651	5,651	5,452	4,355
KGM	2,562	1,999	2,881	1,920
Total	**28,227**	**19,738**	**27,033**	**19,588**

4.0

thousand tonnes of cleaned radioactive waste, post de-activation

Gas utilisation

Associated gas produced by OMG is fully utilised by KazGPZ.

EMG has drawn up and approved an associated gas utilisation and processing programme ('Programme') whose purpose is to reduce, and in future to achieve, 100% exclusion of associated gas flaring at field wellheads. Once implemented, the proposed Programme should address several environmental issues. These include the reduction of atmospheric emissions, soil and water body pollution, and a reduction in the level of greenhouse gases released.

At present the programme consists of two projects. One is the "Extension of the system of preparation and transportation of associated gas at the oilfields operated by NGDU Zhaiykmunaigas in the Isataysky District" and the other is the "Extension of the system of preparation and transportation of associated gas at the oilfields operated by NGDU Dossormunaigas in the Vostochny Makat field in the Makatsky District".

These projects process associated gas to bring it up to industrial commodity grade so that it can be used to power the Company's own utilities and operations. Excess gas is sold to local consumers in Isataysky, Makatsky and Kyzyl-Kuginsky districts through KazTransGaz Aymak. The equipment capacity at NGDU Zhaiykmunaigas is 20 million cubic metres (mcm) per annum, and at NGDU Dossormunaigas it is 40 mcm per annum.

An ongoing problem for EMG is the flaring of gas at the Prorva oilfields. Within the framework of the Programme, construction of a special treatment plant to remove sulphur from associated gas from the Prorva fields is under completion. The plant will have the capacity to treat 150 mcm per annum. The project facilitates the removal of sulphur from the associated gas, the separation of condensate, and transportation of the purified gas through the Central Asia-Centre main gas pipeline to the Borankol gas processing plant owned by KazMunaiTeniz for onward sale to consumers. It is due to complete in 2017 at a cost of 39.5 billion tenge.

At KBM the total volume of associated gas produced is utilised for its own purposes.

At KGM the total volume of associated gas produced is processed at a gas treatment unit. Part of the treated volume is used for KGM's own needs and surplus gas is supplied as fuel to residents of the Kyzylorda region.

Caspian water area protection

In order to prevent pollution of the Caspian Sea the Company uses stepped steel structures with a special filling material that reinforce the coastline against landslides. These are known as 'Reno mattresses'.

At the Teren-Uzek and Zapadnaya Prorva deposits of NGDU Zhylyoymunaigas some 8.6 km of protective dam is being reinforced. This project is scheduled for completion in 2017.

In addition, flooded wells located at NGDU Zhylyoymunaigas on the Tazhigali oilfield are being continuously monitored by EMG.

Ever since Soviet times, 11 abandoned suspended oil wells in the territory of Karazhanbas field, near the Caspian Sea coast, have posed a threat to the environment of the Caspian Sea because of their critical condition. All of these 11 wells were plugged and abandoned in 2010 and 2013 years, thus eliminating the threat to the environment.

Following a thorough investigation, it was found that eight of those wells were fully flooded with sea water and were in close proximity to the coastal zone where water depth is two meters, and that one well was in fact located in the open sea eighty meters from the coast. The remaining three wells were located onshore. However, they are always flooded during flux-reflux of the sea.

As part of the industrial environmental control programme, the quality of sea water and seabed deposits are monitored annually at seven control points; the condition of sea wells is studied monthly; and samples are taken quarterly and certificate of inspection are issued.

During the entire period of the observation of the Caspian Sea no contamination of flooded wells has been registered.

Occupational health and safety

Key occupational health and safety statistics

Subsidiaries	Total number of man hours worked			Number of Lost Time Injuries		
	2014	2015	2016	2014	2015	2016
Ozenmunaigas JSC	17,750,000	17,715,060	16,928,670	7	7	20
Embamunaigas JSC	9,929,136	8,897,682	9,248,135	1	9	1
Karazhanbasmunai JSC	3,906,910	4,246,218	4,250,239	6	4	1
KazGerMunai JVLLP	1,385,336	1,454,432	1,261,051		3	
Karpovskiy Sevemyi LLP	41,024	41,126	36,464			
Ural Oil and Gas LLP	90,905	87,482	73,426			
UTTiOS LLP	1,916,255	1,857,383	1,716,459	5	1	2
KazGPZ LLP	1,786,888	1,790,419	1,725,136	1	1	
KMG EP-Catering LLP	1,138,529	1,141,824	1,084,131	1		
Ozenmunaiservice LLP	3,254,854	3,471,949	3,620,133	7	12	7
Ken-Kurylys-Service LLP	1,729,135	1,585,602	1,655,239	2	5	1
UDTV LLP	331,019	311,194	282,211			
Argymaktranservice LLP			2,429,448			
Tulparmunaiservice LLP			1,242,028			1
Total KMG EP group of companies	**43,259,991**	**42,600,371**	**45,552,770**	**30**	**42**	**33**

Subsidiaries	Lost Time Injury Frequency (LTIF, number of LTI/mln manhours)			Number of fatalities		
	2014	2015	2016	2014	2015	2016
Ozenmunaigas JSC	0.39	0.40	1.18	1	1	3
Embamunaigas JSC	0.10	1.01	0.11			
Karazhanbasmunai JSC	1.54	0.94	0.24		1	
KazGerMunai JVLLP	0.00	2.06	0.00			
Karpovskiy Sevemyi LLP	0.00	0.00	0.00			
Ural Oil and Gas LLP	0.00	0.00	0.00			
UTTiOS LLP	2.61	0.54	1.17			
KazGPZ LLP	0.56	0.56	0.00	1		
KMG EP-Catering LLP	0.88	0.00	0.00			
Ozenmunaiservice LLP	2.15	3.46	1.93			
Ken-Kurylys-Service LLP	1.16	3.15	0.60			
UDTV LLP	0.00	0.00	0.00			
Argymaktranservice LLP			0.00			
Tulparmunaiservice LLP			0.81			
Total KMG EP group of companies	**0.69**	**0.99**	**0.72**	**2**	**2**	**3**

Subsidiaries	Fatal Accident rate (number of fatalities/100 mln manhours worked)		
	2014	2015	2016
Ozenmunaigas JSC	5.6	5.6	17.7
Embamunaigas JSC	0.0	0.0	0.0
Karazhanbasmunai JSC	0.0	23.6	0.0
KazGerMunai JVLLP	0.0	0.0	0.0
Karpovskiy Sevemyi LLP	0.0	0.0	0.0
Ural Oil and Gas LLP	0.0	0.0	0.0
UTTiOS LLP	0.0	0.0	0.0
KazGPZ LLP	56.0	0.0	0.0
KMG EP-Catering LLP	0.0	0.0	0.0
Ozenmunaiservice LLP	0.0	0.0	0.0
Ken-Kurylys-Service LLP	0.0	0.0	0.0
UDTV LLP	0.0	0.0	0.0
Argymaktranservice LLP			0.0
Tulparmunaiservice LLP			0.0
Total KMG EP group of companies	**4.6**	**4.7**	**6.6**

“During the last four years the Company has conducted several large-scale initiatives aimed at maintaining employees’ safety.”

Occupational safety is a top priority for KMG EP's management. During the last four years the Company has conducted several large-scale initiatives aimed at maintaining employees' safety. In the first instance, this involves improving working conditions, including the construction of service and utility complexes, canteens, administrative complexes, and operators' cabins for the various Group units. Management also pays great attention to the quality of bought-in specialist work clothing, safety footwear, and personal protective equipment.

Expenditure on Health & Safety

million tenge

Expenditure on Health & Safety, industrial and fire protection	2015	2016
OMG	698	789
EMG	236	409
KBM	565	336
KGM	279	341
Subtotal	**1,778**	**1,875**

Expenditure on procurement of personal protective equipment	2015	2016
OMG	1,030	1,059
EMG	364	341
KBM	190	188
KGM	54	106
Subtotal	**1,638**	**1,694**
Total amount	**3,416**	**3,569**

45,552,770

total number of man hours worked

3,6

bn Tenge spent on Health & Safety

The operating environment of oil companies is recognised as being hazardous; consequently KMG EP actively works towards lowering the risks of life-threatening accidents and other risks for personnel.

In 2016 zero accidents were recorded by KGM, Karpovskiy Severniy, Ural Oil & Gas, Kaz GPZ, KMG EP-Catering and UDTV.

At other divisions there were 31 work-related accidents involving 33 workers, of whom 13 suffered serious injuries, 17 received light injuries and three lost their lives.

Of the total number injured 21 returned to work, three were classified as disabled, and six are receiving rehabilitation treatment.

Analysis of the accidents that occurred in 2016 shows that more than half of all accidents occurred mainly due to the fault of the employee, as a result of non-compliance with safety regulations (44%) and gross negligence of the victim (28%).

A specially formed commission clarifies the circumstances, identifies the reasons, and develops measures to eliminate and prevent such accidents in the future.

Projects to improve the safety culture in the field of occupational safety and the environment

In 2016, a number of projects were initiated and successfully implemented, in order to enhance safety culture and improve health, safety and environment protection.

One of the key projects was designed to increase full transparency of HSE reporting. This requires the registration and logging of all injuries, including minor injuries in the workplace, even those which do not result in workers losing their ability to work. During the year targeted checks were carried out at divisional operating centres, and frequent meetings, briefings and clarification events were held to ensure the timely notification and recording of accidents, and the subsequent logging and conducting of enquiries into workplace accidents, including insignificant micro-injuries.

In 2016, EMG's employees were trained and received appropriate qualifications in the field of industrial safety and personnel protection in order to improve and enhance industrial safety levels. Formerly EMG, which has more than 5,200 employees in total, had only 27 safety specialists, so that one safety specialist was responsible for 200 employees. As a result, EMG has increased its number of H&S specialists to 68, and accordingly each H&S specialist covers 80 workers. Similar increases in the level of H&S staffing are planned for all subsidiaries and affiliates of the Company.

The Golden Rules, a code for employees of subsidiaries, affiliate organisations and contractors of the Company, has been introduced. The Golden Rules require all such employees to comply with the requirements of the legislation of the Republic of Kazakhstan and international requirements for the safety and protection of personnel.

Also, corporate documents covering personnel protection and transport security, "Rules on the procedure for notification and investigation of incidents" and "Regulations for safe operation of land vehicles", were introduced.

As its next move towards a more robust safety culture, KMG EP intends to encourage deeper involvement of its management and staff in health and safety processes by deploying a Behavioural Safety Audit Programme, which is a key tool to cut occupational injury rates and an important step in building a better safety culture based on leadership and managers' own personal commitment to safety, and on the ability of individuals to predict and prevent potential risks and incidents.

Social responsibility

The Company fully acknowledges its responsibility to help maintain social stability and guarantee adequate standards of living for people in its operating regions.

1.7 billion
tenge spent on various social projects

36
applications from KMG EP staff to attend the ITS project

Policy

The Company's approach to business employee matters is governed by its Code of Ethics which is available on the Company's website. Highlights of the Company's approach are recorded below.

— The Company will comply with the legislative and regulatory legal requirements of the Republic of Kazakhstan and with the international laws and agreements governing oil companies.

— All employees of the Company have the right to: work in a safe and healthful environment; have their contribution to the Company recognised and valued; be assisted in developing their professional skills; and discuss the quality and effectiveness of their work openly and constructively.

— The Company will not tolerate discrimination based upon ethnicity, race, religion, age, gender or political affiliation, or any other type of discrimination.

— Any decision regarding employment, evaluation, promotion, training, further development, compensation or dismissal should be based on qualification, merits, performance and business considerations only.

— The Company will remunerate its staff according to factors such as qualification level, complexity and quality of work done, and the results of key performance indicators.

— The Company will supply individual training and professional development programmes for employees to enable them to perform their roles effectively.

The Company fully acknowledges its responsibility to help maintain social stability and guarantee adequate standards of living for people in its operating regions. In this regard KMG EP bears the additional overheads of maintaining the existing headcount, regardless of current operational needs, and provides health insurance and the cost of training under the collective agreement terms.

In spite of the current tough economic climate, the Company intends to maintain social payments and the permanent component of employees' wages at current levels, provided that economic conditions do not deteriorate further.

Expenditure on social projects
million tenge

	Mangistau region			Atyrau region		
	Total	Compulsory	Voluntary	Total	Compulsory	Voluntary
2015	1,379	900	479	518	394	124.1
2016	958.7	900	58.7	728.6	593	135.6

As in the past, KMG EP provides financial support towards social development in its operational areas within the framework of contracts for subsurface use. In 2016 various social projects in the Atyrau and Mangistau regions were granted 1.7 billion tenge (US$5 million). Local municipalities decide which social needs these funds should be directed towards, depending on popular demand. Funding was mainly directed towards road repairs, improvements to urban infrastructure and the creation of jobs for the unemployed.

Overall, the Company spent 958.7 million tenge on social infrastructure in the Mangistau region. The 728.6 million tenge spent in the Atyrau region includes social infrastructure, support for vulnerable groups and key public events.

Sums of around 900 million tenge were allocated for urban development in the Zhanaozen and Karakiya regions, which were expensed for road construction in the Munaily, Bostandyk and Zhuldyz micro-districts, and reconstruction of a tuberculosis hospital in Kuryk village, Mangistau oblast.

In 2016 the Company also provided funds to finance the construction and completion of a 300-pupil secondary school named after O.Sargunanov, in Dossor village, Makat region, Atyrau oblast. Construction of a kindergarden for 100 children was funded by the Company in Tasshagyl village, Kzylkugin region, Atyrau oblast. Additionally, funds were allocated for the construction and completion of 15 civil two-apartment houses.

Within the framework of providing project sponsorship assistance in 2016, some 1.35 billion tenge was also provided to Corporate fund "Kyzylorda Igiligi" for the construction and completion of a psycho-neurological boarding school for 300 residents in the village of Talsuat in the Kyzylorda region. The new boarding school will have a fitness room, room for water procedures, workshops and a conference hall.

The Company provided, free of charge, a space in its headquarters where a group of young artists based in Astana were able to exhibit their work. The project intends to support young and emerging artists in the capital. The main theme of the paintings presented on the opening day was the beginning of spring.

People

Since its formation, KMG EP has provided training and skills development for its employees. KMG EP holds various corporate training programmes to promote uniform corporate policies and strategic priorities. In 2016, 40,585 KMG EP Group employees improved their qualifications[10], 7% more than in 2015.

[10] While compiling this data, account was taken of whether workers had completed more than one training session during the year, so this metric includes the sum of all training sessions in which workers took part.

Case study

In-house trainer school

On December 9, 2016, the Company launched an all-new project, the In-house Trainer School (ITS), with a view to developing a school of in-house trainers.

The project's main aim is to improve the professional qualities of the personnel and the corporate culture, and to facilitate the transfer of professional knowledge and skills to the employees of the Company, its subsidiaries and associates, which are necessary for resolution of production and management tasks.

In December 2016 there were 36 applications from KMG EP staff to attend the ITS project, and the first training session was organised for them. The Company intends to continue the ITS project in 2017.

Case study

Alternate's Day

On July 7, 2016, this event was held by the Company for the first time.

It was implemented as part of the Young People Engagement Policy and was aimed at directly engaging young specialists in key business processes, enabling their self-development, fostering self-reliance skills, commitment to the task at hand, and providing an opportunity for them to try themselves in a management role, and to learn about the activities of other Company units.

