

Integrated Annual Report 2017

KazMunaiGas Exploration Production JSC



2017 Annual Report Draft

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About this report

The purpose of this Annual Report is to inform readers about the material aspects of JSC KazMunaiGas Exploration Production's (KMG EP, or the Company) business. With this Report, the Company aims to help investors and stakeholders understand how it forms its strategy, manages its operations, achieves its financial performance, ensures the long-term sustainability of its business and develops value for stakeholders and interested parties. It addresses the following questions:

- 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 maintain its ability to create value for stakeholders in the short, medium and long term?
- What is the Company's business model?
- What are the main risks and opportunities influencing 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 goals, aims and objectives, and how does it intend to achieve them?
- To what extent has the organisation met its goals, aims and objectives for the reporting period, and what has been the effect on Company valuation for stakeholders?
- What are the key challenges and uncertainties the organisation is likely to face in pursuing its strategy, and what are the potential implications for its business model and future performance?

Key performance indicators

	2017	2016	% change
Total production (thousand tonnes)*	11,868	12,155	-2
OMG and EMG production (thousand tonnes)	8,320	8,387	-1
Net income (million tenge)	195,359	131,576	+48
Basic and diluted EPS (thousand tenge)	2.86	1.93	+48
EBITDA (million tenge)**	259,930	206,850	+26
Operating margin (%)***	19%	22%	-3pp
Operating cashflow before working capital adjustments (million tenge)	212,611	134,736	+58
Net cash position at the end of the period (US\$ million)	4,028	3,516	+15

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

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

***Operating profit does not include the profit contribution of equity-accounted entities, CIT expenses, finance charges, impairment charges, foreign-exchange gains/losses and other non-operating charges, or losses from the purchases of affiliates.

Key events

- **January:** The Company published the outcome of its reserves assessment, which put its ‘proved plus probable’ (2P) liquid hydrocarbon reserves at 145 million tonnes (1,061 million barrels) as of 31 December 2016. Its reserve replenishment ratio (RRR, or the incremental ratio of reserves to production for the year) was 8%.
- **February:** The Company announced a positive outcome to its tax audit appeal for 2009-2012. Its tax liability for the period was reduced by 25 billion tenge to 13.5 billion tenge.
- **April:** The Board of Directors recommended a dividend of 289 tenge per ordinary and preferred share for 2016, agreed an adjustment in the capital expenditure plan for 2017 (an increase in capital expenditure in 2017 to 133 billion tenge, which was 14.1 billion tenge, or 12% higher than previously suggested) and approved an increase of processing fees at ANPZ from 1 April 2017.
- **April:** The Company’s Independent Non-Executive Directors expressed their support for a higher dividend or special dividend payment.
- **May:** At the Annual General Meeting (AGM) and the Board of Directors meeting, the previously recommended dividends were approved and a new Board of Directors was elected.
- **June:** KMG EP purchased a 49% share in Karpovskiy Severniy LLP from MOL Hungarian Oil and Gas Plc. for US\$ 1 (one US dollar) and became the sole shareholder of KS EP Investments BV, with a 100% interest in Karpovskiy Severniy LLP.
- **August:** In the first half of the year, net profit amounted to 88 billion tenge (US\$ 276 million), up from 17 billion tenge (US\$ 50 million) in the same period the previous year. Net cash¹ as of 30 June 2017 was 1,286 billion tenge (US\$ 4 billion), US\$ 347 million more than at the end of the first quarter of 2017.
- **September:** Dauren Karabayev replaced Igor Goncharov as Chairman of the Board of Directors following Mr Goncharov’s departure from JSC National Company (NC) KazMunayGas.
- **October:** JSC NC KazMunayGas announced in a letter that the processing fee at Caspi Bitum LLP JV would increase to 18,000 tenge per tonne from 12,258 tenge per tonne from 1 November 2017.
- **October:** At an Extraordinary General Meeting (EGM) of shareholders, Oleg Karpushin, Executive Vice-President for Production, Exploration and Oil Services at JSC NC KazMunayGas, was elected to the Board of Directors of KMG EP to replace Igor Goncharov. The EGM also agreed the scale and terms of remuneration for Independent Non-Executive Directors of KMG EP.
- **November:** Net profit for the first nine months of 2017 was 168 billion tenge (US\$ 521 million). Cashflow from operating activities was 184 billion tenge (US\$ 570 million). Net cash as of 30 September 2017 was 1,360 billion tenge (US\$ 4.0 billion) compared with 1,172 billion tenge (US\$ 3.5 billion) on 31 December 2016.
- **December:** The Board of Directors signed off on the budget for 2018 and the business plan for 2018-2022. KMG EP’s Independent Directors abstained from the vote to approve the 2018 budget and 2018-2022 business plan.
- **December:** The Company announced its intention to launch a tender offer to repurchase all of its outstanding GDRs and delist its GDRs and shares from the London Stock Exchange (LSE) and the Kazakhstan Stock Exchange (KASE).
- **December:** The GDRs of KMG EP were admitted to the list of the Kazakhstan Stock Exchange, so that holders could sell their GDRs under the Tender Offer and have those GDRs settled by way of an open trade on the KASE, free of Kazakhstan withholding tax, regardless of residency.

¹ Cash, cash equivalents and other financial assets, net of borrowings.

About our business

Origins

The Republic of Kazakhstan is one of the world's largest oil producers. Oil was first struck at the Karashungul field in November 1899 and the history of Kazakhstan oil began. After gaining independence in 1991, the Kazakhneftegaz state oil corporation was established to consolidate and manage the country's oil and gas assets.

In the 1990s, private-sector oil companies began to play an increasingly prominent role in the development and modernisation of Kazakhstan's oil and gas industry. In 1997, the state transferred its shares in EmbaMunaiGas (EMG) and UzenMunaiGas (OMG) to Kazakhoil CJSC, the Kazakhstan national oil company. In 2002, the remaining state-controlled assets were eventually grouped into the newly formed National Company KazMunayGas (NC KMG), which was formed by merging the Kazakhoil CJSC and Oil and Gas Transport CJSC national oil companies.

Mission, strategy, values and goals

KMG EP is a top company in the field of hydrocarbon exploration and production in Kazakhstan. It is a leader in the oil and gas business in the Caspian region, competing on a global scale.

The Company's mission is to effectively produce hydrocarbons to maximise shareholder value, while providing long-term economic and social benefits to the regions where it operates and helping to realise the potential of every Company employee.

Strategy

Since its listing on the London and Kazakhstan Stock Exchanges in 2006, KMG EP has pursued its activities in accordance with its approved strategy.

After successfully meeting its medium-term targets in 2006–2009, KMG EP embarked on its Strategy 2020 in 2010. The Company's strategy for its operational fields is aimed at buoying up production levels, optimising costs, boosting business and technological process efficiency, intensifying production, and improving the recovery factors of its producing reservoirs. All of these measures are geared towards optimising its production and operational processes.

Following the repurchase of common shares and GDRs held by minority shareholders and the withdrawal of these securities from the stock exchanges, KMG EP will be able to more closely integrate its activities with those of its parent company, NC KMG. This means that KMG EP's future strategy will be more closely aligned with that of its main shareholder. However, no significant strategy changes are expected with respect to existing assets.

Values

- The Company will provide safe working conditions for its employees and will adhere to the highest standards of environmental and health protection in conducting its business.
- The Company will foster the development of employees by providing them with the necessary training and education and by creating 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.