KMG EP's young specialists took the roles of department heads for one full business day during Alternates Day.

Twenty-three young employees participated in the event, and all KMG EP departments were involved.

At the same time, the department heads, while substituted by the Alternates, received training in accordance with a special Infotainment programme, with participants solving management cases. This improved their leadership abilities and management skills.

At the end of Alternates Day all participants received gift certificates for online distance-learning courses at the Corporate University of Samruk-Kazyna.

Case study

Uzdik Maman professional skills competition

The Uzdik Maman professional skills competition among employees of KMG EP's subsidiaries and joint ventures has been held annually since 2006.

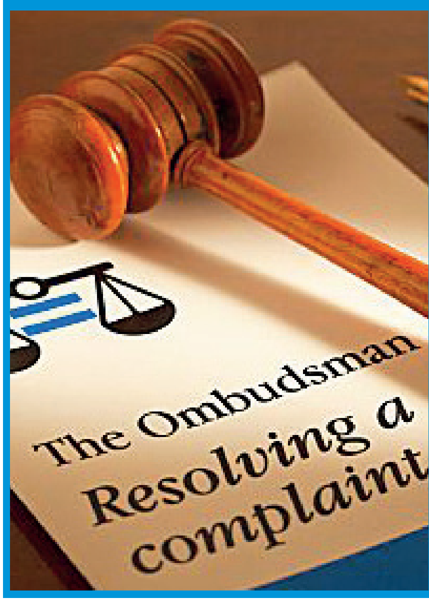
In August 2016, the Uzdik Maman competition took place in KMG EP's nine subsidiaries and joint ventures: JSC Ozenmunaigas, JSC Embamunaigas, JSC Karazhanbasmunai, JV Kazgermunai, and service companies LLP Argymak TransService, LLP TulparMunaiService, LLP Zhondeu, LLP Ken-Kurylys-Service and LLP Kruz.

In August 2016, the winners of subsidiary level contests visited Astana to meet with the Company's management (including the CEO) and participate in the award ceremony. At the ceremony, the winners were awarded Uzdik Maman 2016 medals and certificates.

In October 2016, a team of 65 winners took part in the professional skills competition Uzdik Maman–2016 among the subsidiaries of JSC NC KazMunayGas for the first time. 38 of the 65 representatives of KMG EP won top places.

Case study

Ombudsman



In February, 2017 KMG EP created the Ombudsman role with the aim to improve corporate governance by introducing into its business practices such ethical principles as transparency and professional good faith, mutual respect among all members of staff, and commitment to fair treatment and zero tolerance to any kinds of discrimination.

The need for a better corporate image, stronger values and professional ethics culture calls for an efficient mechanism to quickly identify and resolve ethical issues and potential controversies/conflicts in the Company. The job of the Ombudsman is to settle/resolve disputes/conflicts, consult the involved parties regarding acceptable options, develop recommendations or refer them to other corporate resources that can resolve conflicts, and monitor employee rights in the Company.

The Ombudsman function will be deployed to all subsidiary and affiliate companies of KMG EP.

Case study

KMG EP youth policy

Young Professionals' Councils have been operating both at KMG EP's head office and in its subsidiaries since 2012. The movement's mission is to stimulate young people to actively participate in the activities of the Company. This includes involvement in decisions on production and strategic goals, in the creation of a healthy environment for the professional development of young professionals and in the development and ingraining of corporate values among young professionals. It also aims to help in the nurturing and development of their creative potential in science and technology and in production management, in line with the strategy and goals of KMG EP.

The Young Specialists Day has been held annually since 2013. In 2016, the Young Specialists Day was held on June 8–10 inclusive, on the premises of Kazgermunai, a joint venture located in Kyzylorda. 35 young specialists from the Company's subsidiaries and joint ventures took part.

The projects were presented in six sections of the competition: Geology, Geophysics and Engineering; Techniques and Technology of Oil and Gas Production; Technologies for Current Repair of Well Workover, Well Workover and Drilling; Chemicalisation, energy and automation in the technological process of oil production and maintenance of reservoir pressure; Industrial safety, personnel and environmental protection; and Economics and Finance.

The Young Specialists Day programme gave young specialists the opportunity to present projects aimed at the improvement of a particular operating process. Project discussions, in which panel moderators from the Company's executive management participated, included discussion of various problems in the field, which enabled each participant in a panel session to present their ideas of how such problems should be handled.

Six projects were recognised as the best. Based on results, the implementation of these projects in the production process was recommended to the heads of subsidiaries and joint ventures of KMG EP, together with the section moderators.

In addition, a trip to Kazgermunai's "Smartfields", Akshabulak and Nuraly, was organised. This enabled the young specialists to gain first-hand knowledge of the operating and technological processes and to meet field staff with rich experience.

Business conduct

The Company's general approach to business conduct is governed by its Code of Corporate Ethics and Anti-Bribery and Anti-Corruption Policy.

Policy and principles

The Company's general approach to business conduct is governed by its Code of Corporate Ethics, Anti-Bribery and Anti-Corruption Policy which are available on its website. There are seven main Principles and a summary is recorded here.

- The Company values and protects its reputation among all of its stakeholders.
- The Company strives for continuous improvement.
- The Company is committed to legitimacy, transparency and honesty in all of its business activities.
- The Company is committed to high product quality, environmental protection and a safe and healthy workplace.
- The Company identifies profitability as its key economic principle.
- The Company will not make contributions or donations to any political organisation.
- The Company supports free enterprise and fair competition.

The Company's approach to business conduct matters is governed by its Code of Ethics and its Anti-Bribery and Anti-Corruption policy, which are both available on the Company's website. Highlights of the Company's approach are recorded below.

- The Company does not tolerate any form of corrupt practices committed by employees and officers, as well as by Interested Persons, and strives to undertake all necessary measures to prevent corruption.
- Employees of the Company are obliged and encouraged to report to their management and the Company's Compliance Officer any corrupt practices they have become aware of. In such cases, employees are guaranteed confidentiality and their rights and interests are protected from unlawful restriction of their rights and interests, including retaining their job position.
- Employees and officers of the Company are required to avoid any actions and relations that may potentially cause or appear to cause conflicts of interest.
- The Company commits to interacting with its business partners on the principles of legality, good faith, effectiveness and equality.
- The Company will select suppliers of goods, works and services in a transparent manner in accordance with the applicable laws of the Republic of Kazakhstan and the Company's internal guidelines.
- The Company will monitor its adherence to high ethical standards through its relations with the public and mass media.
- The Company will disclose only information of a precise nature to the financial markets in accordance with the Information Disclosure Policy.
- Employees and officers of the Company are required to protect the Company's assets and use their best reasonable efforts to protect them from misappropriation, harm or damage.
- Employees and officers of the Company shall be responsible for ensuring the protection of confidentiality of information.
- The Company shall seek to encourage its employees and officers to read and understand the provisions of this Code. Employees and officers shall express their agreement with the provisions of the Code by signing the respective acknowledgement of receipt and understanding of this Code.
- The Company encourages employees who are ready for open discussion of the Code and will consider any constructive recommendations as to its improvement.
- The Board of Directors shall review and update the Code bi-annually.

This approach is also supported by the Company's Information Disclosure Policy, Policy for Dealing in Securities, Whistleblowing Policy and the Company's Charter. These are all available on the Company's website.

Corporate Governance Report

KMG EP is a pioneer among Kazakh companies in applying corporate governance practices in line with the highest international best practice standards. The Company believes that investor confidence in the Company and its quality of its management is directly influenced by the Company's approach.

The governing body of the Company is the Board of Directors and the executive body is the Management Board. The Chief Executive Officer chairs the Management Board and also sits on the Board of Directors. He is the sole representative of the executive body on the Board of Directors. Four BoD members, including Board Chairman Igor Goncharov, are representatives of JSC National Company KazMunayGas. The Board of Directors includes three independent Non-Executive Directors.

KMG EP has developed and put in place an effective system to manage relations between the Board of Directors, the Management Board, shareholders and other stakeholders. This system ensures that the Company continually seeks to maximise value while at the same time working in the best interests of the whole shareholder base and other parties that are affected by its activities.

Regulation of its relationship with the principal shareholder is a vital task of the Company's corporate governance system. An agreement is in place between KMG EP and its parent company NC KazMunayGas (NC KMG) that provides for business independence while at the same time requiring KMG EP to act in the best interests of all its shareholders.

Structure

As of December 31, 2016 the Board of Directors consisted of the following eight members:

Name	Position
Igor Goncharov	Chairman of the Board of Directors
Kurmangazy Iskaziyev	Member of the Board of Directors (CEO)
Gustave van Meerbeke	Member of the Board of Directors
Asiya Syrgabekova	Member of the Board of Directors
Serik Abdenov	Member of the Board of Directors
Philip Dayer	Independent Director
Edward Walshe	Independent Director
Alastair Ferguson	Independent Director

Board of Directors

The Company's Board consists of eight members, three of whom are Independent Directors. The Independent Directors play a major role in ensuring that the Company complies with its corporate governance commitments. The Independent Directors at KMG EP use their experience to balance the influence of the principal shareholder and to closely supervise management decisions.

The influence of the Independent Directors is bolstered by a legal provision requiring the presence of no less than two-thirds of all Independent Directors for meetings of the Board of Directors to be quorate; their membership and chairmanship of all Board committees; and exclusive voting by the Independent Directors on issues related to the authorisation of interested-party transactions. This allocation of functions provides a more balanced and effective decision-making process in line with best practices.

Election and changes to the Board of Directors during the year

On April 13, 2016, on the decision of the Shareholders' General Meeting, the number of members of the Board of Directors was set at eight; the members of the Board of Directors were elected for the term of office from April 13, 2016 to May 25, 2017, inclusive.

On the basis of the results of the Extraordinary General Meeting of Shareholders held on April 13, 2016, the following composition of the Board of Directors was elected:

1 Christopher Simon Hopkinson – a representative of JSC National Company KazMunayGas;
2 Igor Goncharov – a representative of JSC National Company KazMunayGas;
3 Asiya Narymanovna Syrgabekova – a representative of JSC National Company KazMunayGas;
4 Gustave Louis Eugene van Meerbeke – a representative of JSC National Company KazMunayGas;
5 Kurmangazy Iskaziyev – CEO (Chairman of the Management Board of the Company);
6 Philip Dayer – Independent Director;
7 Edward Walshe – Independent Director;
8 Alastair Ferguson – Independent Director.

In September 2016, Christopher Simon Hopkinson resigned as Chairman of the Board of Directors for family reasons and Igor Goncharov was elected as the new Chairman of the Board of Directors.

In accordance with the results of the Extraordinary General Meeting of shareholders held on December 13, 2016, a decision was taken to elect to the Board of Directors of the Company – for the term set for the Board of Directors as a whole – Serik Abdenov (as a representative of the shareholder JSC National Company KazMunayGas), replacing Christopher Simon Hopkinson, whose duties as a member of the Board were duly terminated.

Board members

Igor Goncharov
Chairman of the Board of Directors, Senior Vice President for Oil and Gas Production of NC KMG

Kurmangazy Iskaziyev
Chief Executive Officer and Chairman of the Management Board

Gustave Louis Eugene van Meerbeke
Independent consultant, oil and gas, representative of NC KMG

Asiya Syrgabekova
Vice President of Strategy of NC KMG

Serik Abdenov
Vice President for Human Resources of NC KMG

Philip Dayer
Independent Non-Executive Director of KMG EP

Edward Walshe
Independent Non-Executive Director of KMG EP

Alastair Ferguson
Independent Non-Executive Director of KMG EP

Igor Goncharov
Chairman of the Board of Directors,
Senior Vice President for Oil and Gas
Production of NC KazMunayGas
(acting as Chairman of the Board since September 2016)
Time on the board: over 1 year
Igor Goncharov graduated from Tomsk Polytechnical Institute in 1989 as a mining engineer-geophysicist, from Tomsk University of Control Systems in 2000 as an engineer-programmer, and from Heriot-Watt University in 2002 with a Master of Science in Petroleum Engineering.

He was Senior Engineer at OJSC TomskNIPIneft VNK and held senior management positions, such as General Director of OOO Nord Imperial IEC Group, Head of Department of Subsoil Use and Development of Oil and Gas Complex, and also Acting State Counsel for the Tomsk region 2nd Class in the Administration of the Tomsk region of the Russian Federation.

He has worked at NC KMG since September 2015. Igor Goncharov was elected to the Board of the Company on November 26, 2015 and as Chairman of the Board on September 21, 2016. He is a member of the Nominations Committee and Strategic Planning Committee.

Kurmangazy Iskaziyev
Chief Executive Officer and
Chairman of the Management Board
Time on the board: over 1 year
Kurmangazy Iskaziyev has held the position of CEO of KMG EP and Chairman of the Management Board since September 23, 2015. From December 2013 to January 2015 he worked as Managing Director for geology – Senior Geologist of JSC NC KazMunayGas (NC KMG). Between February 2012 and December 2013 he was Deputy Chairman of the Management Board of NC KMG for geology and future projects of NC KMG. Between 2004 and 2008 he was Deputy Director, then Director, of the department of geology and development at KMG EP. He started his career at the Balykshin department of exploratory drilling (BURB) of Embaneft Production Union. He graduated from the oil faculty of the Kazakhstan Lenin Polytechnical Institute as a mining engineer-geologist, and from Tomsk Polytechnical University with the qualification of Candidate of Geological-Mineralogical Sciences. Kurmangazy Iskaziyev was elected to the Board of Directors of the Company on November 26, 2015. He is a member of the Strategic Planning Committee.

Gustave Louis Eugene van Meerbeke
Independent consultant, oil and gas
(member of the Board since April 2016
as representative of JSC NC KazMunayGas)
Time on the board: less than one year
Gustave van Meerbeke, a Dutch national, received his MSc in Geology at the State University of Leiden, The Netherlands, in February 1972. He worked for three years for Anglo American plc, seconded to De Beers Consolidated Mines Ltd. He joined Royal Dutch Shell in 1975 and worked for 24 years as a geologist in a variety of functions and countries (Swaziland (coal), the UK, Oman, Brunei, Indonesia and The Netherlands). During his time in the head office in The Hague, The Netherlands, he was first regional geologist working in a team responsible for developing and guiding new ventures in the Middle East, South Asia and Africa and later new business adviser for Russia and the CIS region. In this capacity he was also Director of various Shell exploration and development companies operating in Russia and the Caspian region: Shell Kazakhstan Development BV, Shell Tulpar BV, Shell Temir BV, and Salym Petroleum Development NV. He joined ABN AMRO in 1999 as sector banker Oil and Gas, and continued in that function at RBS after the takeover of ABN AMRO in 2007. He retired from RBS-GBM on December 1, 2011 on reaching notional retirement age. After retirement he continued to work part-time for RBS-GBM in the same capacity as Senior Adviser to the Project Financing oil and gas team under a call-off contract, which ended in October 2013.

Gustave Louis Eugene van Meerbeke was elected to the Board of Directors of the Company on April 13, 2016.

Asiya Syrgabekova
Vice President of Strategy of JSC NC KazMunayGas
Time on the board: over 6 years
Asiya Syrgabekova has been Vice-President of Strategy at JSC NC KazMunayGas since December 2013. Between November 2013 and December 2016, she was the Managing Director (investment and risk management) of JSC NC KazMunayGas. She was elected to the Board of Directors at KMG EP on March 26, 2010. Since 2003, she has been First Deputy Chairman of Halyk Bank, and between 2004 and 2006 she was Chairman of the Management Board of Halyk Bank. Between 1998 and 2003, she worked in the national oil and gas company, where she held various executive positions in KazakhOil, KaztransGas, and KazMunaiGas. She graduated from Kazakhstan State University's Faculty of Economics in 1982. In 1987, she graduated with a PhD in Economics from the Moscow Financial Institute.

Serik Abdenov

Vice President for Human Resources at JSC NC KazMunayGas

Time on the board: less than one year

Serik Abdenov, Vice President for Human Resources at NC KMG, has been a member of the Board of Directors of KMG EP since December 2016. He holds an Honours Law degree from the Kazakh Institute of Law and International Relations, and an Economics degree from the Karaganda Economic University of Kazpotrebsouz. He holds an MBA in Management of Cooperation between a Business and Government from the Russian Presidential Academy of National Economy. He has the following executive background: he was Minister of Labour and Social Protection in Kazakhstan; First Deputy Akim of East Kazakhstan Province. Within NC KMG he was Adviser to the Chair of the Management Board; and Managing Director for Human Resources and Compensation. Serik Abdenov was elected to the Board of Directors of the Company on December 13, 2016.

Philip Dayer

Independent Non-Executive Director of KMG EP

Time on the board: over 6 years

Philip Dayer LLB FCA qualified as a chartered accountant with KPMG and then pursued a 25-year career in investment banking, specialising in consulting for LSE-listed companies. He gained extensive experience working for companies such as Barclays de Zoete Wedd and Citicorp. He retired from ABN AMRO Hoare Govett in 2005. He advised Rosneft on its successful placement in 2006. Philip was Chairman of Dana Petroleum's Audit Committee until it was purchased by KNOC.

Currently, Philip is the senior Independent Non-Executive Director and Chairman of the Remuneration Committee of AVEVA Group Plc, an Independent Non-Executive Director and Chairman of the Audit Committee of the Parkmead Group and an Independent Non-Executive Director of VTB Capital and Severstal PAO. He served as Non-Executive Director of Navigators Underwriting Agency, IP Plus Plc and Arden Partners Plc. Philip joined the KMG EP Board of Directors in May 2010. He is Chairman of the Audit Committee and a member of the Remuneration, Nominations and Strategy Committees and a member of the Independent Committee under the Board of Directors of the Company (Independent Directors are exclusive members of the Independent Committee).

Edward Walshe

Independent Non-Executive Director of KMG EP

Time on the board: over 11 years

Edward Walshe has over 38 years of experience in the oil and gas sector. He has worked in various roles with British Petroleum and British Gas, where he ran overseas exploration and production operations in Nigeria, Abu Dhabi, Central Asia and South-East Asia. He has a PhD in Solid State Chemistry from the University of Dublin. Edward was elected to the Board of Directors on August 28, 2006. He chairs the Strategic Planning and Nominations Committees, is a member of the Audit and Remuneration Committees and is also a member of the Independent Committee under the Board of Directors of the Company.

Alastair Ferguson

Independent Non-Executive Director of KMG EP

Time on the board: over 3 years

Alastair Ferguson has 37 years of experience in the oil and gas sector, mainly in BP. He has lived in Moscow since 2003. Between 2003 and 2011 he was employed at TNK-BP as Executive Vice-President for Gas Business Development. Later he developed his own consultancy to advise clients on the Russian and Ukrainian energy sectors. He is a Senior Adviser to XENON Capital Partners. On January 1, 2015 he was appointed Chairman of the Board of Directors at Zoltav Resources. He has been a member of the KMG EP Board of Directors since October 2013. He chairs the Remuneration Committee and is a member of the Audit, Nominations and Strategic Planning Committees and is also a member of the Independent Committee under the Board of Directors of the Company.

Corporate Governance Code Compliance

This section of the Annual Report has been prepared in compliance with the Disclosure and Transparency Rules in the Handbook of the UK Financial Conduct Authority, DTR 7.2 (Corporate Governance Statements).

As an overseas company with GDRs admitted to the Official List of the United Kingdom Listing Authority, the Company is not obliged to comply with the UK Corporate Governance Code. However, the Company is required to disclose in its Annual Report whether or not it complies with the UK Corporate Governance Code and to disclose the actual principles of the UK corporate governance which are applied in addition to the practices observed in accordance with applicable laws of the Republic of Kazakhstan.

The Directors recognise the importance of maintaining a robust approach to corporate governance and support the development of best practice standards in the Company. The Company intends to develop and implement corporate governance practices which impose additional obligations on the Company beyond those required under the legislation of Kazakhstan.

JSC Samryk-Kazyna Corporate Governance Code and the Company's Corporate Governance Code

The JSC Samryk-Kazyna Corporate Governance Code, which is applicable to all companies in the JSC Samryk-Kazyna group, was validated by the Kazakhstan Government regulation № 239 dated April 15, 2015. It is based on current best international practice in the area of corporate governance.

The Company has adapted the Samryk-Kazyna Code to the existing system of the Company's corporate governance and the UK Corporate Governance Code. The Company's Board of Directors approved an updated version of the Company's Corporate Governance Code in December 2016. This is subject to approval at the next Annual General Meeting of shareholders of the Company in May 2017.

The Company's Corporate Governance Code emphasises the main principles of proper corporate governance including sustainable development, rights and fair treatment for all shareholders, professional Board of Directors and transparency regarding the Board, risk management and internal control.

The amendments adopted by the Company impose obligations on the Company in respect of corporate governance over and above those provided by the JSC Samryk-Kazyna Corporate Governance Code. The Company believes that these additional amendments will significantly improve the corporate governance practices applied by the Company. The Company also takes into consideration the provisions of the UK Corporate Governance Code and will seek to improve its corporate governance standards in future.

Additional provisions of the Company's Corporate Governance Code in addition to the requirements of the legislation of the Republic of Kazakhstan (specifically, the JSC Samryk-Kazyna Corporate Governance Code):

- Additional principles of corporate governance were introduced:
  - The principle of independent activity of the Company
  - The principle of responsibility
- Some of the corporate governance principles were supplemented by various provisions, such as:
  - Provisions regarding relationships with the Shareholders of the Company
  - Division of responsibilities between the Chairman of the Board of Directors and the CEO
  - Provisions describing the role of the Chairman of the Board of Directors requirement of a minimum number of independent directors
  - Additional provisions governing the criteria for establishing the independence of Independent Directors
  - Provisions concerning access to information and professional development for Directors of the Company
  - Provisions governing the principles of Directors' remuneration
  - Provisions concerning the treatment of insider information
  - Provisions concerning the responsibility of the Board of Directors to ensure effective risk management systems
  - Provisions concerning evaluation of the performance of the Chairman and members of the Board of Directors
  - Provisions concerning the appointment/re-appointment of members of the Board of Directors.

A current version of the Company's Corporate Governance Code is available on the Company's website and the proposed new version will be distributed to shareholders of the Company and will be publicly available if approved at the Annual General Meeting of shareholders of the Company.

During 2016 the Company complied with the provisions of the Kazakhstan Corporate Governance Code in all significant aspects.

Differences between the company's Code on Corporate Governance and the provisions of the UK Corporate Governance Code

Below are the main differences between the Corporate Governance Code of the Company and the provisions of the UK Corporate Governance Code:

- According to the provisions of the UK Corporate Governance Code the Chairman should, on appointment, meet the independence criteria set out in the said UK Corporate Governance Code.

  The Corporate Governance Code of the Company does not contain provisions on the independence of the Chairman of the Board of Directors, and, according to the opinion of the Directors, the Chairman of the Board of Directors would not meet the criteria for independence stated in the respective provisions of the UK Corporate Governance Code and the Company's Corporate Governance Code. The Chairman of the Board of Directors represents the major Shareholder.

- According to the UK Corporate Governance Code at least half of the members of the Board of Directors, excluding the Chairman, should be independent non-executive directors.

  In contrast, the Corporate Governance Code and the Charter of the Company provide that at least 30% of the Board of Directors' members shall be independent non-executive directors. According to the Charter of the Company a number of key issues, including related-party transactions, major transactions, approval of social expenses, and conclusion of subsoil use contracts, require the approval of a majority of the independent non-executive directors. The Charter of the Company can be found on the Company's website.

- The UK Corporate Governance Code states that non-executive directors should thoroughly scrutinise and monitor the performance of management in meeting agreed goals and objectives, and also should satisfy themselves as to the complete integrity of financial information provided and that financial controls and systems of risk management are robust and reliable.

  The Company's Corporate Governance Code imposes such requirements on all members of the Board of Directors.

- The UK Corporate Governance Code provides that the non-executive directors should be responsible for determining appropriate levels of remuneration for the executive directors and should have a prime role in appointing, and where necessary removing, executive directors, and in succession planning.

  The Company's Corporate Governance Code places responsibility for determining appropriate levels of remuneration for the executive directors on the Remuneration Committee of the Board of Directors. It also provides for the involvement of the Nominations Committee of the Board of Directors in the appointment and removal of executive directors. In practice, determination of the level of remuneration of members of the Board of Directors, and their appointment, is influenced by the majority Shareholder.

Directors' responsibility statement

In accordance with the Company's Corporate Governance Code, the Board of Directors and the Management Board shall be responsible for the accurate presentation of the Company's Annual Report and Financial Statements.

According to the Disclosure and Transparency Rules in the FCA's (Financial Conduct Authority) Handbook, each member of the Board of Directors confirms that, to the best of his or her knowledge:

— The financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) give a true and fair view of the assets, liabilities, financial position, and the results of the financial and economic activities of the Company, and the consolidated balance sheets of the Company and its subsidiaries;

— The Management Board Report includes a fair review of the development and performance of the business and the financial position of the Company and its subsidiaries taken as a whole, and a description of the most important risks and uncertainties that they face.

In accordance with the Company's Corporate Governance Code, the Company's Board of Directors has evaluated the independence of the Directors and believes that Philip Dayer, Edward Walshe and Alastair Ferguson are independent in character and in decision-making. The Board of Directors has found no relations or circumstances which had or could have a significant impact on the independent decision-making of these Directors.

Structure of the Management Board

As of February 23, 2016, on the basis of a decision of the Board of Directors of the Company, the following changes were introduced to the Management Board:

— It was resolved to set the number of members of the Management Board at five;

— It was resolved to early terminate the responsibilities of the following members: Botagoz Ashirbekova, Managing Director for HR; Malik Saulebay, Managing Director for Legal Issues; and Aziz Ileuov, Managing Director for Business Development, for the term of the office of the Management Board as a whole.

On May 24, 2016 the Board of Directors resolved to elect Dauletzhan Khasanov, Deputy Chief Executive Officer, to the Management Board for the term of the office of the Management Board as a whole. Additionally, based on the same resolution, Kairbek Yeleusinov, a member of the Management Board, was appointed as Deputy CEO of JSC Ozenmunaigas.

On July 7, 2016 the Board of Directors resolved to set the number of members of the Management Board at seven, and to elect Bekzat Abaiyldanov, Chief Operations Officer, and Malik Salimgereyev, Deputy CEO for Health, Safety, Environmental and Perspective development, as members of the Management Board for the term of the office of the Management Board as a whole.

Members of the Management Board as of 31 December 2016

Name	Position
Kurmangazy Iskaziyev	General Director (Chairman of the Management Board)
Kairbek Yeleusinov	Deputy CEO for Ozenmunaigas Project
Bekzat Abaiyldanov	Chief Operations Officer
Dastan Abdulgafarov	Deputy General Director for Economics and Finance
Dauletzhan Khasanov	Deputy Chief Executive Officer
Malik Salimgereyev	Deputy CEO for Health, Safety, Environmental and Perspective development
Shane Drader	Financial Director – Financial Controller

Responsibilities of the Board Of Directors and the Management Board

The division of responsibilities between the Board of Directors, the Management Board and the CEO of the Company is determined by Sections 12 and 13 of the Charter of the Company. The authorities and responsibilities of the Board of Directors and the Management Board are regulated by the Board of Directors' Regulation and the Management Board Regulation respectively.

The Board of Directors is responsible to shareholders for the effective management and proper control of the activities of the Company, and acts in accordance with the approved decision-making system. The most important functions of the Board of Directors are to identify areas of strategic development and Company policy, and to take decisions on potential acquisitions of oil and gas assets, and other significant issues.

Accordingly, the Management Board is responsible for developing an action plan to implement these functions and for the daily operational activities of the Company. The Management Board reports to the Board of Directors on its progress towards achieving the objectives of the Company.

Matters considered by the Board of Directors in 2016

The Board of Directors meets on a regular basis and as necessary.

During 2016, the Board of Directors held 49 meetings, including nine meetings in person and 40 meetings remotely.

During the year, the Board of Directors reviewed, inter alia, the following issues:

- Approval of the Company's budgets and business plans;
- Issues related to exploration;
- Environmental, health and safety issues;
- Issues related to amendments to subsoil use contracts;
- Approval of the Company's related-party transactions (transactions of JSC Ozenmunaigas and JSC Embamunaigas. More detailed information is given in the Consolidated Financial Statements and in the Analysis of the Financial Standing and results of Financial and Operating activities) on page 137;
- Issues related to the operations of legal entities in which the Company holds 10% or more of the shares (shareholdings in their issued capital);
- Supply of oil to the domestic market under the processing scheme;
- Issues related to the Management Board, determining the salaries and conditions of remuneration and bonuses of the members of the Management Board;
- Preliminary approval of the Company's Consolidated Financial Statements for 2015;
- Introducing proposals on the amount of dividends to be paid for 2015;
- Review of plans and reports of the internal audit department, and the status of implementation of the internal audit department's recommendations;
- Economic and practical steps related to stoppage/rapid reduction of production aimed at avoiding production losses;
- Assessment of Company reserves in line with international standards for 2015;
- Restructuring plan of Company assets for 2016–2017;
- Company KPIs;
- The Company's bank limits;
- Risk management; and
- The Company's development programme of oil service assets.

In 2016, the Board of Directors reviewed the following documents:

- Approval of the Company's insurance policy for its subsidiaries and associates in revised format;
- Approval of Company's dealing and securities policy in revised format;
- Approval of the Company's information disclosure policy in revised format;
- Approval of changes to the Company's Charter; and
- Approval of the Company's Corporate Governance Code in revised format.

In 2016, actions were carried out by the Independent Committee under the Board of Directors of the Company concerning issues related to the acquisition, redemption and delisting of shares and other securities listed in Kazakhstan and on foreign stock exchanges, the underlying asset of which are the shares of the Company. The Independent Committee is made up exclusively of the Independent Directors of the Company: Philip Dayer, Edward Walshe and Alastair Ferguson. In accordance with the terms of reference of the Independent Committee under the Board of Directors of the Company, consultancy services were purchased from Brunswick, HSBC, Rothschild & Co, Linklaters and a Kazakhstan law firm, in connection with the acquisition, buy-back and/or delisting of shares and/or other securities listed on the Kazakhstan and/or foreign stock exchanges, the underlying asset of which are the shares of the Company.

Board and Board Committee attendance data

Attendance by members of the Board of Directors and members of the committees at meetings of the Board of Directors and committees in 2016:

	Board of Directors	Audit Committee	Nominations Committee	Remuneration Committee	Strategic Planning Committee
Number of meetings held in 2016	49	13	7	7	1
Christopher Hopkinson	30	–	2	–	–
Kurmangazy Iskaziyev	49	–	–	–	1
Igor Goncharov	49	–	1	–	1
Yerzhan Zhangaulov	8	–	–	–	–
Asiya Syrgabekova	48	–	–	–	–
Gustave van Meerbeke	37	–	–	–	–
Alastair Ferguson	49	13	–	7	1
Philip Dayer	49	13	7	7	1
Edward Walshe	49	13	7	7	1

The Management Board is the executive body and supervises the Company's current activities. In 2016, twenty-five meetings of the Management Board were held on a regular basis and as necessary.