Key objectives

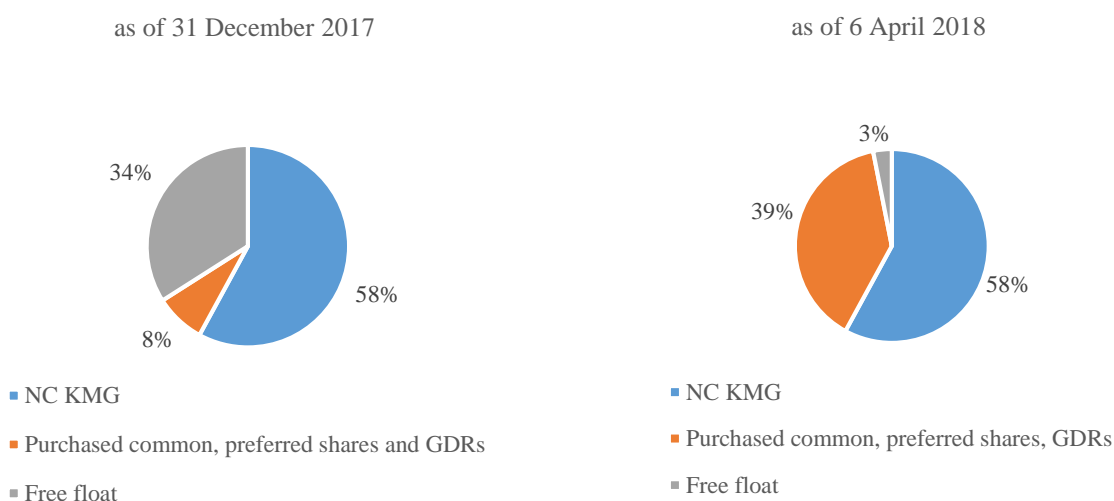
The Company's key objectives for 2018-2019 are:

- To complete the implementation of decisions on the repurchase of minority interests in the Company and the delisting of common shares and GDRs with a view to integrating the Company's activities more closely with those of NC KMG;
- To keep production volumes stable at existing fields;
- To increase the oil recovery ratio at existing fields;
- To replace reserves by appraising existing fields and exploring territories adjacent to these fields;
- To implement the Smartfield project at core fields;
- To maintain capital expenditure and operating expenses at current levels;
- To provide long-term economic and social benefits to the regions where it operates;
- To ensure transparency of and compliance with corporate governance standards;
- To conduct regular staff training and development.

Asset structure, relationship with holding company, subsidiaries and associates

As of end 2017, NC KMG retained a majority stake of 58%² in KMG EP. Its free float was 34%. The remaining 8% were treasury shares. NC KMG holds the majority of seats on the KMG EP's Board of Directors. At the same time, the rights of minority shareholders are protected both by legislation and by the requirements of the exchanges on which KMG EP is traded, as well as the corporate governance system and the Relationship Agreement implemented in conjunction with the Company's IPO in 2006.

Shareholder structure (GDRs, common and preferred shares) as of 31 December 2017 and 6 April 2018 (after final settlement date)



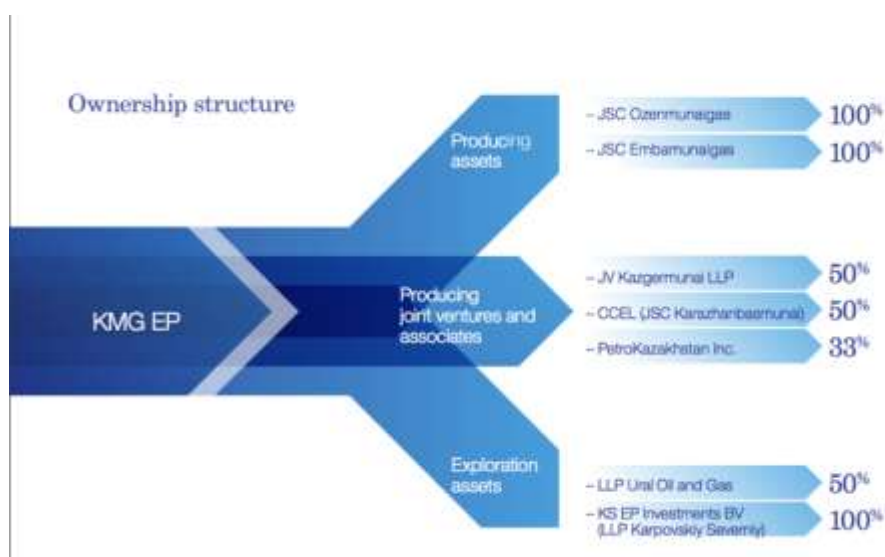
The Company is currently completing a number of actions that will result in NC KMG and KMG EP owning a total of 56,210,435 common shares and 82,165,972 GDRs, corresponding to around 99.5% of all common shares in issue (including common shares in the form of GDRs). Certain amendments have been made to the Company Charter, under which existing provisions protecting the rights of minority shareholders no longer apply.

The Relationship Agreement with NC KMG will immediately cease to have effect after the termination of trading and the cancellation of the listing of GDRs and common shares on the LSE and KASE, scheduled for the first half of May 2018, (for details, please see page 23).

Ninety percent of NC KMG's shares belong to JSC Samruk-Kazyna Sovereign Wealth Fund and 10% of its shares belong to the National Bank of the Republic of Kazakhstan.

²As a percentage of the aggregate number of issued ordinary and preference shares.

Asset ownership structure



Key exploration and production interests

Name	Share of ownership	Main activity	Consolidation method
JSC Ozenmunaigas (OMG)	100%	Oil and gas production	Consolidated entity
JSC Embamunaigas (EMG)	100%	Oil production	Consolidated entity
LLP Kazakh Gas Processing Plant (KazGPZ)	100%	Gas processing	Consolidated entity
KS EP Investments BV (KS)	100%	Oil and gas exploration	Consolidated entity
LLP JV Kazgermunai (KGM)	50%	Oil production	Equity-accounted entity
PetroKazakhstan Inc. (PKI)	33%	Oil production	Equity-accounted entity
CITIC Canada Energy Limited (CCEL)	50%	Oil production	Financial asset
LLP Ural Oil and Gas (UOG)	50%	Oil and gas exploration	Equity-accounted entity

Social programmes

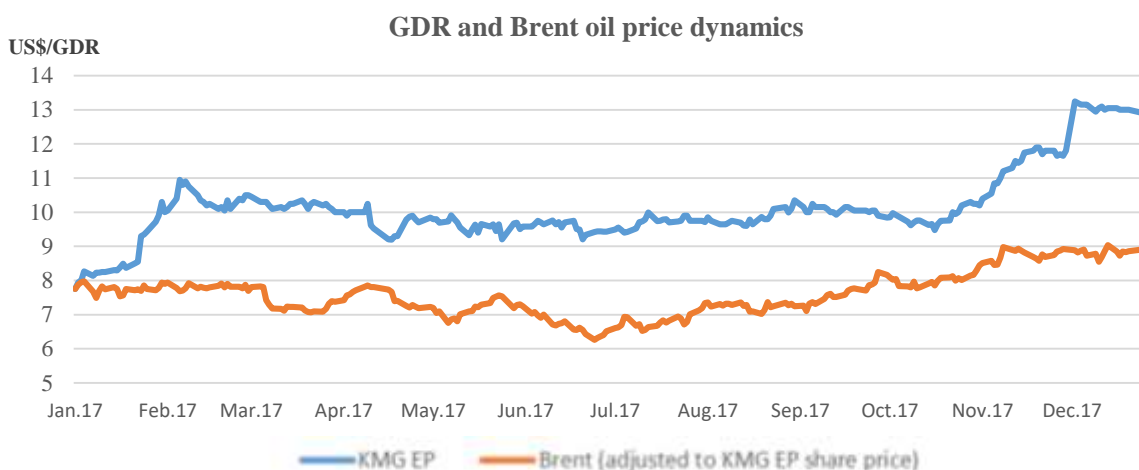
The Company is committed to supporting and developing its people and working closely with the communities where it operates. It hosts a variety of activities throughout the year to support these objectives. In 2017, these included:

- An Alternates Day in June as part of the Company's Youth Engagement Policy, which aims to develop young people for future managerial roles;
- A Young Specialists Day – a regular event aimed at bringing together the young staff of the companies that make up KMG EP. In 2017, for the first time, this event took the form of a scientific and practical conference, with presentations and discussions on projects being implemented and realised by the Company's subsidiaries and joint ventures;
- The Uzdik Maman professional skills competition, aimed at encouraging representatives of the Company's various professions to identify and share best practices;
- The corporate HR forum, which looked back on the Company's 14-year HR history, discussed industry trends, assessed the prospects for the HR industry in Kazakhstan, came up with plans for the future and set the Company's HR strategy;
- Financing social development of the regions where the Company operates in accordance with subsoil use contracts (in the Atyrau and Mangistau regions);
- The financing of environmental measures worth over 4 billion tenge in 2017, 1.4 times more than in 2016.

Additional information on the Company's social projects can be found on pages 74-77.

Share price performance

In 2017, the London Stock Exchange saw a maximum price for one KMG EP's GDR of US\$ 13.25 and a minimum price of US\$ 7.69. The average price for one GDR in 2017 was US\$ 10.13 (compared with US\$ 7.31 in 2016). On the Kazakhstan Stock Exchange in 2017, the top price for one common share of KMG EP was 26,586 tenge and the lowest price was 15,270 tenge. The average price of one common share was 19,775 tenge (compared with 14,882 tenge in 2016). In 2017, the maximum price of KMG EP preferred shares was 13,100, and the minimum price was 6,501 tenge. The average price of one preferred share was 8,179 tenge (up from 7,200 tenge in 2016).