In 2016, the Management Board approved a number of issues in relation to the introduction of changes to contracts for subsoil usage, and also considered matters related to the organisation business process for sales of refined oil products by the Company, which allowed the Company to switch to the independent oil processing scheme on Kazakhstan's oil refineries, as well as enabling the efficient sale of oil products in internal and external markets.

The Management Board makes decisions on other issues concerning the Company's operations that are not within the sole competence of the General Meeting of Shareholders, the Board of Directors or other officers of the Company.

Audit Committee

Members of the Audit Committee

In 2016 this committee was composed exclusively of independent directors, namely: Philip Dayer (Chairman of the Committee), Edward Walshe, and Alastair Ferguson. Appointments to the Audit Committee are made for a period of up to three years, and can be extended by the Board of Directors for no more than two additional three-year periods, provided that the members of the Audit Committee remain independent.

Responsibilities and duties of the Audit Committee

The Audit Committee is responsible, among other things, for any Company reports containing financial information, for monitoring risk management and internal control systems, and for the involvement of the auditors of the Company in this process. It also receives information from the Company's internal audit department, which monitors compliance with the Company's internal control procedures. In particular, the Committee deals with issues of compliance with legal requirements, accounting standards, the applicable rules of the UK Listing Authority (UKLA) and of the Kazakhstan Stock Exchange (KASE), and ensures an effective system of internal control.
The Board of Directors is also responsible for preliminary approval of the annual financial report.

Audit Committee	Remuneration Committee	Nominations Committee	Strategic Planning Committee	Independent Committee
Philip Dayer	Alastair Ferguson	Edward Walshe	Edward Walshe	Philip Dayer
Edward Walshe	Philip Dayer	Philip Dayer	Igor Goncharov	Edward Walshe
Alastair Ferguson	Edward Walshe	Igor Goncharov	Kurmangazy Iskaziyev	Alastair Ferguson
		Alastair Ferguson*	Philip Dayer	
			Alastair Ferguson	

*Member of the Committee since February 4, 2017.

The Audit Committee periodically reviews major transactions regarding acquisitions and disposals, and considers any issues that the Board of Directors may refer to the Audit Committee for review.

The Audit Committee is also responsible for key estimates and judgements, particularly provisions for impairment and revenues derived from sales of refined products.

Every year at the General Meeting of Shareholders, the Chairman of the Board of Directors shall report the results of, and answer questions related to, the activities of the Audit Committee on behalf of the Chairman of the Audit Committee.

Activities of the Audit Committee in 2016

During 2016, the Audit Committee held 13 meetings. The Chairman of the Audit Committee makes decisions about the frequency and timing of the meetings. The number of meetings is determined in accordance with the performance of its duties by the Committee. At least four meetings per year must be held to coincide with the key dates in the cycle of preparation of financial reporting and audit of the Company (namely: when preparation of the internal and external auditor's plans is completed; the preparation of the interim financial statements; preliminary announcements; and the Annual Report). In 2016, the Audit Committee reviewed the following issues:

- Financial statements
  - Review of issues regarding the preparation of financial statements in accordance with IFRS;
  - Approval of quarterly and annual financial statements to be disclosed to the Kazakhstan Stock Exchange and the London Stock Exchange;
  - Approval of press releases in relation to financial statements and operating and financial reviews;
- Internal audit;
  - Review and approval of the internal audit department's operational plan;
  - Internal audit team's staff issues;
  - Reports of the internal audit;
- Monitoring of risk management and internal audit system;
- Compliance.

Remuneration Committee

Members of the Remuneration Committee

In 2016 this Committee was composed exclusively of Independent Directors: Alastair Ferguson (Chairman of the Committee), Philip Dayer and Edward Walshe. The terms of office of the members of the Committee coincide with their terms of office as members of the Board of Directors.

Responsibilities and duties of the Remuneration Committee

The Remuneration Committee is responsible for monitoring the Company's current system of remuneration for the members of the Board of Directors, the CEO/General Director, members of the Management Board and other Company employees, and for analysis of the remuneration policy in comparison with that of other companies.

The Remuneration Committee is also responsible for developing and providing recommendations to the Board of Directors on the principles and criteria for determining the amounts and terms of remuneration and compensation for the members of the Board of Directors, the CEO/General Director and members of the Management Board of the Company, and for approving the terms of the Company's share option plans and other long-term incentive programmes for Company managers and employees.

The Remuneration Committee oversees the coordination of the Company's remuneration policy and of the Company's current remuneration system with the Company's development strategy, its financial position and the general state of the labour market.

In addition, the Remuneration Committee monitors the implementation of decisions of the General Meeting of Shareholders with respect to determining the amounts and the procedure for remuneration payments to the Company's Board of Directors.

The Remuneration Committee reports regularly to the Board of Directors on its work, and also annually reviews its compliance with its terms of reference and its obligation to provide such information to the Board of Directors.

Activities of the Remuneration Committee in 2016

In 2016 the Remuneration Committee held seven meetings. The Committee holds meetings as required, but not less than once every six months. Meetings may be convened by the Committee Chairman or any member of the Committee, or on the decision of the Board of Directors.

In 2016 the Remuneration Committee reviewed the following issues:

- Recommendations to the Board of Directors concerning the amounts and terms of remuneration of KMG EP's Board members;
- Determining the amounts of salaries and conditions of remuneration and bonuses of the members of the Management Board, employees of the internal audit department, and the Corporate Secretary;
- The Company's corporate KPIs for 2017; and
- Issues related to bonuses for Company staff, as well as to the Option plan.

The total remuneration for the Independent Directors for the year to December 31, 2016 is listed in the table below:

Name	Annual remuneration	Physical attendance	Phone-video conference	Meetings of independent Directors	Chairmanship of committee	Total for 2016 (excluding taxes)	Total for 2016 (including taxes)
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	tenge thousands
Alastair Ferguson	150.00	70.00	10.00	20.00	15.00	265.00	99,407.93
Edward Walshe	150.00	70.00	10.00	20.00	15.00	260.00	97,547.20
Philip Dayer	150.00	70.00	10.00	20.00	25.00	275.00	103,158.34

Other members of the Board of Directors do not receive remuneration as members of the Board of Directors, but are entitled to reimbursement of costs associated with such appointment.

The total amount of remuneration for the members of the Management Board for 2016 is 1,463 million tenge.

Nominations Committee

In 2016 the members of the Nominations Committee were: Edward Walshe (Chairman of the Committee), Philip Dayer and Christopher Hopkinson. Igor Goncharov, a member of the Board, replaced Christopher Hopkinson as a member of the Nominations Committee on December 27, 2016. Alastair Ferguson was elected as a member of the Nominations Committee in February 2017. The main purpose of the Committee is to increase the efficiency and quality of the work of the Board of Directors when selecting candidates to fill positions in the Company, to undertake succession planning, and to define the selection criteria for candidates for membership of the Board of Directors or Management Board, and the positions of CEO/General Director and Company Secretary.

The Nominations Committee considers matters related to changes in the membership of the Board of Directors and Management Board, and the termination of office and appointment of the Company Secretary, and the retirement and appointment of additional and alternate directors.

Activities of the Nominations Committee in 2016

During 2016 the Nominations Committee held seven meetings where the following issues were discussed:

- Recommendations to the Board of Directors on candidates for membership of the Board of Directors;
- Recommendation to the Board of Directors on membership of the Board Committees;
- Recommendation to the Board on the number of Management Board members and election of its members.

Strategic Planning Committee

In 2016 the members of the Strategic Planning Committee were: Edward Walshe (Chairman of the Committee), Philip Dayer, Alastair Ferguson, Igor Goncharov and Kurmangazy Iskaziyev. The main purpose of the Committee is to develop and provide recommendations to the Board of Directors on determining the Company's priorities and its development strategy.

Activities of the Strategic Planning Committee in 2016

In 2016 the Strategic Planning Committee held one meeting, at which the Chairman of the Board was elected.

Major Shareholders and/or GDR holders

In accordance with the laws of the Republic of Kazakhstan, listed below are the holders of Company securities who own shares as at December 31, 2015, the number of which must be reported. This requirement does not apply to GDR holders; however, the Company considers it necessary to specify that, on September 30, 2009, the State Investment Fund of the People's Republic of China Investment Corporation (CIC) announced the acquisition of GDRs representing approximately 11% of the shares of the Company.

Shareholder	Number of ordinary shares	Number of preference shares	Total of shares placed
Number of shares issued	70,220,935	4,136,107	74,357,042
In possession of JSC NC KazMunayGas	43,087,006	–	43,087,006
Percentage of issued share capital	61.36%	0.00%	57.95%

Contracts of Directors, Letters of appointment of Directors and employment contracts of Members of the Management Board

Employment contracts of Members of the Management Board

All members of the Management Board have signed employment contracts with the Company under which they are entitled to an insurance covering accidents on travel and to reimbursement of costs incurred during business travel in accordance with the Company's internal regulations.

It is not expected that any other employment agreements will be entered into with members of the Company's Board of Directors or Management Board.

Risk management

The Company operates a risk management system. The system is designed to identify, evaluate and manage significant risks to ensure that the Company can achieve its business goals while maintaining and increasing value for the Company's shareholders.

The system is based on well-established international practices as well as on the requirements of the Listing Rules of the London Stock Exchange and of the UK Combined Code of Corporate Governance.

The existing chain of command and interaction between the elements of the internal control system provide for a level of independence necessary for the internal control function to operate effectively, and is in line with international best practice in this area.

In 2015 the Company's risk management system introduced changes to its risk management policy for the purpose of improving risk management practices. The policy determines the strategy in the area of risk management, and the distribution of roles and responsibilities within the risk management system which determines the actions of the management bodies and all employees in the path towards achieving the corporate-wide objectives of the Company.

The Company's internal audit team provides the Board of Directors with unbiased information about how comprehensive the structure of the internal audit team of the Company is and how effectively it operates. In its work, the internal audit team takes a risk-oriented approach which allows it to identify and focus on critically important areas for the Company, thereby helping to improve the Company's overall performance and the quality of its corporate governance. The internal audit team monitors the implementation of recommendations from management, and reports on its progress to the Audit Committee and the Board of Directors.

As regards risk management, the Management Board established a Risk Management Committee. For more details of its activities, please see below.

Risk Management Committee

The Risk Management Committee is an advisory and consultative body set up under the Company's Management Board.

The Committee is made up of members of the Management Board and heads of the main functional departments of the Company.

The main objectives of the Committee are the prompt consideration of risk management issues within the Company, preparation of recommendations for the Management Board to follow regarding risk management issues, and monitoring the effectiveness of the risk management system.

General information about the Company's risk profile can be found in the Risk factors section on pages 66–73. Information about financial risks can be found in the Notes to the Consolidated Financial Statements, starting on page 115.

Information about taxation in the UK

The overview given below is based on UK law and HM Revenue & Customs practice in force as at the date of the present document, both of which are subject to change, possibly with retrospective effect. Except where otherwise stated, the overview discusses only certain UK tax consequences for a person who is the absolute beneficial owner of shares or GDRs and who is (i) considered to be resident for tax purposes in the UK; (ii) considered to be resident for tax purposes in no other jurisdiction; and (iii) is not in possession of a permanent establishment in the Republic of Kazakhstan to which the holding of shares or GDRs is related ('UK Holders').

In addition, this overview (i) addresses only the tax consequences for UK Holders who own shares and GDRs as capital assets and does not address the tax consequences that may apply to certain other categories of UK Holder, such as dealers; (ii) assumes that UK Holders do not, directly or indirectly, control 10% or more of the voting shares of the Company; (iii) assumes that a holder of GDRs is beneficially entitled to the underlying shares and to the dividends on those shares; and (iv) does not address the tax consequences for UK Holders that are insurance companies, investment companies, charities or pension funds.

The following is intended only as a general guide and is not intended to be, nor should be considered to be, legal or tax advice to any particular UK Holders. Accordingly, investors should satisfy themselves with their tax advisers as to the overall tax consequences, including, specifically, the consequences under UK law and HM Revenue & Customs practice, of the acquisition, ownership and disposal of shares or GDRs in their own particular circumstances.

Withholding tax at source

On the assumption that income received from GDRs is from a non-UK source for tax purposes, it should not be subject to withholding of tax at source in the UK. Dividend payments on shares will not be subject to UK withholding of tax at source.

Taxation of dividends

A UK Holder receiving a dividend on shares or GDRs may be subject to UK income tax or corporation tax, as the case may be, on the gross amount of any dividend paid out before the deduction of any Kazakhstan withholding taxes, subject to the availability of any credit for Kazakhstan tax withheld.

A UK Holder who is an individual resident and domiciled in the UK will be subject to UK income tax on the dividend paid on shares or GDRs, subject to an effective exemption (the "dividend nil rate") for the first £5,000 of all dividends received in the relevant tax year (including dividends received from any other share investments in the same tax year). A UK Holder who is an individual resident but not domiciled in the UK and who is entitled and elects to be taxed in the UK on a remittance basis (and, where necessary, pays the remittance basis charge) will be subject to UK income tax on the dividend paid on shares or GDRs to the extent that the dividend is remitted or treated as remitted to the UK.

A UK Holder which is a company residing in the UK for tax purposes should not be subject to UK corporate tax on the dividend paid on shares or GDRs, unless certain anti-avoidance rules apply.

Taxation of disposals or deemed disposals

The disposal by a UK Holder of interests in shares or GDRs may result in a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK Holder's circumstances and subject to any available exemption or relief. A UK Holder who is an individual resident and domiciled in the UK will generally be liable to UK capital gains tax on chargeable gains made on the disposal of an interest in shares or GDRs. A UK Holder who is an individual resident but not domiciled in the UK and who is entitled and elects to be taxed in the UK on a remittance basis (and, where necessary, pays the remittance basis charge) will generally be liable to UK capital gains tax to the extent that the chargeable gains made on the disposal of an interest in the shares or GDRs are remitted or treated as remitted in the UK. In particular, dealings in GDRs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to a UK capital gains tax liability.

An individual holder of shares or GDRs who ceases to be a resident or ordinarily resident in the UK for tax purposes for a period of less than five full tax years and who disposes of such shares or GDRs during that period may also be liable on returning to the UK to UK tax on capital gains, even though the individual may not be a resident or ordinarily resident in the UK at the time of the disposal.

A corporate UK Holder will generally be subject to UK corporation tax on any chargeable gains arising from a disposal of shares or GDRs.

Effect of Kazakhstan withholding taxes at source

Dividend payments in respect of shares and GDRs are subject to Kazakhstan withholding of tax at source. A UK Holder who is an individual UK resident should generally be entitled to a credit for Kazakhstan tax properly withheld from such payments against UK income tax liability on such amounts, subject to UK tax rules for calculation of such a credit. A UK Holder which is a company is not generally subject to UK corporation tax on dividend payments and thus is usually not able to claim credit for any such Kazakhstan withholding taxes at source.

Stamp duty and stamp duty reserve tax ("SDRT")

Assuming that any document effecting the transfer of, or containing an agreement to transfer, one or more shares or GDRs is neither (i) executed in the UK nor (ii) relates to any property located in the UK, or to any matter or thing done or to be done in the UK (which may include involvement of UK bank accounts in the payment mechanism), then no UK ad valorem stamp duty should be payable on such a document.

Even if the document effecting the transfer of, or containing an agreement to transfer, one or more shares or GDRs is (i) executed in the UK and/or (ii) relates to any property located in the UK, or to any matter or thing done or to be done in the UK, in practice it should not be necessary to pay any UK ad valorem stamp duty on this document unless the document is required for any purposes in the UK. If it is necessary to pay UK ad valorem stamp duty, it may also be necessary to pay interest and penalties associated therewith.

As GDRs relate to the securities expressed in a currency other than sterling, no "bearer instrument" stamp duty should be payable on either the issue of the GDRs or any transfer of the securities transferable by means of the GDRs.

Assuming that the shares are neither (i) registered in the UK register nor (ii) paired with shares issued by a company incorporated in the UK, no SDRT should be paid in respect of any agreement to transfer shares or GDRs.

Financial Statements

Independent Auditor's Report

**To the Shareholders and Management
of KazMunaiGas Exploration Production JSC**

Opinion
We have audited the Consolidated Financial Statements of KazMunaiGas Exploration Production JSC (the Organization), 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 consolidated financial position of the Organization as at 31 December 2016 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 Organization 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 the materiality of the balances of non-current assets, including oil and gas production assets and investments in joint ventures and associate, to the Consolidated Financial Statements and given 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 the recent drop in oil prices, devaluation of the tenge, increased inflation and cost of debt and uncertainty about future economic growth affects the Organization's business prospects and therefore triggers potential impairment of the Organization's assets and assets of its material investees.

Significant assumptions included discount rates, oil and petroleum product price forecasts and inflation and exchange rate forecasts. Significant estimates included production forecasts, 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 analised 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 rate and long-term growth rate 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 is included in Note 4 to the Consolidated Financial Statements.

Estimation of oil and gas reserves
Estimation of oil and gas reserves requires significant judgement and assumptions by management and reserve engineers. These estimations have a material impact on the Consolidated Financial Statements, particularly: impairment testing; depreciation, depletion and amortisation; decommissioning provisions; and going concern. There are technical uncertainties in assessing reserve quantities.

We assessed the competence and objectivity of external reserve engineers involved in the estimation process. We evaluated data used by the reserve engineers by comparing it with the budget approved by the management and external oil and gas data. We assessed whether reserve revisions were consistent with the Organization's data.

Description of the methodology used for the estimation of oil and gas reserves is included in Note 4 to the Consolidated Financial Statements.

Revenue from sales of refined products
Starting from 1 April 2016 the Organization ceased sales of crude oil to the domestic market and started tolling crude oil at refineries of KazMunayGas Refining and Marketing JSC ("KMG RM"), a related party, and selling received refined products. We considered this new sales process to be one of most significance in the audit due to the materiality of the revenue recognized.

We obtained an understanding of the accounting process related to tolling and domestic sales of refined products. We performed analytical procedures on sales of refined products and recalculation of related excise taxes and customs duties. We tested the design and operating effectiveness of controls related to accounting for the processing of crude oil and sales of refined products. For a sample of sale transactions, we agreed the sale terms to those set out in the sale agreements and re-performed the calculation of sales price.

Information on revenue from sales of refined products is included in Note 14 to the Consolidated Financial Statements. A description of the accounting policy and key judgements and estimates is included in Notes 2 and 4 to the Consolidated Financial Statements.

Other Information included in the Organisation's 2016 Annual Report
Other information consists of the information included in the Organization's 2016 Annual Report other than the Consolidated Financial Statements and our auditor's report thereon. Management is responsible for the other information. The Organization'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 Organization'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 Organization or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Organization's 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 Organization'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 Organization'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 Organization 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 Organization 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 regarding, 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 Jim Ducker.

Jim Ducker
Audit partner

Adil Syzdykov
Auditor

Gulmira Turmagambetova
General director,
Ernst & Young LLP

Auditor qualification certificate No.
МФ-0000172 dated 23 December 2013

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 15 July 2005

Kazakhstan 050060, Almaty
Al-Farabi Ave., 77/7 building

14 February 2017

Consolidated Statement of Financial Position

million tenge

	Notes	As at December 31, 2016	As at December 31, 2015
ASSETS			
Non-current assets			
Property, plant and equipment	5	**311,597**	234,367
Intangible assets	6	**11,607**	9,619
Investments in joint ventures	8	**144,532**	154,453
Investments in associate	9	**135,633**	154,241
Receivable from a jointly controlled entity	8	**16,696**	21,602
Loans receivable from joint ventures	8	**29,638**	27,941
Other financial assets	7	**35,961**	33,760
Deferred tax asset	19	**51,459**	71,904
Other assets		**970**	5,717
Total non-current assets		**738,093**	713,604
Current assets			
Inventories	10	**24,774**	23,102
Income taxes prepaid		**51,567**	36,225
Taxes prepaid and VAT recoverable	23	**22,567**	16,132
Mineral extraction and rent tax prepaid		**15,676**	6,064
Prepaid expenses		**20,713**	30,135
Trade and other receivables	7	**74,121**	105,443
Receivable from a jointly controlled entity	8	**17,617**	8,822
Other financial assets	7	**983,257**	833,912
Cash and cash equivalents	7	**162,091**	237,310
Total current assets		**1,372,383**	1,297,145
Total assets		**2,110,476**	2,010,749
EQUITY			
Share capital	11	**165,343**	163,004
Other capital reserves		**2,448**	3,945
Retained earnings		**1,444,351**	1,311,759
Foreign currency translation reserve		**321,370**	333,141
Total equity		**1,933,512**	1,811,849
LIABILITIES			
Non-current liabilities			
Borrowings		**3,844**	5,990
Deferred tax liability	19	**138**	240
Provisions	13	**45,300**	45,264
Total non-current liabilities		**49,282**	51,494
Current liabilities			
Borrowings		**5,483**	5,585
Provisions	13	**45,926**	70,010
Income taxes payable		**33**	13
Mineral extraction tax and rent tax payable		**8,571**	22,249
Trade and other liabilities		**67,669**	49,549
Total current liabilities		**127,682**	147,406
Total liabilities		**176,964**	198,900
Total liabilities and equity		**2,110,476**	2,010,749

The notes on pages 115 to 143 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

million tenge

	Notes	**For the year ended December 31, 2016**	For the year ended December 31, 2015
Revenue	14	**727,154**	529,812
Share of results of associate and joint ventures	8, 9	**(12,600)**	(20,062)
Finance income	18	**30,037**	26,094
Total revenue and other income		**744,591**	535,844
Production expenses	15	**(274,753)**	(225,049)
Selling, general and administrative expenses	16	**(115,022)**	(118,601)
Exploration expenses		**(2,535)**	(1,892)
Depreciation, depletion and amortisation	5, 6	**(30,776)**	(20,110)
Taxes other than on income	17	**(145,431)**	(181,501)
Net reversal / (allowance) for VAT recoverable	23	**13,362**	(46,753)
Loss on disposal of property, plant and equipment		**(2,050)**	(4,618)
Finance costs	18	**(5,842)**	(14,999)
Foreign exchange (loss)/gain, net		**(12,892)**	448,869
Profit before tax		**168,652**	371,190
Income tax expense	19	**(37,076)**	(127,521)
Profit for the year		**131,576**	243,669
Foreign currency translation difference		**(11,771)**	257,554
Other comprehensive (loss) / income for the period to be reclassified to profit and loss in subsequent periods		**(11,771)**	257,554
Actuarial gain, net of tax		**563**	–
Other comprehensive income for the period not to be reclassified to profit and loss in subsequent periods		**563**	–
Total comprehensive income for the year, net of tax		**120,368**	501,223
Earnings per share – tenge thousands Basic and diluted	12	**1.93**	3.57

The notes on pages 115 to 143 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows
million tenge

	Notes	**For the year ended December 31, 2016**	For the year ended December 31, 2015
Cash flows from operating activities			
Profit before tax		**168,652**	371,190
Adjustments to add / (deduct) non-cash items			
Depreciation, depletion and amortisation	5, 6	**30,776**	20,110
Share of results of associate and joint ventures	8, 9	**12,600**	20,062
Loss on disposal of property, plant and equipment (PPE)		**2,050**	4,618
Recognition of share-based payments		**1,410**	1,598
Forfeiture of share-based payments		**(63)**	(8)
Unrealised foreign exchange loss/(gain) on non-operating activities		**12,003**	(424,585)
Net (reversal) / allowance on VAT recoverable		**(13,362)**	46,753
Change in provisions		**(15,566)**	35,993
Other non-cash income and expense		**2,829**	1,196
Add finance costs	18	**5,842**	14,999
Deduct finance income	18	**(30,037)**	(26,094)
Working capital adjustments			
Change in other assets		**(1,025)**	3,676
Change in inventories		**(1,949)**	2,841
Change in taxes prepaid and VAT recoverable		**6,095**	9,888
Change in prepaid expenses		**9,421**	(123)
Change in trade and other receivables		**20,500**	(34,792)
Change in trade and other payables		**9,956**	(15,330)
Change in mineral extraction and rent tax payable and prepaid		**(18,384)**	(2,906)
Income tax paid		**(42,398)**	(99,422)
Net cash generated from / (used in) operating activities		**159,350**	(70,336)
Cash flows from investing activities			
Purchases of PPE		**(101,233)**	(88,174)
Proceeds from sale of PPE		**784**	171
Purchases of intangible assets		**(3,672)**	(1,901)
Loans provided to the joint ventures	8	**(5,146)**	(3,389)
Dividends received from joint ventures and associate, net of withholding tax	8, 9	**27,515**	13,822
(Placement)/withdrawal of term deposits		**(170,927)**	144,960
Repayments of receivable from a jointly controlled entity		**–**	6,815
Interest received		**15,972**	14,839
Net cash (used in) / generated from investing activities		**(236,707)**	87,143
Cash flows from financing activities			
Repayment of borrowings		**(2,128)**	(1,241)
Dividends paid to Company's shareholders	3, 11	**(137)**	(28,988)
Net cash used in financing activities		**(2,265)**	(30,229)
Net change in cash and cash equivalents		**(79,622)**	(13,422)
Cash and cash equivalents at the beginning of the year		**237,310**	180,245
Net foreign exchange difference on cash and cash equivalents		**4,403**	70,487
Cash and cash equivalents at the end of the year	7	**162,091**	237,310

The notes on pages 115 to 143 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity
million tenge

	Notes	Share capital	Treasury shares	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total Equity
As at December 31, 2014		**263,095**	**(100,091)**	**2,355**	**1,098,170**	**75,587**	**1,339,116**
Profit for the year		–	–	–	243,669	–	243,669
Other comprehensive income		–	–	–	–	257,554	257,554
Total comprehensive income		**–**	**–**	**–**	**243,669**	**257,554**	**501,223**
Recognition of share-based payments	11	–	–	1,598	–	–	1,598
Forfeiture of share-based payments	11	–	–	(8)	–	–	(8)
Dividends	11	–	–	–	(30,080)	–	(30,080)
As at December 31, 2015		**263,095**	**(100,091)**	**3,945**	**1,311,759**	**333,141**	**1,811,849**
Profit for the year		–	–	–	131,576	–	131,576
Other comprehensive income		–	–	–	563	(11,771)	(11,208)
Total comprehensive income		**–**	**–**	**–**	**132,139**	**(11,771)**	**120,368**
Recognition of share-based payments	11	–	–	1,410	–	–	1,410
Forfeiture of share-based payments	11	–	–	(63)	–	–	(63)
Exercise of employee options	11	–	2,339	(2,844)	505	–	–
Dividends	11	–	–	–	(52)	–	(52)
As at December 31, 2016		**263,095**	**(97,752)**	**2,448**	**1,444,351**	**321,370**	**1,933,512**

The notes on pages 115 to 143 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements
million tenge 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 Mangistau 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 63.02% of the Company's outstanding shares as at December 31, 2016 (2015: 63.21%). The Parent Company is 100% owned by Samruk-Kazyna Sovereign Welfare Fund Joint Stock Company ("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 other 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Consolidated Financial Statements have been prepared under the historical cost convention except for financial instruments. These Consolidated Financial Statements are presented in tenge and all values are rounded to the nearest million unless otherwise stated.

The preparation of 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 Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 4.

Exchange rates

The official rate of the Kazakhstan tenge ("tenge") to the US$ at December 31, 2016 and December 31, 2015 was 333.29 and 339.47 tenge, respectively. Any translation of tenge amounts to US$ 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.

Adopted accounting standards and interpretations

The Company has adopted the following new and amended IFRS during the year, which did not have any material effect on the financial performance or position of the Company:

Improvements to IFRSs IAS 16 and IAS 38	2012-2014 cycle; Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments);
IAS 27	Equity Method in Separate Financial Statements (Amendments);
IAS 1	Disclosure Initiative (Amendments);

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 Company's financial statements listed below, are those that the Company reasonably expects will have an impact on the disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards and interpretations, if applicable when they become effective (effective for annual periods beginning on or after):

Notes to the Consolidated Financial Statements continued
million tenge unless otherwise stated

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

2.1 Basis of preparation continued

Standards issued but not yet effective continued

IFRS 9	Financial instruments: classification and measurement (January 1, 2018);
IFRS 15	Revenue from Contracts with Customers (January 1, 2018);
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments) (Deferred indefinitely);
IFRS 16	Leases (January 1, 2019)
IAS 7	Disclosure Initiative (Amendments to IAS 7) (January 1, 2017);
IAS 12	Income Taxes Recognition of Deferred Tax Assets for Unrealised Losses (Amendments) (January 1, 2017);
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments) (January 1, 2018);
IFRIC 22	Foreign Currency Transactions and Advance Consideration (January 1, 2018).

2.2 Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date control ceases.

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are consistent with those of the Company.

Investment in associate and interests in joint arrangements

The Company's investment in its associate and joint ventures are accounted for using the equity method. An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Company is a party to a joint arrangement when it exercises joint control over an arrangement by acting collectively with other parties and decisions about the relevant activities require unanimous consent of the parties sharing control. The joint arrangement is either a joint operation or a joint venture depending on the rights and obligations of the parties to the arrangement.

In relation to interest in joint operations the Company recognises: (i) its assets, including its share of any assets held jointly, (ii) liabilities, including its share of any liabilities incurred jointly, (iii) revenue from the sale of its share of the output arising from the joint operation, (iv) its share of the revenue from the sale of the output by the joint operations, and (v) its expenses, including its share of any expenses incurred jointly.

Under the equity method, the investment in the associate and joint ventures are carried in the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the associate and joint ventures.

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.

The Company's investment in an associate includes purchase price premium identified on acquisition, which is primarily attributable to the value of the licenses based on their proved reserves. The licenses are amortized over the proved developed reserves of the associate and joint ventures using the unit-of-production method.

The consolidated statement of comprehensive income reflects the share of the results of operations of each associate and joint venture. Where there has been a change recognised directly in the equity of an associate or joint venture, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and its associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associate or joint ventures. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the statement of comprehensive income.

Upon loss of joint control and provided the former jointly controlled entity does not become a subsidiary or associate, the Company measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised in the statement of comprehensive income. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

2.3 Foreign currency translation

The Consolidated Financial Statements are presented in Kazakhstan tenge, which is the Company's functional and presentation currency. Each subsidiary, associate and joint venture of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. 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.