Source: Thomson Reuters

In December 2017, the Company announced its intention to repurchase its GDRs at a price of US\$ 14.00 per unit and delist them from the London Stock Exchange, as well as repurchase all of its outstanding common shares at a price of US\$ 84 per share, in accordance with the 1:6 GDR conversion ratio, and subsequently delist them from the Kazakhstan Stock Exchange (KASE). This announcement has been the key factor influencing the price of both securities since December 2017.

Global oil market in 2017 and short-term outlook

Last year was quite a positive one for the oil market globally, suggesting that the hydrocarbon market is gradually approaching a balance of supply and demand. The average price for Brent crude oil was US\$ 54 per barrel (/bbl) in 2017, which is US\$ 10/bbl more than in 2016. The US Energy Information Administration (EIA) estimates that in 2018 and 2019, the Brent crude oil price could average US\$ 60/bbl and US\$ 61/bbl, respectively. The strongest price increase was in the second half of 2017, with December seeing a Brent crude oil price of US\$ 67/bbl.

This price dynamic was largely sparked by OPEC and Russia's decision in December 2016 to reduce oil production to combat the surplus of raw materials caused by the rapid increase in production in non-OPEC countries in 2011-2014.

Investment banks expect steady growth in world demand to 1.5 million barrels of oil per day (mbpd) in 2018 (the average forecast of OPEC, the International Energy Agency and the EIA) to be met by an increase in supply by non-OPEC countries, including Kazakhstan, to 1.4 million barrels per day.

One factor that could prompt a decrease in demand for hydrocarbons and thus have a negative impact on rising oil prices in 2018 would be a slowdown in global economic growth, particularly in China.

About Kazakhstan

Key facts

Kazakhstan is a unitary state with a presidential system of government. A former republic of the Soviet Union (USSR), which declared independence on 16 December 1991, the country boasts steady economic growth and political stability. The President of the Republic of Kazakhstan is the head of state, the country's highest official, determining the main direction of domestic and foreign policy, and representing Kazakhstan both at home and on the global stage.

- It has a population of around 18.3 million (as of 31 December 2017).
- Its capital is Astana, with a population of about 1 million.
- Its largest city is Almaty, with a population of approximately 2 million.
- It is one of the most ethnically diverse countries in the world, with Kazakhs making up 66.97% of the population, Russians 20.20%, Uzbeks 3.14%, Ukrainians 1.58%, Uyghurs 1.46%, Tatars 1.13% and others 5.68%.
- The proportion of urban to rural dwellers is about 54% to 46%, respectively.
- The national currency is the tenge, or KZT.
- As of 2017, GDP per capita was US\$ 6,038.
- GDP growth was 4% in 2017.
- The country's area spans 2,724,900 square kilometres. It shares 13,200 km of land borders with the Russian Federation, the People's Republic of China, the Republic of Kyrgyzstan, the Republic of Uzbekistan and the Republic of Turkmenistan.
- Its main trading partners are the Russian Federation, the People's Republic of China, the European Union countries and the Commonwealth of Independent States (CIS).
- Its oil and gas reserves account for about 1.8% of total world reserves.
- In the World Bank Group's *Ease of Doing Business* Survey for 2017, Kazakhstan ranked 35th in terms of overall ease of doing business, 3rd on the 'protection of minority investors' and 9th in 'ensuring contract performance'.
- It is a founder and member of the Eurasian Economic Union (EAEU).
- Kazakhstan has seen an inflow of about US\$ 300 billion in foreign investment since 1991.

Kazakhstan's credit ratings as of 31 December 2017:

Moody's: Baa3 (Stable) – July 2017

Standard & Poor's (S&P): BBB-/A-3 (Stable) – September 2017

Fitch Ratings: BBB (Stable) – October 2017

Kazakhstan is the ninth-largest country in the world, located in Central Asia, occupying an area roughly equal to that of Western Europe. It has huge reserves of minerals and significant potential for economic growth. Kazakhstan is home to 99 of the 105 elements of the periodic table, has explored reserves of 70 of them and is involved in producing more than 60. Currently, it can lay claim to 493 known deposits containing 1,225 types of mineral raw material.

RESOURCE	WORLD RANKING
Zinc, tungsten, barite	1
Silver, lead, chromite, uranium	2
Copper, fluorite	3
Molybdenum	4
Gold	6
Coal	7
Oil	12
Gas	24

Source: Geology and Subsoil Use Committee, Ministry for Investment and Development of the Republic of Kazakhstan

According to a geological and economic assessment of Kazakhstan's mineral reserves, coal, oil, copper, iron, lead, zinc, chromite, gold and manganese are of the greatest economic importance. Ores of ferrous and non-ferrous metals mined in Kazakhstan are exported to Japan, South Korea, the USA, Canada, Russia, China and the European Union countries.

Since 1991, the country has carried out structural reforms that have made it possible to further develop the country's economy. This, combined with Kazakhstan's political and social stability, as well as its strong external relations, have ensured stable and rapid economic growth. In 2000, Kazakhstan was the first former Soviet republic to fully repay its debt to the International Monetary Fund. Between 2005 and 2017, the volume of foreign direct investment in the country exceeded US\$ 260 billion.

The Eurasian Economic Union (EAEU) was established in 2015. Its founders were Kazakhstan, Russia and Belarus, and they were soon joined by Armenia and Kyrgyzstan. The EAEU is a purely economic alliance, whose members prefer to maintain their political independence and sovereignty.

One of the main tasks facing Kazakhstan currently is to develop a wide range of financial instruments that meet the needs of companies located in Kazakhstan, the EAEU and other nearby countries and give them access to the global capital markets. To this end, a financial hub is being created in Astana – to be known as the Astana International Financial Centre (AIFC) – and its main strategic activities will be capital-market development, asset management, private wealth management, financial technology development and Islamic finance.

Sources: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, the World Bank, the World Trade Organization (WTO), BP Statistical Review, the World Currency Fund, JSC National Company Kazakh Invest, Ministry for Investment and Development of the Republic of Kazakhstan.

Kazakhstan's oil and gas sector

Kazakhstan's oil reserves make up about 1.8% of proved world reserves, at more than 3.9 billion tonnes. Oil- and gas-bearing areas occupy about 62% of the country's territory. It has 172 oil fields, more than 80 of which are under development.

The largest oil fields

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

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



Source: Ministry for Investment and Development of the Republic of Kazakhstan

The fields are located in six of Kazakhstan's 14 regions: Aktobe, Atyrau, West Kazakhstan, Karaganda, Kyzylorda and Mangistau. Around 70% of the hydrocarbon reserves are concentrated in the west of Kazakhstan, however, particularly in the Caspian oil and gas basin.

Region	% share of total reserves
Atyrau region	59.0
Kazakhstan sector of the Caspian Sea	17.0
Mangistau region	8.5
West-Kazakhstan region	7.0
Aktobe region	5.6
Other	2.9

Oil and condensate production

- In 2017, Kazakhstan's total production of oil and condensate amounted to 86.2 million tonnes, 10.5% more than in 2016 (78 million tonnes), including three major projects: Kashagan, which accounted for 8.3 million tonnes, Tengiz, which produced 28.7 million tonnes (up 4.1% on 2016) and Karachaganak, which yielded 12.5 million tonnes (an increase of 9.5% on 2016).
- According to the forecasts of the Ministry of Energy of the Republic of Kazakhstan, oil and condensate production in 2018 will be at least at 86 million tonnes and will gradually grow to 88 million tonnes by 2020.

Factors contributing to higher production

According to the Ministry of Energy's forecasts, Kazakhstan's oil and gas production is set to grow significantly, primarily due to the large oil and gas projects currently underway, namely, the Tengiz field, where expansion works are expected to increase production from the current 27 million tonnes to 39 million tonnes per year from 2023, and the Kashagan field, commissioned in October 2016.

Tengiz

The Tengiz field is one of the largest in the world. Its development is being overseen by the TengizChevroil (TCO) consortium. The licence area includes the Tengiz and Korolevskoye Fields. The recoverable oil reserves at Tengiz and the nearby Korolevskoye fields are estimated at 750 million to 1.1 billion tonnes. The total explored reserves of the drilled and non-drilled sections of the Tengiz field are estimated at 3.1 billion tonnes, or 26 billion barrels of oil.

Karachaganak

The Karachaganak oil and gas condensate field in West Kazakhstan is one of the largest oil and gas condensate fields in the world, containing more than 1.2 billion tonnes of liquid hydrocarbons and more than 1.3 trillion cubic metres of gas. The field was discovered in 1979 and its development began in 1984.