The assets and liabilities of foreign operations are translated into tenge at the rate of exchange ruling at the reporting date and their statements of comprehensive income are translated at the exchange rates at the date of transaction. The exchange differences arising on the translation are recognised in other comprehensive income or loss. On disposal of a foreign entity, the accumulated foreign currency translation reserve relating to that particular foreign operation is recognised in the statement of comprehensive income.

2.4 Oil and natural gas exploration and development expenditure

Exploration license costs

Exploration license costs are capitalized within intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned. If no future activity is planned, the remaining balance of the license cost is written off. Upon determination of economically recoverable reserves ("proved reserves" or "commercial reserves"), amortisation ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, and all licenses and approvals are obtained from the appropriate regulatory bodies, then the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Notes to the Consolidated Financial Statements continued
million tenge unless otherwise stated

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

2.4 Oil and natural gas exploration and development expenditure continued

Exploration expenditure
Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized within intangible assets (exploration and evaluation assets) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel and energy used, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development then, the costs continue to be carried as an asset.

All such carried costs are subject to technical, commercial and management review 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 costs are written off.

When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Development expenditure
Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, except for expenditure related to development or delineation wells which do not find commercial quantities of hydrocarbons and are written off as dry hole expenditures in the period, is capitalized within property, plant and equipment.

2.5 Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if 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 properties are depreciated using a unit-of-production method over proved developed reserves. Certain oil and gas property assets with useful lives less than the remaining life of the fields are depreciated on a straight-line basis over useful lives of 4-15 years.

Other property, plant and equipment principally comprise buildings and machinery and equipment which are depreciated on a straight-line basis over average useful lives of 24 and 7 years, respectively.

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 derecognised 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 statement of comprehensive income in the period the item is derecognised.

2.6 Impairment of non-financial assets
The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing recoverable value, 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.7 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets include capitalized expenditure for exploration and evaluation and other intangible assets, which are mainly comprised of computer software. 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. Computer software costs have an estimated useful life of 3 to 7 years and are amortized on a straight line basis over this period.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

2.8 Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through the statement of comprehensive income, held to maturity investments, available for sale financial assets, loans and trade and other receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through the statement of comprehensive income, directly attributable transaction costs.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost using the effective interest method.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement trade and other receivables are carried at amortized cost using the effective interest method less any allowance for impairment.

Available for sale financial investments

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses recognised in other comprehensive income or loss until the investment is derecognised or determined to be impaired at which time the cumulative reserve is recognised in the statement of comprehensive income.

Notes to the Consolidated Financial Statements continued

million tenge unless otherwise stated

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

2.8 Financial assets continued

Fair value

Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been 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 been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of comprehensive income.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available for sale financial investments

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available for sale are not recognised in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.9 Inventories

Inventories are stated at the lower of cost determined on a first-in first-out ("FIFO") basis and net realizable value. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortisation ("DD&A") and overheads based on normal capacity. Net realizable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale. Materials and supplies inventories are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

2.10 Value added tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT recoverable represents VAT on domestic purchases net of VAT on domestic sales.

Export sales are zero rated. However VAT offset is allowed based on the results of a tax audit carried out by the tax authorities to confirm VAT recoverable.

If the effect of the time value of money is material, long-term VAT recoverable is discounted using a risk-free rate that reflects, where appropriate, the risks specific to the asset.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

2.12 Share capital

Share Capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Treasury Shares

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until such time as the shares are cancelled or reissued. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised 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 financial statements are authorised for issue.

Share-based payment transactions

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Notes to the Consolidated Financial Statements continued

million tenge unless otherwise stated

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

2.12 Share capital continued

Share-based payment transactions continued

In situations where equity instruments are issued and some services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This is then capitalized or expensed as appropriate.

The cost of equity-settled transactions with employees for awards granted on or after July 1, 2007 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using a Black-Scholes-Merton option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The expense or credit for a period, in the statement of comprehensive income, represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. All cancellations of equity-settled transaction awards are treated equally. Where the share-based award is cancelled on forfeiture any cost previously recognised is reversed through equity.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Provisions

Provisions are recognised when the Company 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 Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

2.16 Employee benefits

The Company withholds 10% from the salary of its employees as the employees' contribution to their pension fund. The pension deductions are limited to a maximum of 171,442 tenge per month in 2016 (2015: 160,230 tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. Starting from January 1, 2014 the Company is required to contribute an additional 5% of the salary for a majority of its employees to their pension funds.

Long-term employee benefits

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Company and its employees and other documents. The collective agreement and other documents provide for certain one-off retirement payments, early retirement benefits, 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 and early retirement benefits 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.

2.17 Revenue recognition

The Company sells crude oil and oil products under short-term agreements priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. Title typically passes and revenues are recognised when crude oil or oil products are physically placed onboard a vessel or off loaded from the vessel, transferred into pipe or other delivery mechanism depending on the contractually agreed terms.

The Company's crude oil and oil products sale contracts generally specify maximum quantities of crude oil or oil products to be delivered over a certain period. Crude oil or oil products shipped but not yet delivered to the customer are recorded as inventory in the statement of financial position.

2.18 Income taxes

Current income tax expense 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.

Excess profit tax (EPT) is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation enacted as of January 1, 2009, the Company accrues and pays EPT in respect of each subsurface use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsurface 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 subsurface use contract in excess of 25% of the deductions attributable to each contract.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax 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.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, an associate and joint ventures except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements continued

million tenge unless otherwise stated

3 SIGNIFICANT NON-CASH TRANSACTIONS

During the year ended December 31, 2016 the Company excluded from the consolidated statement of cash flows a non-cash transaction related to the offset of withholding income tax payable against the interest receivable on financial assets in the amount of 1,520 million tenge (2015: 1,830 million tenge).

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of Consolidated Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Company's computation of DD&A. The Company estimates its reserves of oil and gas 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.

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 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 DD&A. The Company has included in proved reserves only those quantities that are expected to be produced during the approved license period. This is due to the uncertainties surrounding the outcome of renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Company's license periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings and may be an indicator of impairment reversal. 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

The Company assesses assets or cash-generating units (CGU) for impairment and for reversal of previously impaired amounts whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or that previously recorded impairment may no longer exist or may have decreased. Where an indicator of impairment or reversal 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.

As at December 31, 2016 the Company carried out an assessment due to several indicators that the previous impairment loss for JSC "Ozenmunaigas" 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 discounted 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.

Asset retirement obligations

Under the terms of certain contracts, 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, buildings and recultivation of the contract territories. Since the license 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 license period.

If the asset retirement obligations were to be settled at the end of the economic life of the properties, 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 for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognised. 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 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. The Company reviews site restoration provisions at each reporting date, 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 several 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.

Approximately 16.29% and 19.07% of the provision at December 31, 2016 and 2015 relates to final closure costs. The Company 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 carrying value of obligation at December 31, 2016 were 5.0% and 10.0% respectively (2015: 5.0% and 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 13.

Environmental remediation

The Company 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 a discounted basis based on management's expectations with regard to timing of the procedures required. 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.

Further uncertainties related to environmental remediation obligations are detailed in Note 23. Movements in the provision for environmental remediation obligations are disclosed in Note 13.

Taxation

Deferred tax is calculated with respect to both corporate income tax ("CIT") and excess profit tax ("EPT"). Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates. Both deferred CIT and EPT bases disclosed in Note 19 are calculated under the terms of the tax legislation enacted in the tax code, further uncertainties related to taxation are detailed in Note 23.

Notes to the Consolidated Financial Statements continued
million tenge unless otherwise stated

5 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Other assets	Construction work-in-progress	Total
Net book amount at January 1, 2015	**95,661**	**48,759**	**12,016**	**156,436**
Additions	326	2,919	93,055	96,300
Change in ARO estimate	5,451	–	–	5,451
Disposals	(353)	(4,197)	(950)	(5,500)
Transfers from construction-in-progress	84,782	4,054	(88,836)	–
Internal transfers	2,641	(2,567)	(74)	–
Depreciation charge	(14,124)	(4,196)	–	(18,320)
Net book amount at December 31, 2015	**174,384**	**44,772**	**15,211**	**234,367**
Additions	164	2,796	108,977	111,937
Change in ARO estimate	(1,487)	–	–	(1,487)
Disposals	(936)	(874)	(1,526)	(3,336)
Transfers from construction-in-progress	67,230	2,975	(70,205)	–
Internal transfers	(2,246)	2,287	(41)	–
Depreciation charge	(23,112)	(6,772)	–	(29,884)
Net book amount at December 31, 2016	**213,997**	**45,184**	**52,416**	**311,597**
At December 31, 2016				
Cost	894,760	124,977	60,492	1,080,229
Accumulated depreciation	(342,356)	(39,241)	–	(381,597)
Accumulated impairment	(338,407)	(40,552)	(8,076)	(387,035)
Net book amount	**213,997**	**45,184**	**52,416**	**311,597**
At December 31, 2015				
Cost	840,027	117,635	25,670	983,332
Accumulated depreciation	(319,434)	(31,679)	–	(351,113)
Accumulated impairment	(346,209)	(41,184)	(10,459)	(397,852)
Net book amount	**174,384**	**44,772**	**15,211**	**234,367**

6 INTANGIBLE ASSETS

	Exploration and evaluation assets	Other intangibles	Total
Net book amount at January 1, 2015	**7,590**	**3,265**	**10,855**
Additions	1,596	492	2,088
Disposals	(1,345)	(164)	(1,509)
Amortisation charge	(738)	(1,052)	(1,790)
Impairment	–	(25)	(25)
Net book amount at December 31, 2015	7,103	2,516	9,619
Additions	2,492	1,038	3,530
Disposals	(605)	(45)	(650)
Amortisation charge	(79)	(813)	(892)
Net book amount at December 31, 2016	**8,911**	**2,696**	**11,607**
At December 31, 2016			
Cost	27,695	9,145	36,840
Accumulated amortisation	(17,876)	(6,347)	(24,223)
Accumulated impairment	(908)	(102)	(1,010)
Net book amount	**8,911**	**2,696**	**11,607**
At December 31, 2015			
Cost	47,248	8,485	55,733
Accumulated amortisation	(23,480)	(5,841)	(29,321)
Accumulated impairment	(16,665)	(128)	(16,793)
Net book amount	**7,103**	**2,516**	**9,619**

7 FINANCIAL ASSETS

Other financial assets

	2016	2015
US$ denominated held to maturity deposits	**33,276**	31,680
Tenge denominated held to maturity deposits	**2,682**	2,077
Other	**3**	3
Total non-current	**35,961**	**33,760**
US$ denominated term deposits	**980,958**	831,122
Great Britain pound denominated term deposits	**2,299**	2,790
Total current	**983,257**	**833,912**
	1,019,218	**867,672**

As at December 31, 2016 the non-current US$ denominated term deposits include restricted deposits in the amount of 33,276 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.

The weighted average interest rate on US$ denominated term deposits in 2016 was 2.37% (2015: 3.1%). During 2016 there were no tenge denominated term deposits (2015: 12.7%).

Notes to the Consolidated Financial Statements continued
million tenge unless otherwise stated

7 FINANCIAL ASSETS continued
Trade and other receivables

	2016	2015
Trade receivables	**73,348**	93,027
Dividend receivables	**670**	12,730
Other	**1,178**	852
Allowance for doubtful receivables	**(1,075)**	(1,166)
	74,121	**105,443**

As at December 31, 2016 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGas Trading AG ("KMG Trading") and KazMunaiGaz Refinery and Marketing JSC ("KMG RM"), both subsidiaries of the Parent Company, amounting to 57,503 million tenge (2015: 36,824 million tenge and 52,137 million tenge, respectively).

As at December 31, 2016 the Company's trade receivables also included receivables from sales of refined products to KazMunaiGas Onimdery LLP ("KMG Onimdery"), subsidiary of KMG RM, amounting to 13,704 million tenge (2015: nil).

As at December 31, 2016 78% of the Company's trade receivables are denominated in US$ (2015: 40%).

The ageing analysis of trade and other receivables is as follows as at December 31:

	2016	2015
Current	**73,606**	104,571
0-30 days overdue	**–**	–
30-60 days overdue	**444**	291
90 and more days overdue	**71**	581
	74,121	105,443

Cash and cash equivalents

	2016	2015
US$ denominated term deposits with banks	**34,957**	207,440
Tenge denominated term deposits with banks	**30,078**	12,370
US$ denominated cash in banks and on hand	**95,402**	15,488
Tenge denominated cash in banks and on hand	**1,467**	1,767
Great Britain pound denominated cash in bank and on hand	**187**	245
	162,091	**237,310**

Cash with banks earns interest based on daily bank deposit rates. Deposits with banks are made for varying periods between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective deposit rates.

The weighted average interest rate on tenge denominated deposits in 2016 was 14.17% (2015: 15.9%). The weighted average interest rate on US$ denominated deposits in 2016 was 1.79% (2015: 2.4%).

8 INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY

	Ownership share	2016	2015
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	**71,634**	83,752
Interest in JV Ural Group Limited BVI ("UGL")	50%	**72,898**	70,701
Interest in JV KS EP Investments BV ("KS EP Investments")	51%	**–**	–
		144,532	154,453

Movement in investment in joint ventures during the reporting period:

	2016	2015
Carrying amount at January 1	**154,453**	95,177
Share of total comprehensive income/(loss)	**2,734**	(2,289)
Dividends declared	**(15,107)**	(26,553)
Foreign currency translation difference	**(2,698)**	71,487
Share in additional paid in capital	**5,150**	16,631
Carrying amount at December 31	**144,532**	**154,453**

Unrecognised share in loss of KS EP Investments amounted to 1,005 million tenge for 2016 (2015: 8,753 million tenge). In prior years the Company provided the series of loans to KS EP Investments for the total amount of 41,984 thousand US$. On September 19, 2016 the Company has signed extension of a loan agreement until June 30, 2017. During 2016 the Company has provided additional loan totaling to 4,171 thousand US$. KS EP Investments is in process of extension of Karpovskiy Severniy exploration license until June 30, 2017. Total outstanding amount of loan to KS EP as at December 31, 2016 was equal to 49,460 thousand US$ (16,484 million tenge) which was fully impaired in prior and current periods.

Kazgermunai, UGL and KS EP Investments are non-listed companies and there is no quoted market price available for their shares. The joint ventures' reporting period is the same as the Company's reporting period.

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:

	2016	2015
Cash and cash equivalents	**39,695**	32,656
Other current assets	**11,151**	17,712
Non-current assets	**153,839**	198,757
	204,685	249,125
Current liabilities	**33,907**	37,149
Non-current liabilities	**27,510**	44,472
	61,417	81,621
Net assets	**143,268**	167,504
Proportion of the company's ownership	**50%**	50%
Carrying value of the investment	**71,634**	83,752

	2016	2015
Revenues	**155,633**	139,608
Operating expenses	**(126,851)**	(85,611)
including depreciation and amortisation	**(36,325)**	(18,690)
including equity method accounting adjustments	**(8,393)**	(2,758)
Profit from operations	**28,782**	53,997
Finance income	**946**	632
Finance cost	**(1,231)**	(807)
Profit before tax	**28,497**	53,822
Income tax expense	**(19,873)**	(48,569)
Profit and other comprehensive income for the year	**8,624**	5,253
Company's share of the comprehensive income for the year	**4,312**	2,627

Kazgermunai is unable to distribute its profits unless it obtains consent from the two venture partners.