The Karachaganak project involves a production-sharing agreement between the Republic of Kazakhstan and a consortium of foreign companies. The agreement was signed on 18 November 1997 for a period of 40 years and entered into force on 27 January 1998. In 2016, Shell acquired BG Group, as a result of which BG Group's share of the Karachaganak project now belongs to Shell. Shell and Agip are the joint project operators.

Kashagan

Kashagan is a very large offshore oil and gas field in the north of the Caspian Sea. Its overall oil-in-place (OIP) volume is estimated at 38 billion barrels of crude oil, of which about 10 billion barrels are recoverable. Kashagan also has significant natural gas-in-place (GIP) reserves of more than 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 2017, Kashagan produced more than 8 million tonnes of oil. The objective for 2018 is for oil production at Kashagan to reach 13 million tonnes of crude oil.

Refining and transportation

The total volume of crude oil processing in Kazakhstan increased by 2.8% year on year in 2017 to 14.9 million tonnes.

Kazakhstan's Ministry of Energy expects the volume of crude oil processing to increase to 15.8 million tonnes in 2018. Currently, the country imports some light oil products to satisfy domestic demand. According to the Ministry, with the modernisation of the refineries (the modernisation of the country's oil refineries in Atyrau and Pavlodar was completed in 2017, while the modernisation of the Shymkent refinery will be completed in 2018), from 2019, total refining capacity will increase to 17.5 million tonnes of crude oil per year. The production of light oil products will grow by 3.3 million tonnes per year, the Ministry estimates, thus fully meeting domestic demand for light oil products.

Most of the oil (about 85%) produced in Kazakhstan is exported. Its main foreign trading partners for crude oil are Europe – notably Italy, the Netherlands, France, Austria and Switzerland – and China.

Exports of oil amounted to 69.8 million tonnes in 2017, 22% more than in 2016. Of this, 49.6 million tonnes of crude oil were exported via the Caspian Pipeline Consortium (CPC) pipeline to the Russian Black Sea port of Novorossiysk. Some 15.4 million tonnes were transported to the north via the Atyrau-Samara pipeline, while 2.3 million tonnes were sent to the east, to China, through the Atasu-Alashankou pipeline.

In addition, 1.2 million tonnes of crude oil were shipped from the port of Aktau, 0.6 million tonne of gas condensate was sent to the Orenburg refinery and 0.7 million tonne was shipped by rail.

After completion of the planned capacity expansion of the CPC, which connects the Tengiz field with Novorossiysk, oil pumping volumes should be capable of reaching 67 million tonnes per year. Some

55.1 million tonnes of crude oil were exported through the CPC pipeline system in 2017, including 49.6 million tonnes from Kazakhstan.

Gas production and exports

Kazakhstan ranks 24th in the world in terms of natural gas reserves, with a volume of more than 1 trillion cubic metres, or 0.5% of the world's total reserves. The bulk of natural gas in Kazakhstan is extracted from two large fields, Karachaganak and Tengiz. They account for about 70% of Kazakhstan's total gas production.

The volume of gas production in Kazakhstan in 2017 was about 53 billion cubic metres, equivalent to 114% of 2016 production, or 110% of the 48.1 billion cubic metres forecast in the 2017 plan. The Ministry of Energy of Kazakhstan plans to maintain production around the same level in 2018, at around 53.4 billion cubic metres of gas.

Kazakhstan's volume of gas exports increased by a record 26% year-on-year in 2017 to 17.3 billion cubic metres. In 2017, the country exported gas to China for the first time, to the tune of 1.1 billion cubic metres. With China being the most promising and capacious market in Asia, Kazakhstan signed an agreement to supply China with 5 billion cubic metres of gas per year. In 2018, the two countries plan to strengthen their economic cooperation and increase gas exports to 10 billion cubic metres.

Kazakhstan's fuel and energy sector hit record levels pretty much across the board in 2017 and the Government, through the Ministry of Energy, intends to take steps to maintain the current growth rate and step up industry development. It has overhauled tax policy in relation to subsoil use (the updated tax code came into force in January 2018) and it plans to introduce an electronic trading platform for the gas industry to improve the mechanism for pricing and distributing liquefied petroleum gas (LPG), including the step-by-step elimination of the state's wholesale price regulation. The necessary legislation is due to be drawn up by December 2018.

Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, Ministry of Energy of the Republic of Kazakhstan, National Bank of the Republic of Kazakhstan, Ministry for Investments and Development, JSC National Company Kazakh Invest.

Business model

Our key attributes

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

Operational excellence

The Company is striving to achieve operational excellence across all of its activities by working with its business partners, increasing its 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 agreements on subsurface usage in unlicensed blocks through direct negotiation with the Government, without having to engage in a tendering process. Mutual economic interest means KMG EP is well placed to benefit from this arrangement.

Corporate governance

The Company aims to implement corporate governance procedures in line with international standards and fully protect all stakeholder interests, from shareholders, employees, suppliers and contractors, to the state, the residents of operating regions, international partners and others.

Corporate responsibility

The Company recognises that the long-term success of the business is dependent on it conducting its activities in a responsible manner. 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.

Three business areas

Production

KMG EP's core production assets consist of two main divisions: JSC OzenMunaiGas (OMG) and JSC EmbaMunaiGas (EMG). The Company is aiming to achieve optimal production levels in a cost-effective manner by drawing on more innovation and technology and by updating production methods.

Sale of refined products

In April 2016, KMG EP embarked on a new arrangement for the independent processing of crude oil for domestic supply. Under the scheme, KMG EP supplies oil to ANPZ and PNHZ for processing, with the resulting oil products then sold on the domestic and international markets. This new processing scheme eliminated KMG EP's reliance on KazMunaiGas Refining and Marketing JSC, which, with no price formula, had set the domestic price for KMG EP's oil at its discretion. The 2017 results show that the new arrangement has had a positive effect on KMG EP's revenue growth, not only validating the decision, but also illustrating management's commitment to improving the efficiency of Company operations.

Exploration and appraisal

The Company believes that there is significant exploration potential in Kazakhstan, both offshore and onshore.

It plans to continue its exploration programme at its existing fields and drill exploration wells at greater depth, targeting prospective subsalt structures.

The technical team is responsible for assessing new areas for exploration, ensuring that the Company can replenish its exploration and production portfolio, identifying prime opportunities and prioritising exploration options. After reviewing initial exploration data, the team devises an appraisal strategy to ascertain and prove the size of the discovery and decide whether it is commercially viable.

Four objectives

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

Chairman's statement

Dear Shareholders,

As you know, 2017 was KMG EP's last full year as a public company, with securities traded on the London Stock Exchange (LSE) and the Kazakhstan Stock Exchange (KASE). After completing the repurchase of shares and global depositary receipts (GDRs) through the tender offer, the Company will terminate its listings and take a step towards closer integration with the NC KMG group.

The placement of the Company's securities on the domestic and international markets in 2006 was the largest-ever IPO in Central Asia and one of the most successful of the post-Soviet era, attracting more than US\$ 2 billion in capital. Since then, the Company has successfully operated with financial transparency, under the constant scrutiny of investors and analysts, meeting the requirements of capital-markets best practices. These efforts have been appreciated by investors, who have repeatedly demonstrated their confidence in KMG EP's top management, corporate governance and transparent reporting. I would like to emphasise that has primarily been the result of the hard work of Kazakhstan specialists.

The Company has, like every other, had its ups and downs. It saw robust growth after several significant acquisitions, most notably the purchase of stakes in Kazgermunai, Karazhanbasmunai and PetroKazakhstan. It has made geological discoveries and expanded the scale of its geological prospecting. However, there have also been difficulties. A very challenging time was the period of social tension. And things were not easy during the sharp fall in the oil price in 2015, which necessitated significant austerity measures. In the face of these challenges, the Company successfully adopted measures to stabilise its oil production, operating costs and capital expenditures and embark on the independent crude oil processing scheme.

Consequently, the 2017 reporting year was one of the most successful in recent history. Due to a gradual improvement in global market conditions and the Company's continued participation in the oil processing scheme for the domestic market, KMG EP kept production levels stable and posted strong financial results. It reported a net profit of 195 billion tenge (US\$ 599 million) for 2017, free cashflow of 186 billion tenge (US\$ 570 million) and a net cash gain of 167 billion (US\$ 512 million).

The decision to delist was not easy, but very necessary, as it revolved primarily around the strategic objectives of KMG EP's majority shareholder, NC KMG.

Since its listing on the London Stock Exchange, KMG EP created a corporate governance system in line with international requirements, which was designed to achieve the complex task of maintaining the balance of interests of its various stakeholders: NC KMG, as the main shareholder and key player in Kazakhstan's oil and gas market, minority shareholders, Company employees, the state, the regions in which the Company operates, and its foreign partners.

Significant changes in market conditions, however, and changes in the strategy of the National Company were causing the interests of the various groups of shareholders to diverge. This was hindering KMG EP's development to the point of being counterproductive, so the priority was to find a mutually beneficial solution to the situation.

The 98% acceptance of the tender offer by minority shareholders indicates that the proposed solution – to buy out the minority stakes and delist KMG EP – was welcomed by almost everyone. Minority shareholders have been able to sell their shares at a fair price, while NC KMG has been able to bring KMG EP deeper into the fold. It expects to reap the benefits of this integration at group level.

From a financial perspective, participants in the Company's IPO who retained their positions and accepted the last tender offer have had a positive yield on their investment.

Let me conclude by saying that the Company's 11 years as a public entity have been an extremely valuable experience on which we plan to draw for the benefit of the NC KMG group at large.

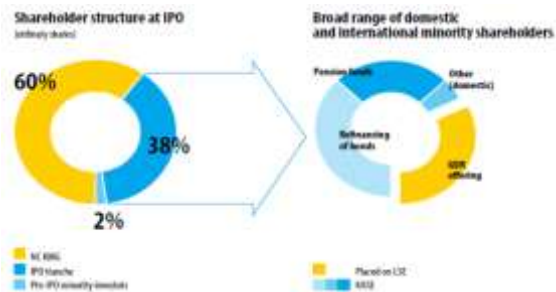
I would like to thank our workers, management and my colleagues on the Board of Directors for their professionalism and willingness to work together in the best interests of the Company.

Dauren Karabayev

Executive Vice President, Financial Director of JSC NC KazMunayGas

Chairman of the KMG EP Board of Directors

A brief history of KMG EP as a public company

Year/Date	Event	Summary/Results
September 2006	Initial public offering (IPO)	<p>In September 2006, KMG EP placed 38% of its shares on the stock market in the form of common shares on the Kazakhstan Stock Exchange and global depositary receipts (GDRs) on the London Stock Exchange, raising more than US\$ 2 billion.</p>  <p>The first donut chart, titled 'Shareholder structure at IPO (initially listed)', shows 60% for KMG, 38% for IPO shares, and 2% for IPO (initially listed). The second donut chart, titled 'Broad range of domestic and international minority shareholders', shows 'Placement on LSE' and 'Other (American)'. A legend below the charts identifies 'KMG', 'IPO shares', and 'IPO (initially listed)'.</p>
April 2007	Acquisition of 50% of Kazgermunai JV	<p>The deal to acquire a 50% stake in Kazgermunai, which closed in April 2007, turned KMG EP into Kazakhstan's second-largest oil producer. The deal was worth US\$ 969 million. The acquisition increased the Company's total oil reserves by 6% and its production by 17%*. Kazgermunai's fields are characterised by lower production costs and a higher quality of oil than KMG EP's core fields. The acquisition's payback period was four years**.</p>
December 2007	Acquisition of 50% in CCEL (Karazhanbasmunai)	<p>KMG EP's second major transaction, the acquisition of a 50% stake in CCEL, was completed on 12 December 2007. CCEL is developing the Karazhanbas field in the Mangistau region of western Kazakhstan. The deal boosted KMG EP's total oil reserves by 17% and its production by 13%*. The financial structure of the transaction gave priority protection to the interests of KMG EP. Under the terms of the deal, KMG EP paid US\$ 150 million of its own funds to the second shareholder in CCEL, CITIC Group, entitling KMG EP to priority annual income of US\$ 26.9 million. The acquisition's payback period was six years**.</p>
October 2008	Share buyback programme	<p>The Board of Directors approved the repurchase of the Company's shares worth up to US\$ 350 million. The buyback programme started on 24 November 2008 and ended on 31 October 2009.</p>
August 2009	Acquisition of an 11% stake in KMG EP by China Investment Corporation	<p>China Investment Corporation (CIC) announced the acquisition of around 11% of the Company's shares in the form of GDRs, worth US\$ 939 million. The market reacted to the acquisition by boosting the value of KMG EP shares by 11%.</p>
December 2009	Acquisition of a 33% stake in PetroKazakhstan Inc.	<p>On 22 December 2009, KMG EP completed the acquisition of a 33% stake in PetroKazakhstan Inc., which is involved in exploration and the production of hydrocarbons, as well as the sale of oil and petroleum products. The second shareholder in PetroKazakhstan Inc. is Chinese oil and gas company CNPC Exploration and Development Company</p>

* 100% = production at OMG and EMG in 2017 and 2P reserves at OMG and EMG as of the end of 2017.

** Payback period is calculated as the time taken for received dividends to cover the cost of acquisition.

		Ltd. The transaction lifted KMG EP's total oil reserves by 4% and its production by 13%.* The acquisition's payback period was three years.**
March 2010	Listing of preferred shares on KASE and launch of their buyback programme	The Board of Directors decided to list preferred shares on the KASE and launch a buyback programme, which reinvigorated the Kazakhstan stock market and accounted for a significant share of its operations in 2011. Completed in November 2011, the programme allowed the purchase of over two million shares worth more than 37 billion tenge.
October 2010	KMG EP discovers an oil deposit at Liman block	The Company reported the discovery of an oil deposit at the Liman exploration block. The deposit is located on the southern slope of the Novobogatinsk salt dome, in the immediate vicinity of the Novobogatinskoye Southeast oil field being developed by Embamunaigas, which is located 70 km west from the city of Atyrau. The flow of oil came in the first exploratory well at a depth of more than 1,200 metres from the deposits of the Middle Triassic.
April 2011	Acquisition of a 50% stake in Ural Group Limited, which owns a 100% stake in Ural Oil and Gas LLP	The Company entered into an agreement to acquire 50% of shares in Ural Group Limited (UGL), which is the sole stakeholder in Ural Oil and Gas LLP, which, in turn, has the rights to subsoil use by exploration of hydrocarbons at the Fedorovskiy block located in the region of West Kazakhstan.
October 2011	Share buyback programme	The share buyback programme lasted a year, from October 2011 to end December 2012. During this period, the Company repurchased 19,461 ordinary shares and 14,386,605 GDRs for a total of US\$ 263 million.
December 2011	KMG EP buys Karpovskiy Severniy exploration block	The Company announced that it had acquired a 100% stake in the Karpovskiy Severniy JSC from GazMynayOnim LLP at a cost of US\$ 59 million, thereby gaining subsoil use rights for the exploration of oil, gas and condensate at the Karpovskiy Severniy field in the West Kazakhstan region.
February 2012	Reorganisation of OMG and EMG production units into joint stock companies	The Board of Directors decided to transform the production arms of OMG and EMG into joint stock companies, 100% of which would be owned by KMG EP. The shift included the transfer of fixed assets and subsoil use rights to the joint stock companies created when the state authorities approved the legislation.
July 2012	KMG EP sells 49% stake in Karpovskiy Severniy JSC	KMG EP entered into a sale-purchase agreement with MOL Hungarian Oil and Gas Plc, to sell 49% of the shares in Karpovskiy Severniy JSC, which holds the rights to subsoil use for the exploration of oil, gas and condensate in the Karpovskiy Severniy contract area in West Kazakhstan.
May 2014	Opening of a new deposit at the Rozhkovskiy field, Fedorovskiy block	The exploration was carried out by Ural Oil and Gas LLP with Ural Group Limited as the sole stakeholder – 50% of which KMG EP acquired in 2011. The discovery of the deposit confirmed the high potential of the asset.
December 2014	Commissioning of the Aksai oil and gas field	The Aksai oil and gas field went into operation at the end of 2014. The licence for the development belongs to Kazgermunai in Kyzylorda region.
January 2015	Withdrawal of NC KMG's offer to acquire KMG EP shares	Independent Directors of the Company received notification from NC KMG that the parent company was withdrawing its offer for the possible acquisition of common shares of KMG EP at a price of US\$ 18.50 per GDR. NC KMG's preliminary announcement had been made in July 2014.

* 100% = production at OMG and EMG in 2017 and 2P reserves at OMG and EMG as of the end of 2017.