Notes to the Consolidated Financial Statements continued
million tenge unless otherwise stated

8 INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY continued
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 transferred from an exploration license to a production license for the Rozhkovskoye field. The production license is valid for 25 years. In May 2015 UOG has extended its exploration license for Fyodorovskoye field until May 2018.

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

	2016	2015
Cash and cash equivalents	**297**	921
Other current assets	**13**	54
Non-current assets	**215,892**	207,323
	216,202	208,298
Current liabilities	**1,743**	3,118
Non-current financial liabilities	**57,970**	53,901
Non-current liabilities	**10,694**	9,877
	70,407	66,896
Net assets	**145,795**	141,402
Proportion of the company's ownership	**50%**	50%
Carrying value of the investment	**72,898**	70,701

	2016	2015
Revenues	**40**	16
Operating expenses	**(1,373)**	(8,787)
Loss from operations	**(1,333)**	(8,771)
Finance income	**17**	11
Finance cost	**(1,652)**	(1,079)
Loss before tax	**(2,968)**	(9,839)
Income tax (expense) / benefit	**(187)**	8
Loss and other comprehensive loss for the year	**(3,155)**	(9,831)
Company's share of the comprehensive loss for the year	**(1,578)**	(4,916)

During 2016 the Company provided interest free loans in the amount of 10,950 thousand US$ (3,742 million tenge) to UGL (2015: 15,250 thousand US$ or 3,389 million tenge). On initial recognition the loans were recognised at the fair value of 3,655 thousand US$ (1,249 million tenge) determined by discounting future cash flows. Investments in UGL were adjusted accordingly to recognize effect of discounting.

During 2016 the Company reviewed its expectations with respect to the repayment of the loans from UGL. As a result of the review the payback period of the loans was extended from 2020-2024 to 2023-2024. This extension resulted in a decrease of the carrying amount of these loans by 3,282 million tenge. Carrying value of the loans from UGL totaled 88,927 thousand US$ (29,638 million tenge) at December 31, 2016 (2015: 82,309 thousand US$ 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%.

Receivable from jointly controlled entity CITIC Canada Energy Limited ("CCEL")
In 2007 the Company purchased a 50% interest in a jointly controlled entity, CCEL, whose investments are involved in oil and natural gas production in western Kazakhstan, from its co-investor, State Alliance Holdings Limited, a holding company ultimately belonging to CITIC Group, a company 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 the Company 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 amounts to 512.3 million US$ (170,760 million tenge) as at December 31, 2016 (2015: 515.5 million US$ or 174,994 million tenge). The Total Maximum Amount represents the balance of the Company's share of the original purchase price funded by CITIC plus accrued interest. The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Company recognises in its 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 amounted to 103 million US$ (34,227 million tenge) (2015: 89.3 million US$ or 30,314 million tenge) net of unamortized transaction costs.

Additionally, the Company 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$ plus annual interest of 8% less the cumulative amount of the guaranteed payments received.

On November 17, 2008, the annual Guaranteed Amount has been increased from 26.2 million US$ to 26.9 million US$, payable in two equal installments not later than June 12 and December 12 of each year. After the above amendment the effective interest rate on the receivable from CCEL is 15% per annum.

9 INVESTMENTS IN ASSOCIATE

Interest in Petrokazakhstan Inc. ("PKI")

	Ownership share	**2016**	2015
	33%	**135,633**	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% 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:

	2016	2015
Carrying amount at 1 January	**154,241**	116,054
Share of the total comprehensive loss	**(16,201)**	(40,467)
Foreign currency translation difference	**(2,407)**	78,654
Carrying amount at December 31	**135,633**	154,241

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

	2016	2015
Cash and cash equivalents	**54,443**	48,568
Other current assets	**42,735**	78,268
Non-current assets	**433,384**	556,382
	530,562	683,218
Current liabilities	**20,300**	132,525
Non-current liabilities	**99,253**	83,297
	119,553	215,822
Net assets	**411,009**	467,396
Proportion of the company's ownership	**33%**	33%
Carrying value of the investment	**135,633**	154,241

Notes to the Consolidated Financial Statements continued
million tenge unless otherwise stated

9 INVESTMENTS IN ASSOCIATE continued
Interest in Petrokazakhstan Inc. ("PKI") continued

	2016	2015
Revenues	**128,809**	127,768
Operating expenses	**(180,166)**	(158,803)
including depreciation and amortisation	**(45,265)**	(38,348)
including equity method accounting adjustments	**(33,639)**	(22,082)
Loss from operations	**(51,357)**	(31,035)
Share in profit / (loss) of joint ventures	**7,282**	(12,909)
Finance income	**256**	234
Finance cost	**(5,217)**	(6,050)
Loss before tax	**(49,036)**	(49,760)
Income tax benefit / (expense)	**2,570**	(4,098)
Loss for the year	**(46,466)**	(53,858)
Other comprehensive loss to be reclassified to profit and loss in subsequent periods	**(2,628)**	(68,770)
Total comprehensive loss for the year	**(49,094)**	(122,628)
Company's share of the comprehensive loss for the year	**(16,201)**	(40,467)

10 INVENTORIES

	2016	2015
Crude oil	**7,915**	9,218
Refined products	**4,531**	–
Materials	**12,328**	13,884
	24,774	23,102

As at December 31, 2016 the Company had 200,071 tons of crude oil and 92,696 tons of refined products (2015: 266,022 tons of crude oil) in storage and transit.

11 SHARE CAPITAL

	Shares outstanding	
	Number of shares	Million tenge
As at January 1, 2015	**68,162,635**	163,004
As at December 31, 2015	**68,162,635**	163,004
Reduction of treasury stock due to exercise of share options	**209,232**	2,339
As at December 31, 2016	**68,371,867**	165,343

11.1 Share capital
Authorised shares

The total number of authorised shares is 74,357,042 (2015: 74,357,042). 70,220,935 of authorised shares are ordinary shares (2015: 70,220,935) and 4,136,107 are non-redeemable preference shares (2015: 4,136,107). 43,087,006 of the outstanding shares are owned by the Parent Company as at December 31, 2016 (2015: 43,087,006). The shares of the Company have no par value.

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognised as distributions to equity holders during 2016 amounted to 25 tenge per share for preferred shares (2015: 440 tenge per share for both the outstanding ordinary and preferred shares).

11.2 Employee share option plans

The expense recognised for share option plans related to employee services received during the year is 1,410 million tenge (2015: 1,598 million tenge).

Employee option plans

Under the employee option plan 1 ("EOP 1"), an award of global depositary receipt ("GDR") options with an exercise price equal to the market value of GDRs at the time of award was made to executives. The exercise of options is not subject to performance conditions and vests 1/3 each year over 3 years and is exercisable till the fifth anniversary from the vesting date.

Under the employee option plan 2 ("EOP 2"), share options are granted to incentivise and reward key employees, senior executives and members of the Board of Directors of the Company, except for independent directors. The exercise price of the options is equal to the market price of GDRs on the date of grant. The exercise of these options is not subject to the attainment of performance conditions. Options granted on or after July 1, 2007 vest on the third anniversary of the date of the grant and are exercisable till the fifth anniversary from the vesting date.

Under the employee option plan 3 ("EOP 3") GDR options are granted to key employees and senior executives of the Company. The exercise price of the options is equal to zero. Options were granted on December 25, 2015, vested on December 31, 2015 and are exercisable before December 31, 2020.

Under the employee option plan 4 ("EOP 4") GDR options are granted to key employees and senior executives of the Company. The exercise price of the options is equal to zero. Options were granted on February 23, 2016, vested on May 18, 2016 and are exercisable before May 18, 2021.

Under the employee option plan 5 ("EOP 5") GDR options are granted to key employees and senior executives of the Company. The exercise price of the options is equal to zero. Options were granted on April 20, 2016, vested on May 18, 2016 and are exercisable before May 18, 2021.

Movement in the year

The following table illustrates the number of GDR's (No.) and weighted average exercise prices in US$ per GDR (WAEP) of and movements in share options during the year:

	2016 No.	**2016 WAEP**	2015 No.	2015 WAEP
Outstanding at January 1	**1,557,560**	**10.34**	1,136,523	19.54
Granted during the year	**625,391**	**–**	677,231	–
Exercised during the year	**(1,255,391)**	**–**	–	–
Forfeited during the year	**(24,015)**	**18.31**	(78,214)	17.79
Expired during the year	**(123,088)**	**13.00**	(177,980)	26.47
Outstanding at December 31	**780,457**	**18.03**	1,557,560	10.34
Exercisable at December 31	**780,457**	**18.03**	1,557,560	10.34

The weighted average remaining contractual life for share options outstanding as at December 31, 2016 is 1.75 years (2015: 3.46 years). The range of exercise price for options outstanding at December 31, 2016 was 0.00 US$ – 26.10 US$ per GDR (2015: 0.00 US$ – 26.10 US$). The EOP 1, EOP2, EOP 3, EOP 4 and EOP 5 are equity settled plans and the fair value is measured at the grant date.

11.3 Kazakhstan Stock Exchange disclosure requirement

The Kazakhstan Stock Exchange enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets (Note 6) per shares outstanding as at year end. As at December 31, 2016 the amount per share outstanding is 28,240 tenge (December 31, 2015: 26,544 tenge).

Notes to the Consolidated Financial Statements continued
million tenge unless otherwise stated

12 EARNINGS PER SHARE

	2016	2015
Weighted average number of all shares outstanding	**68,283,721**	68,162,635
Profit for the year	**131,576**	243,669
Basic and diluted earnings per share, thousands tenge	**1.93**	3.57

The above presentation includes both ordinary and preferred shares as preferred shareholders equally share distributable profits, which results in identical earnings per share for both classes of shares.

13 PROVISIONS

	Environmental remediation	Taxes and related fines and penalties	Asset retirement obligation	Other	Total
At January 1, 2015	**17,450**	**932**	**16,613**	**8,221**	**43,216**
Additional provisions	–	60,086	165	9,049	69,300
Unwinding of discount	1,267	–	1,317	–	2,584
Changes in estimate	127	–	3,599	–	3,726
Used during the year	(1,234)	(932)	(372)	(1,014)	(3,552)
At December 31, 2015	**17,610**	**60,086**	**21,322**	**16,256**	**115,274**
Current portion	8,270	60,086	556	1,098	70,010
Non-current portion	9,340	–	20,766	15,158	45,264
At January 1, 2016	**17,610**	**60,086**	**21,322**	**16,256**	**115,274**
Additional provisions	–	4,952	164	1,043	6,159
Unused amounts reversed	–	(18,985)	–	–	(18,985)
Unwinding of discount	1,265	–	1,670	1,278	4,213
Changes in estimate	(3,387)	–	(5,441)	(563)	(9,391)
Used during the year	(1,232)	(2,667)	(545)	(1,600)	(6,044)
At December 31, 2016	**14,256**	**43,386**	**17,170**	**16,414**	**91,226**
Current portion	487	43,386	820	1,233	45,926
Non-current portion	13,769	–	16,350	15,181	45,300

The Company reversed 18,754 million tenge of tax provisions upon receipt of an official notification from the appropriate authorities of a reduction in tax, fines and penalties related to the 2009-2012 Comprehensive tax audit (Note 24).

14 REVENUE

	Notes	2016	2015
Export:			
Crude oil		**512,699**	364,484
Refined products		**54,733**	–
Gas products		**162**	891
Domestic:			
Refined products	23	**126,676**	1,394
Crude oil	23	**15,459**	145,285
Gas products	23	**7,683**	6,498
Other sales and services		**9,742**	11,260
		727,154	529,812

15 PRODUCTION EXPENSES

	Notes	2016	2015
Employee benefits		**152,422**	153,928
Refinery processing costs		**48,548**	1,109
Repairs and maintenance		**24,434**	20,206
Energy		**20,958**	18,389
Materials and supplies		**20,003**	18,357
Transportation services		**5,435**	5,345
Change in crude oil balance		**1,303**	3,356
Change in estimate of environmental remediation obligation	13	**(3,463)**	127
Decrease in asset retirement obligation in excess of capitalized asset		**(3,790)**	(1,686)
Other		**8,903**	5,918
		274,753	225,049

16 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Notes	2016	2015
Transportation expenses		**91,851**	66,637
Employee benefits		**18,331**	19,364
Agency fee		**5,407**	–
Consulting and audit services		**3,238**	1,889
Sponsorship		**2,093**	726
Repairs and maintenance		**1,212**	1,026
Net (reversal)/ accrual of fines and penalties	23	**(14,117)**	24,737
Other		**7,007**	4,222
		115,022	118,601

17 TAXES OTHER THAN ON INCOME

	2016	2015
Export customs duty	**76,411**	65,588
Mineral extraction tax	**39,188**	67,160
Rent tax	**18,164**	39,838
Property tax	**6,699**	6,265
Other taxes	**4,969**	2,650
	145,431	181,501

18 FINANCE INCOME / COSTS

18.1 Finance income

	Notes	2016	2015
Interest income on deposits with banks		**19,157**	15,719
Interest income on receivable from joint ventures and jointly controlled entities		**8,873**	7,265
Unwinding of discount on long-term VAT recoverable	23	**–**	1,860
Other		**2,007**	1,250
		30,037	26,094

Notes to the Consolidated Financial Statements continued
million tenge unless otherwise stated

18 FINANCE INCOME / COSTS continued

18.2 Finance costs

	Notes	2016	2015
Unwinding of discount on asset retirement obligation		**1,670**	1,317
Unwinding of discount on ecology remediation obligation		**1,265**	1,267
Valuation allowance on loan to KS EP	8	**1,404**	11,017
Recognition of discount on long-term VAT recoverable	23	**–**	1,051
Interest expense		**1,503**	347
		5,842	14,999

19 INCOME TAXES

Income tax expense comprised the following for the years ended December 31:

	2016	2015
Corporate income tax	**17,936**	109,124
Excess profit tax	**(1,203)**	6,563
Current income tax	**16,733**	115,687
Corporate income tax	**20,514**	8,847
Excess profit tax	**(171)**	2,987
Deferred income tax	**20,343**	11,834
Income tax expense	**37,076**	127,521

The following table provides a reconciliation of the Kazakhstan income tax rate to the effective tax rate of the Company on profit before tax.