** Payback period is calculated as the time taken for received dividends to cover the cost of acquisition.

April 2016	KMG EP switches to the independent oil processing scheme	In April 2016, the Company switched to an independent oil-processing scheme to meet its domestic supply obligations. Under the scheme, KMG EP supplies crude oil to the ANPZ and PNHZ for processing, with the subsequent sale of produced oil products through KazMunaiGas Refining and Marketing JSC (KMG RM) under an agency agreement.
August 2016	EGM	On 3 August 2016, at an extraordinary shareholders' meeting, independent shareholders voted <i>against</i> Resolutions 1 and 2 regarding the introduction of changes and amendments to the Relationship Agreement and the Company's Charter. As a result, the Purchase Offer by NC KMG did not enter into force and the proposed changes and amendments to the Relationship Agreement and the Charter of the Company did not proceed, in accordance with the terms set out in the NC KMG Circular.
September 2016	OMG granted lower mineral extraction tax rate for 2016	OMG's application for a temporary lower rate of mineral extraction tax (MET) for the Uzen and Karamandybas fields was approved. The tax rate was set at 9% for all of 2016. The effect of the reduced MET rate in 2016 was a reduction in MET expenses of 15 billion tenge.
June 2017	KMG EP buys back a 49% stake in KS EP Investments BV, which holds 100% of Karpovskiy Severniy LLP	The Company bought back a 49% stake in KS EP Investments BV, which holds 100% of Karpovskiy Severniy LLP, from MOL Hungarian Oil and Gas Plc for US\$ 1 (one US dollar), making it the sole shareholder, with a 100% stake in Karpovskiy Severniy LLP.
December 2017	The Company announces a tender offer for repurchase of its GDRs and shares and voluntary delisting from the LSE and KASE	The Company announced in December 2017 its intention to launch a tender offer for the repurchase of all of its issued GDRs at a price of US\$ 14 per GDR, corresponding to a premium of 23.7% on the weighted-average 30-day price of the GDR as of 1 December 2017 (US\$ 11.32 per GDR).

Repurchase of minority stakes and delisting

< Disclaimer >

This section gives an overview of the actions of the Company and its shareholders on the repurchase of the GDRs and ordinary shares of KMG EP owned by minority shareholders and the subsequent termination of the listing of these securities. The overview information presented here does not replace the official documentation on this transaction, in particular, the circular dated 8 December 2017, "The Tender Offer for the Purchase of GDRs and the Elimination of GDRs from the Official List and the Withdrawal of Admission to Circulation on the London Stock Exchange" (http://kmgep.kz/eng/investor_relations/tender_offer/?cid=27), or the materials and minutes of subsequent shareholders' meetings and other documents related to the transaction. Shareholders of the Company must follow this circular, decisions of the Board of Directors, and shareholders' meetings to decide on their actions in connection with this transaction.

<End of disclaimer>

In the years immediately following the IPO in 2006, the Company remained on track to successfully implement its growth strategy. The funds raised at IPO, along with the rights granted to the Company by NC KMG as part of the IPO, were used to purchase significant onshore producing assets, namely, shares in Kazgermunai, Karazhanbasmunai and PetroKazakhstan. These assets allowed the Company to diversify its

resource base and cut its overall cost of production, while at the same time providing returns to the Company in the form of dividends.

In 2011, there was a period of labour unrest at the Company's largest wholly owned asset, which led to labour disruption, reduced production and increased costs, primarily due to the additional benefits granted to restore social calm. NC KMG provided significant support in resolving these issues.

From 2011 to date, the Company has focused on stabilising production and controlling costs. However, KMG EP mainly operates mature fields where production maintenance costs remain relatively high and which require increasing investment to address the production decline. Furthermore, the Company faces growing social obligations that limit its ability to control its future costs.

At the same time, the Company has been unable to utilise its large cash balance to create shareholder value through new acquisitions or through the return of cash to shareholders via dividends because of the varying views of different groups of shareholders and their representation on the Board.

KMG EP's business and operations have been significantly integrated with those of NC KMG. The parent company assists KMG EP in managing its social and tax issues that KMG EP faces. At present, the rights of NC KMG with respect to KMG EP are limited by the terms of the Relationship Agreement, compared with the rights it would have under the JSC Law.

In light of this long-standing interaction, KMG EP and NC KMG have concluded that the lack of alignment between the distinct interests of GDR holders and shareholders, on the one hand, and NC KMG, on the other hand, cannot continue without resolution.

KMG EP believes that it will benefit from a closer strategic and operational alliance with NC KMG and, in addition, views the Proposals as an effective way to utilise its significant cash reserve to compensate its shareholders for the value of their holdings in KMG EP.

Furthermore, NC KMG and KMG EP believe that full operational control by NC KMG over KMG EP is appropriate due to NC KMG's greater exposure to social obligations than other shareholders. NC KMG's status as a state-owned national company may require it to provide full assistance to KMG EP in situations, for example, where KMG EP has insufficient resources to maintain employment of local staff in the regions where the Company operates.

Shareholder options

The Company has taken steps to ensure that all categories of shareholders have been able to exercise their rights in the most effective way possible. Kazakhstan's legal requirements and the Company Charter meant that the possibilities open to shareholders have included:

1. For GDR holders to participate in the tender offer on an over-the-counter basis. (Kazakhstan tax is withheld at source.) The application deadline was 8 March 2018.
2. For GDR holders to participate in the tender on the KASE. (The Company arranged for participation in the tender through SBI, a KASE broker, without commission and with no Kazakhstan withholding tax, regardless of whether the GDR holders were Kazakh residents or not.) The application deadline was 8 March.
3. For holders of common shares to participate in the offer (on economic terms equivalent to the offer for GDR holders). The application deadline was 12 March.
4. For investors to remain holders of GDRs or common shares. (Shareholders should consider the withdrawal of listings, changes in the Charter and termination of the Relationship Agreement.)

Events timeline

Date	Event	Comment
8 December 2017	Announcement and commencement of the Tender Offer	The offer price is US\$ 14 for 1 GDR.
20 December 2017	Listing of GDRs on the Kazakhstan Stock Exchange	Listing is to facilitate a tender offer for GDRs on KASE.
22 January 2018	First EGM (EGM 1) for the approval of amendments to the Share Valuation Methodology	89.5% of votes cast were for adopting the resolution.
23 January 2018	Announcement of the results of the Tender Offer	KMG EP had received valid acceptances in respect of a total of 119,741,576 (approximately 87% of GDRs in issue). The Tender Offer remained open for acceptances until 8 March 2018.
23 January 2018	Announcement of the Share Offer	The offer price – US\$ 84 per 1 share is equivalent to the offer for GDR holders.
19 February 2018	First settlement date for the Tender Offer and the commencement of the Share Offer	KMG EP acquired a total of 134,070,054 GDRs and 320,688 outstanding common shares, which, as of 31 January 2018, amounted to about 97.7% of outstanding GDRs and 32.3% of common shares (including common shares represented by GDRs) in issue, for a total of US\$ 1,878 million.
12 March 2018	Second EGM (EGM 2) for the approval of the KMG EP's withdrawal from the exchange list and the adoption of changes to the Charter; the amendments to the Depository Agreement become valid	The proposed resolutions were duly passed at EGM 2. On 11 April 2018, KMG EP applied to delist its GDRs and common shares from the LSE and KASE.
5 April 2018	Final settlement date for the Tender Offer and the Share Offer	KMG EP acquired a total of 135,454,910 GDRs and 336,584 outstanding common shares, which, as of 18 February 2018, amounted to about 98.7% of outstanding GDRs and 32.6% of common shares (including common shares represented by GDRs) in issue, for a total of US\$ 1,898 million.
10 May 2018	Termination of the listing of common shares and GDRs on the Kazakhstan and London Stock Exchanges	On 11 April 2018, the Company submitted applications for the delisting of GDRs and common shares from the LSE and KASE.

Recommendation of Independent Directors

The Independent Non-Executive Directors (INEDs), so advised by Rothschild and HSBC in their capacity as financial advisors, consider the terms of the Offer (on the repurchase of the GDRs) to be fair and reasonable and maintain their view that the proposals are in the best interests of the GDR holders and common shareholders as a whole. Accordingly, the INEDs recommend unanimously that GDR holders accept the offer.

ISS and Glass Lewis recommendations

In their reports, the leading corporate-governance advisory institutions, ISS (Institutional Shareholder Services) and Glass Lewis recommended that shareholders vote *for* the resolution proposed at the Extraordinary General Meeting of shareholders (EGM 1) scheduled for 22 January 2018.

Changes to the Charter

The following are the main amendments to the Charter, which comply with the requirements of the laws of Kazakhstan and were approved by the second EGM (EGM 2) on 12 March 2018:

- (a) To change the majority required to pass shareholder resolutions on certain matters specified in the Charter – including the delisting of the Company's securities and Charter amendments – from a qualified majority (75%) of the total number of voting shares in issue to a simple majority of votes exercised at the meeting;
- (b) To change the requirement for resolutions of the Board on certain matters specified in the Charter from a majority vote of the Directors (including a majority vote of the Independent Non-Executive Directors) present at the relevant meeting to a simple majority vote of Directors present at the meeting;
- (c) To remove the express right of the Independent Non-Executive Directors to engage professional consultants to advise them at the expense of the Company (without prejudice to any engagement entered into prior to EGM 2);
- (d) To change the requirement for the agenda of all Board meetings to be approved by the majority of the Independent Non-Executive Directors present at the relevant meeting to a simple majority vote of all the Directors present at the meeting;
- (e) To change the quorum required for a duly authorised meeting of the Board from two-thirds to one-half of all Directors; and
- (f) To change the requirement that two-thirds of the INEDs be present for a Board meeting to be quorate.

The purpose of the Offer is to allow NC KMG to increase its control over the Company and for KMG EP to become a private company by withdrawing its listing from the London and Kazakhstan stock exchanges, while giving GDR holders and minority holders of ordinary shares the opportunity to exit their investment in a profitable manner.

The Board of Directors of KMG EP understands that the final corporate structure after the completion of all operations will be determined by NC KMG. Among the options under discussion are that KMG EP remain a subsidiary company of NC KMG, or that it may be reorganised in accordance with Kazakhstan legislation, more specifically, the law on joint stock companies.

The Relationship Agreement, and the protection it affords GDR holders and minority holders of ordinary shares, will automatically cease upon KMG EP's delisting from the London Stock Exchange.

Chief Executive Officer's statement

The year 2017 was successful for KMG EP thanks to the foundations that were laid the previous year. Measures to keep production stable at mature fields and to control operating and capital costs, as well as the Company's adoption of a proven oil processing and marketing programme for refined products, all helped it to report impressive results. Net profit totalled 195 billion tenge (US\$ 599 million), free cashflow was 186 billion tenge (US\$ 570 million) and net cash increased by 167 billion tenge (US\$ 512 million) to end the year at 1,339 billion tenge (US\$ 4.0 billion).

Production and capital expenses

In 2017, the Company achieved its goal to keep production at a stable, optimum level, even though the majority of its producing fields are mature and past the peak of their production.

The total production volume at our main assets – Ozenmunaigas (OMG) and Embamunaigas (EMG) – amounted to 8,320 thousand tonnes (168 kbpd) in 2017, which was 1% less than in 2016. At the same time, EMG produced 0.3% more than in 2016, partly offsetting a dip in production at OMG.

Including the Company's stakes in Kazgermunai (KGM), Karazhanbasmunai (CCEL) and PetroKazakhstan Inc. (PKI) LLP, the Company produced 11,868 thousand tonnes of crude oil (240 kbpd) in 2017, just 2% less than in 2016. The main reason for the decline was a natural, planned reduction in oil production at PKI and KGM.

Equally successful was the Company's work on reserves replacement. According to an independent assessment of reserves carried out by DeGolyer and MacNaughton, in 2017, the replacement ratio of 2P reserves at OMG and EMG was 100%.

Capital expenditures in 2017 amounted to 111 billion tenge (US\$ 341 million), about the same level as the previous year. Under the five-year business plan approved in December 2017, the Company is aiming for a slight increase in capital expenditure in 2018, then a subsequent reduction to an average of 118 billion tenge (US\$ 347 million) in 2019-2022.

I would also like to note that in 2017, we completed the construction of a complex gas treatment unit (CGTU) at the Prorva group of fields at Embamunaigas. Once commissioned, marketable gas, commercial granular sulphur and stable gas condensate will be produced there. The launch of the facility will allow the Company to eliminate the flaring of gas at the Prorva group of fields.

Another important initiative was the introduction of the 'Smartfield' concept to our assets. In 2017, we began replicating the successful digitalisation project at 14 fields within the KMG EP group, including Uzen, Karazhanbas, Akshabulak, the Prorva group of fields, Zhanatalap and others. These fields account for about 90% of annual oil production and about 90% of residual recoverable oil reserves and are where we see the potential for growth. It is worth emphasising that this project is a key part of the national Digital Kazakhstan programme, which envisages the widespread introduction of digital technologies to enhance the competitiveness of certain sectors of the country's economy. Details of the 'Smartfield' project implemented at EMG's Uaz deposit were presented to the President of Kazakhstan last September.

Last year, we signed Memorandums of Understanding and Cooperation with the Gubkin Russian State University of Oil and Gas, Agip Karachaganak BV, Shell Kazakhstan and the Research Institute of Production and Drilling Technologies KazMunayGas. Within the framework of these memorandums, we plan to collaborate to create concepts for developing the Uzen and Karamandybas fields, explore the possibility of developing joint projects in exploration and production, conduct a joint feasibility study on implementing enhanced oil recovery methods, assess production efficiency at selected Company fields and develop a knowledge and experience exchange. Initial research works have been completed and pilot tests have commenced. Also, this year, we plan to introduce the concept at one of the fields at Karazhanbasmunai JSC, with the involvement of the Gubkin University, as well as at the JV Kazgermunai LLP fields, in tandem with Tomsk Polytechnic University and Heriot-Watt University.

Oil processing and marketing of petroleum products

In April 2016, the Company switched to the new oil processing and oil products marketing scheme for the domestic market in the Republic of Kazakhstan.

In 2017, the Company sold 2,388 thousand tonnes of oil products. As of early 2018, KMG EP accounted for around 16% of all light oil products from Kazakhstan's refineries.

HR policy and social projects

Our people are our key asset and the Company puts great effort into maintaining social stability in the regions where it operates and into ensuring a decent standard of living for the local population.

KMG EP signed a new collective agreement for a period of three years with staff at Ozenmunaigas in August 2017. The terms of the contract, as before, provide for monthly and premium payments, health-insurance payments and training costs. In addition, the Company played an active role in the international EXPO event held in Astana from 10 June to 10 September 2017. Almost 6,000 of the Company's employees visited the exhibition and became acquainted with modern green technologies.

The Company appreciates the contribution of all its employees and offers them opportunities to develop their potential and boost their careers. To keep production levels stable and improve production efficiency, the Company pays special attention to the training of production personnel. In 2017, it allocated 1.6 billion tenge to improve the skills of 49,071 employees of the KMG EP group of companies, including 36,299 production personnel.

The Company continues to take an active role in social projects. In 2017, it allotted 1.9 billion tenge (US\$ 6 million) for social projects in the Atyrau and Mangistau regions, financing the repair of highways, the improvement of city microdistricts and the creation of social workplaces, among other things. The distribution of funds was determined by local executive bodies based on the needs of the population.

Delisting and closer integration with NC KMG

I would also like to mention the Company's major corporate event in 2017, the agreement reached by shareholders on the repurchase of common shares and GDRs from minority holders, as well as the termination of KMG EP's listings on the London and Kazakhstan stock exchanges.

Despite the importance of this decision for the strategic development of the Company, I want to stress that the goals of our day-to-day operations remain unchanged. We will continue to work on our mature fields, to make efforts to increase commercial efficiency and to maintain our priorities in the field of social policy. Management's task has been – and will continue to be – to maximize long-term economic efficiency from the exploitation of the Company's assets, while fulfilling its social responsibilities. These are the tasks that our shareholders have set us, and I am grateful for their continued support, despite the strains in relations between various groups of shareholders from time to time.

I am confident that every employee of KMG EP will not only be in demand once the Company is more closely integrated into the NC KMG group, but will also find new opportunities to apply their experience, knowledge and business expertise. I want to thank all of our employees for the results they achieved in 2017 and for their readiness to embark on this new chapter in the Company's history.

Kurmangazy Iskazyev

Chief Executive Officer

(Chairman of the Management Board)

2017 milestones

Q1

- Independent consultants DeGolyer and MacNaughton assessed the Company's liquid hydrocarbon reserves as of 31 December 2016. They concluded that KMG EP's proved and probable reserves (2P) of liquid hydrocarbons, excluding its shares in Kazgermunai (KGM), CCEL (Karazhanbasmunai) and PetroKazakhstan Inc. (PKI), amounted to 145 million tonnes (1,061 million barrels), which is 4% less than estimated at the end of 2015. The proved reserves of (1P) liquid hydrocarbons were 93 million tonnes (684 million barrels), and proved, probable and possible reserves (3P) were 196 million tonnes (1,433 million barrels).
- The Company won the appeal of its tax audit for 2009-2012. The State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan reduced the original amount of its tax claim on the Company by 25 billion tenge to 13.5 billion tenge.
- In the first three months of 2017, KMG EP's total production, including its shares in KGM, CCEL and PKI, amounted to 2,904 thousand tonnes of crude oil (238 kbpd), down 5% on the same period in 2016.
- Revenues in the first three months of 2017 totalled 214 billion tenge (US\$ 663 million), up 76% on the same period in 2016. Net profit was 2.3 billion tenge (US\$ 7 million), net cash was 1,143 billion tenge (US\$ 3.6 billion) as of 31 March 2017 and capital expenditures amounted to 18 billion tenge (US\$ 55 million) in the first three months, 37% less than in the first quarter of 2016.