	2016	2015
Profit before tax	**168,652**	371,190
Income tax	**37,076**	127,521
Effective tax rate	**22%**	34%
Statutory income tax	**20%**	20%
Increase / (decrease) resulting from		
Withholding tax	**1%**	1%
Excess profit tax	**–**	1%
Income tax of prior years	**(2%)**	7%
Share of result of associate and joint ventures	**1%**	(1%)
Non-taxable income	**(1%)**	(2%)
Allowance for VAT recoverable	**(2%)**	3%
Non-deductible expenses	**5%**	5%
Effective tax rate	**22%**	34%

The movements in the deferred tax assets and liabilities relating to CIT and EPT were as follows:

Deferred tax assets:

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2015	63,056	8,265	7,869	4,877	84,067
Recognised in the statement of comprehensive income	(13,033)	5,368	(3,413)	(1,085)	(12,163)
At December 31, 2015	50,023	13,633	4,456	3,792	71,904
Recognised in the statement of comprehensive income	(10,681)	(1,479)	(4,203)	(4,082)	(20,445)
At December 31, 2016	**39,342**	**12,154**	**253**	**(290)**	**51,459**

Deferred tax liabilities:

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2015	(638)	69	2	(2)	(569)
Recognised in the statement of comprehensive income	398	(69)	(2)	2	329
At December 31, 2015	(240)	–	–	–	(240)
Recognised in the statement of comprehensive income	102	–	–	–	102
At December 31, 2016	**(138)**	**–**	**–**	**–**	**(138)**

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

20 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 twelve months ended December 31, 2016 and 2015 and the balances with related parties at December 31, 2016 and December 31, 2015 are as follows:

	2016	2015
Revenue and other income		
Entities under common control	**632,678**	535,105
Other state controlled entities	**165**	31
Associate	**34**	29
Joint ventures	**4,391**	4,973
Purchases of goods and services		
Entities under common control	**102,248**	40,316
Other state controlled entities	**21,363**	18,410
Joint ventures	**1,189**	57
Interest earned on financial assets		
Interest earned on loans to Joint ventures	**6,660**	4,323
Average interest rate on loans to Joint ventures	**1.04%**	1.04%
Valuation allowance on financial assets		
Joint ventures	**3,783**	11,017

Notes to the Consolidated Financial Statements continued
million tenge unless otherwise stated

20 RELATED PARTY TRANSACTIONS continued

	2016	2015
Salaries and other short-term benefits		
Members of the Board of Directors	**300**	179
Members of the Management Board	**549**	473
Share-based payments		
Members of the Management Board	**914**	331
Trade and other receivables		
Entities under common control	**77,992**	95,516
Joint ventures	**64,626**	72,306
Other state controlled entities	**872**	2,796
Associate	**11**	7
Trade payables		
Entities under common control	**3,771**	2,530
Other state controlled entities	**275**	327
Joint ventures	**684**	28

Sales and receivables
Sales to related parties comprise mainly export and domestic sales of crude oil and refined products to subsidiaries of NC KMG. Export sales to related parties represented 4,945,797 tons of crude oil in 2016 (2015: 4,646,981 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, trader's margin and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 107,433 tenge in 2016 (2015: 81,046 tenge).

During 2016 and 2015 there were no export sales of refined products to related parties. Domestic sales of refined products to related parties represented 847,569 tons of refined products (2015: nil) sold to KMG Onimdery, subsidiary of KMG RM.

During 2016 there were no sales to 'entities under common control' from counter sale of crude oil to the Russian Federation (2015: 916,300 tons at average price of 50,289 tenge) through KMG RM.

Transportation services related to the shipment of 6,256,857 tons of crude oil (2015: 6,467,528 tons) and transshipment of 2,148,682 tons of crude oil to Caspian Pipeline Consortium collection point in 2016 (2015: 1,849,985 tons) were purchased from a subsidiary of the Parent Company for 33,602 million tenge in 2016 (2015: 33,727 million tenge).

Also starting from April 1, 2016 the Company purchases processing services from subsidiary of the Parent Company for 54,468 million tenge (Note 16). The remaining services purchased from subsidiaries of NC KMG include primarily payments for security services.

Share based payments to members of the Management Board
Share based payments to members of the Management Board represents the amortisation of share based payments over the vesting period. During 2016 the Company granted 411,728 options to the members of the Management Board (2015: 140,259 options).

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
The Company has various financial liabilities such as borrowings, trade and other payables. The Company also has various financial assets such as trade receivables, short and long-term deposits and cash and cash equivalents.

The Company is exposed to interest rate risk, foreign currency risk, credit risk, liquidity risk and commodity price risk. The Company's Finance Committee assists management in the oversight of the monitoring and where it is deemed appropriate, mitigation of these risks in accordance with approved policies such as the treasury policy.

Interest rate risk
As of December 31, 2016 the Company has no floating interest rate borrowings and no exposure to interest rate risk.

Foreign currency risk

The following table demonstrates the sensitivity of the Company's profit before tax to a reasonably possible change in the US$ exchange rate, with all other variables held constant (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in tenge to US$ exchange rate	Effect on profit before tax
2016		
US$	+ 13.00%	127,774
US$	- 13.00%	(127,774)
2015		
US$	+ 20.00%	174,285
US$	- 5.00%	(43,571)

Credit risk

The Company is exposed to credit risk in relation to its trade receivables. The Company's vast majority of sales are made to an affiliate of the Parent and the Company has a significant concentration risk of the receivable from this affiliate (Notes 7, 20). An additional number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company is also exposed to credit risk in relation to its investing activities. The Company places deposits with Kazakhstan and foreign banks.

Credit risk from balances with financial institutions is managed by the Company's treasury department in accordance with the Company's treasury policy, which is approved by the Company's Board of Directors. The Company's maximum exposure to credit risk arising from default of the financial institutions is equal to the carrying amounts of these financial assets.

The table below shows the balances of the financial assets held in banks at the reporting date using Standard and Poor's and Fitch credit ratings, unless otherwise stated.

Banks	Location	**Rating[1] 2016**	Rating[1] 2015	**2016**	2015
Halyk Bank	Kazakhstan	**BB (negative)**	BB+ (negative)	**316,322**	294,748
HSBC Plc	UK	**AA- (negative)**	A (stable)	**166,836**	62,230
Societe Generale	UK	**A (stable)**	Not available	**162,469**	–
BNP Paribas	UK	**A (stable)**	A+ (negative)	**166,295**	170,156
ING Bank	Netherlands	**A (stable)**	A (stable)	**158,566**	144,901
Kazkommertsbank	Kazakhstan	**B- (negative)**	B- (negative)	**157,844**	99,394
Credit Suisse	Switzerland	**A (stable)**	BBB+ (stable)	**25,473**	30,301
Citi Bank N.A.	UK branch	**A+ (stable)**	A (positive)	**13,514**	100,390
ATF Bank	Kazakhstan	**B (negative)**	B- (stable)	**9,636**	18,229
Bank of Scotland	UK	**A (negative)**	Not available	**2,299**	–
RBS NV	UK	**BBB- (stable)**	BBB- (negative)	**–**	2,790
Bank RBK	Kazakhstan	**B- (stable)**	Not available	**1,789**	–
Deutsche Bank	UK	**BBB+ (negative)**	BBB+ (stable)	**152**	170,097
Bank Astana-Finance	Kazakhstan	**Not available**	Not available	**91**	312
Eurasian Bank	Kazakhstan	**B (stable)**	B (stable)	**–**	11,231
Sberbank	Kazakhstan	**BB+ (negative)**	BB+ (negative)	**–**	100
Other				**23**	103
				1,181,309	1,104,982

[1]Source: official sites of the banks and rating agencies as at December 31 of the respective year.

Notes to the Consolidated Financial Statements continued
million tenge unless otherwise stated

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk

The Company monitors its liquidity risk using a liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables and other financial assets) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term deposits in local banks.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2016 based on contractual undiscounted payments:

At December 31, 2015	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	601	4,913	6,468	1,494	13,476
Trade and other liabilities	49,549	–	–	–	–	49,549
	49,549	601	4,913	6,468	1,494	63,025

At December 31, 2016	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	590	4,893	4,124	1,264	10,871
Trade and other liabilities	67,669	–	–	–	–	67,669
	67,669	**590**	**4,893**	**4,124**	**1,264**	**78,540**

Commodity price risk

The Company is exposed to the effect of fluctuations in the price of crude oil, which is quoted in US$ on international markets. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Capital management

Capital includes total equity. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and available funds to support its business and strategic objectives.

As at December 31, 2016 the Company had a strong financial position and a conservative capital structure. Going forward, the Company intends to maintain a capital structure, which allows it the flexibility to take advantage of growth opportunities as and when they arise.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy or processes during the years ended December 31, 2016 and 2015.

22 FINANCIAL INSTRUMENTS

Fair values of financial instruments such as receivables from jointly controlled entity and joint ventures, short-term trade receivables, trade payables and fixed interest rate borrowing approximate their carrying value.

23 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.

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") and selling refined products on its own account using KMG RM as a sales agent.

Prior to April 1, 2016 the Company supplied crude oil to the local market by selling to KMG RM, a subsidiary of the Parent Company. Prices for local market sales were determined through negotiation process with KMG RM and the Parent Company.

On January 1, 2017 the Company ceased using KMG RM as its sales agent and started marketing refined products on its own account.

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 December 31, 2016.

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 expects to receive18,754 million tenge in 2017, which currently is recorded in prepayments for current income tax, excess profit tax, mineral extraction tax and related fines and penalties. The Company plans to appeal the remaining amount of 13,486 million tenge to the appropriate courts. The accompanying financial statements include provisions for the entire claim balance.

VAT recoverability
On August 31, 2016 the Company filed an application for the VAT recoverability in the amount of 57,410 million tenge, including 46,558 million tenge related to the Company's sale of assets to JSC "Ozenmunaigas" and JSC "Embamunaigas" in 2012. On October 10, 2016 the Tax authorities partially satisfied the VAT claim amount for 24,567 million tenge, which has been received by the Company in 2016.

In these financials, the Company has reversed 24,567 million tenge of previously accrued VAT allowance. Total remaining VAT allowances as at December 31, 2016 are 33,196 million tenge including 11,205 million tenge provided for in the Company's Statement of comprehensive income.

Mineral extraction tax (MET)
In September 2016 JSC "Ozenmunaigas" 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 million tenge, which was included in its entirety in these financials, as management expects that JSC "Ozenmunaigas" will claim a taxable loss in its final 2016 tax filing.

Rent tax
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 Company has refiled its rent tax declarations for 2012-2015, and reduced its current rent tax payable by the amount of 11,664 million 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
million tenge unless otherwise stated

23 COMMITMENTS AND CONTINGENCIES continued

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 13) 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 cash flows.

The Company's oil and gas fields are located on land belonging to the Mangistau and Atyrau regional administrations. Licenses are issued by the Ministry of Oil and Gas of Kazakhstan and 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:

	Contract	Expiry date
Field		
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 and exploration licenses

	Capital expenditures	Operational expenditures
Year		
2017	115,706	4,361
2018	12,238	4,000
2019	11,162	3,640
2020	5,380	3,532
2021-2048	–	15,944
	144,486	31,477

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

	Capital expenditures	Operational expenditures
Year		
2016 (remaining)	6,695	4,469

Commitments of UGL

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

	Capital expenditures	Operational expenditures
Year		
2016 (remaining)	4,563	297

Commitments of PKI

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

	Capital expenditures
Year	
2016 (remaining)	224

24 SUBSEQUENT EVENTS

On January 27, 2017 the Company has received notification on the results of Company'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 the Company 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 financial statements were reduced by 18,754 million tenge to account for this ruling (Note 13).

These Consolidated Financial Statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on February 14, 2017:

Iskaziyev K. O.
Chief Executive Officer

Abdulgafarov D. Y.
Chief Financial Officer

Drader S., CA
Financial Director-
Financial Controller

Zainelova A. A., CPA
Chief Accountant

Information for Shareholders

Annual General Meeting of Shareholders

The Annual General Meeting of shareholders was held on May 23, 2017 at 10:00 am at Kabanbai Batyr avenue, 17, Assembly Hall, 3rd floor, Astana, 010000, Kazakhstan.

Website

Information about the Company, including details of activities, press releases and annual and interim reports, is available on the Company's website www.kmgep.kz.

Shareholders' Requests

The Company's shareholders may request information about absentee voting, dividends, notices concerning changes in personal data and other similar matters from the Company's registrar/depositary:

Holders of ordinary and preference shares:
Ediny registrator tsennykh bumag JSC
Ul. Satpaeva 30A/3, Almaty, 050040, Republic of Kazakhstan
Tel: +7 (727) 272 47 60

Holders of Global Depositary Receipts (GDRs):
Deutsche Bank Trust Company Americas, Depositary Receipts Group
60 Wall Street, New York, NY 10005, USA
Tel: +1 (121) 250 91 00, Fax +1 (732) 544 63 46, Email: adr@db.com

Number of Shares in Issue

	Ordinary Shares	Preference Shares	Total Issued Capital [2]
Number of issued shares [1]	70,220,935	4,136,107	74,357,042

[1] Includes the redeemed GDRs for completion of the option programme of the Company and being held in trust (as of 31.12.2016 – 9,560,401 GDRs), and also shares bought back in accordance with the own share buy-back programme (as of 31.12.2016 – 2,527,860 ordinary shares and 2,073,147 preference shares).

[2] Shares of the Company are in circulation on the Kazakh Stock Exchange, whereas the global depositary receipts – on the London Stock Exchange. One GDR corresponds to 1/6 of an ordinary share.

Contact information

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Corporate secretary
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(queries from institutional investors)
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Registrar
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Fax: +1 (732) 544 63 46
Email: adr@db.com

Reference information

Abbreviation	Explanation
1P reserves	Proven reserves
2P reserves	Proven and probable reserves
3P reserves	Proven, probable and possible reserves
AR	Atyrau Refinery LLP
CCEL	CCEL (CITIC Canada Energy Limited, 100% owner of CCPL, formerly Nations Energy Company Ltd). Holds a 100% voting stake in JSC Karazhanbasmunai, which operates the Karazhanbas field
CIC	China Investment Corporation, the State investment fund of the People's Republic of China. The primary mission of CIC is to make long-term investments, in order to reduce financial operation risks for the benefit of its shareholders
CIT	Corporate Income Tax
CIS	Commonwealth of Independent States
CGP	Central Gathering Plant
CPC	Caspian Pipeline Consortium pipeline connects the Tengiz field in Kazakhstan with the Russian port of Novorossiysk on the Black Sea. An important route for oil transportation from the Caspian Sea to the international market
Gaffney, Cline & Associates/ Miller and Lents, Ltd	Independent international consultancy that specialises in hydrocarbon reserve assessment
ECD	Export Customs Duty
EMG	Embamunaigas JSC, one KMG EP's two production assets, operating 41 main fields in the Atyrau Region in Western Kazakhstan
EPT	Excess Profit Tax
KASE	Kazakhstan Stock Exchange
KBM	Karazhanbasmunai JSC
KCP	Kazakhstan-China pipeline
KGM	JV Kazgermunai LLP
LSE	London Stock Exchange
MET	Mineral Extraction Tax
NC KMG	National Company KazMunayGas JSC, a state oil and gas company of the Republic of Kazakhstan, in the form of a joint-stock company with 90% of its shares held in the Sovereign Wealth Fund Samruk-Kazyna and 10% of its shares held by the National Bank of the Republic of Kazakhstan
NGDU	Oil and Gas Production Department
OGPU	Oil and gas production unit
OMG	Ozenmunaigas JSC, one of KMG EP's two production assets, operating in two main fields in the Mangistau Region
OTS	Oil transfer station
PKI	PetroKazakhstan Inc
PKOP	PetroKazakhstan Oil Products LLP
PPCP	Pavlodar Petrochemical Plant LLP
Samruk-Kazyna Holding	Kazakhstan Sovereign Wealth Fund managing state assets and shares of national companies

Abbreviation	Explanation
Standard&Poor's/Moody's	International rating agencies that award short-term and long-term credit ratings
Ton-to-barrel conversion	In the case of KMG EP – 7.36 bbl/tonne; KGM – 7.70 bbl/tonne; CCEL – 6.68 bbl/tonne; PKI – 7.75 bbl/tonne
TP	Turgay Petroleum JSC
UAS	Uzen – Atyrau – Samara, a 1,500km-long oil pipeline across the territory of the Atyrau and Mangistau regions to Russia
UBR	Drilling Well Servicing Division LLP
UTTiOS	Support Service Vehicles and Well Servicing Division LLP

For notes