Q2

- The new Board of Directors was elected for a term of one year, till 23 May 2018 inclusive. The Board of Directors included three new members. Dauren Karabayev and Ardak Mukushov, as representatives of NC KazMunayGas, replaced Serik Abdenov and Assiya Syrgabekova, while Francis Sommer was elected as an Independent Non-Executive Director, replacing Edward Walsh. At the meeting of the Board of Directors, Igor Goncharov, Senior Vice President for Oil and Gas Production at NC KMG, was again elected as Chairman of the Board of Directors of KMG EP.
- The Annual General Meeting of shareholders (AGM) voted to pay dividends on shares (ordinary and preferred) based on the results of 2016 in the amount of 289 tenge per share (including taxes withheld under Kazakhstan law). The total amount of dividends paid was about 19.8 billion tenge (US\$ 63 million), or 15% of the consolidated net profit of the Company for 2016.
- KMG EP acquired 49% of the shares in KS EP Investments BV, which owns 100% of Karpovskiy Severniy LLP, from MOL Hungarian Oil and Gas Plc for US\$ 1 (one US dollar) as part of a prior sale and repurchase agreement. The purchase makes it the sole shareholder of KS EP Investments BV, with a 100% stake. All necessary regulatory approvals have been received. The Company exercised its priority right to purchase the stake in accordance with the Shareholders' Agreement.
- Changes were made to the composition of the Company's Management Board. The Board of Directors appointed Kuanyshbay Nurgaliyev, Managing Director for Operations and Field Development, and Bekmurat Naizabekov, Managing Director for Marketing, Purchase and Sales of Oil. They replaced Dauletzhan Khassanov and Kairbek Yeleussinov.
- In the first half of 2017, consolidated production, including the Company's shares in KGM, CCEL and PKI, amounted to 5,885 thousand tonnes of crude oil (240 kbpd), 3% less than in the same period of 2016. Sales of refined oil products in the first six months under the new independent processing scheme amounted to 1,282 thousand tonnes.
- The Company's revenue for the first six months of 2017 was 437 billion tenge (US\$ 1,371 million), which was 39% higher than in the same period the previous year. The increase in revenue was mainly due to the 30% rise in the price of Brent crude oil during the period, a higher share of exports and the Company's adoption of the processing scheme from April 2016, which was partially offset by an 8% decrease in the average Tenge-US\$ exchange rate. Net profit for the first six months of 2017 was 88 billion tenge (US\$ 276 million), well above the 17 billion tenge (US\$ 50 million) reported in the same period the prior year. Net cash as of 30 June 2017 was 1,286 billion tenge (US\$ 4.0 billion), which is US\$ 347 million higher than at the end of the first quarter of 2017.

Q3

- In September, the Company held a regular meeting of the Board of Directors, at which the new Chairman of the Board was elected: Dauren Karabayev, Executive Vice President and Financial Director of NC KMG, replaced Igor Goncharov, who had left NC KMG.
- KMG EP, including its stakes in KGM, CCEL and PKI, produced 8,884 thousand tonnes of crude oil (239 kbpd) in the first nine months of 2017, down 3% on the same period of 2016. In January-September 2017, KMG EP sold 1,774 thousand tonnes of oil products under the independent oil processing scheme.
- Revenues for the first nine months of 2017 totalled 666 billion tenge (US\$ 2,059 million), 29% higher than in the same period of 2016. Net profit for the first nine months of 2017 amounted to 168 billion tenge (US\$ 521 million) and net cashflow from operating activities was 184 billion tenge (US\$ 570 million). Net cash as of 30 September 2017 was 1,360 billion tenge (US\$ 4.0 billion).

Q4

- The Company held an Extraordinary General Meeting (EGM) of shareholders, at which Oleg Karpushin, Executive Vice-President for Production, Exploration and Oil Services at NC KMG, was elected to the Board of Directors of KMG EP to replace Igor Goncharov.
- The Board of Directors approved the budget for 2018 and the business plan for 2018-2022. The 2018 budget is based on a forecast for Brent crude price of US\$ 55 per barrel and an exchange rate of 340 tenge per US dollar. The total planned production volume at OMG and EMG in 2018 is 8.5 million tonnes (171 kbpd), 2% less than the production plan for 2017, mainly due to a decline in OMG's base output in 2017. For 2018-2022, the Company expects free cashflow to be positive, mainly due to the positive effects of the independent processing scheme.
- The Company announced its intention to repurchase its GDRs at a price of US\$ 14 per unit, a premium of 23.7% on the weighted-average 30-day GDR price as of 1 December 2017 (US\$ 11.32) and to delist from the London Stock Exchange (LSE) and the Kazakhstan Stock Exchange (KASE).
- The Company's GDRs were included in the official list of KASE to facilitate their repurchase from minority shareholders.
- In 2017, KMG EP, including its stakes in KGM, CCEL and PKI, produced 11,868 thousand tonnes of oil (241 kbpd), 2% less than in 2016. Sales of oil products under the independent oil processing scheme, amounted to 2,388 thousand tonnes.
- Revenues for 2017 increased 32% from 2016, amounting to 956 billion tenge (US\$ 2,933 million³). Net profit for 2017 was 195 billion tenge (US\$ 599 million) and net cashflow from operating activities was 218 billion tenge (US\$ 667 million). Net cash as of 31 December 2017 was 1,339 billion tenge (US\$ 4.0 billion), 167 billion tenge (US\$ 512 million), or 14%, higher than on 31 December 2016.

³ The amounts are translated into US dollars solely for the convenience of the readers, at the average exchange rate of the relevant period for the consolidated statement of comprehensive income and the statement of cashflows and at the closing rate for the consolidated statement of the financial position (the average rates for 2017 and 2016 were 326.08 and 341.76 tenge per US\$, respectively).

Key operating and financial indicators

	2006	2016	2017	% change (2016 vs 2017)
2P reserves, million tonnes*	205	145	145	0
Crude production, million tonnes p/annum**	9.5	12.2	11.9	-2
Sales volume, million tonnes p/annum**	9.3	12.1	11.7	-3
Export, million tonnes p/annum**	6.9	6.8	7.1	5
Revenue, billion tenge*	412	727	956	32
Net profit, billion tenge*	123	132	195	48
Capex, billion tenge*	49	115	111	-3
Net cash, billion tenge***	332	1,172	1,339	14
Net cash, US\$ million***	2,615	3,516	4,028	15
Average exchange rate, tenge/US\$	126.1	341.8	326.1	-5
Average Brent price, US\$/bbl	65.1	43.7	54.2	24

*Excluding stakes in KGM, CCEL and PKI

**Including stakes in KGM, CCEL and PKI

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

Market overview

The main macroeconomic factors affecting the Company's financial position include the oil price dynamic, inflation and currency fluctuations, in particular, the tenge/US\$ exchange rate.

	2017	2016	% change
Average Brent price (DTD) (US\$/bbl)	54.19	43.73	24
Kazakhstan inflation rate (%)	7.1	8.5	-16
Average tenge/US\$ exchange rate	326.08	341.76	-5
Tenge/US\$ exchange rate at the reporting date	332.33	333.29	0

Source: National Bank of the Republic of Kazakhstan

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

Kazakhstan's oil and condensate production totalled 86.2 million tonnes in 2017, corresponding to 110.5% of that produced in 2016 and 102.1% of that planned for 2017. The Ministry of Energy of the Republic of Kazakhstan forecasts a production level of 87 million tonnes in 2018.

The volume of oil and condensate exported by Kazakhstan, based on 2017 results, was 69.8 million tonnes, or about 81% of total production. Kazakhstan's oil is exported through the CPC and Atyrau-Samara pipelines to Europe, via the terminals of the Black and Baltic Seas, and via the Kazakhstan-China pipeline.

The country refined 14.9 million tonnes of oil in 2017 (102.7% of that refined in 2016), of which 4.7 million tonnes were processed at the Atyrau Refinery (ANPZ), another 4.7 million tonnes at the Pavlodar Refinery (PNHZ) and another 4.7 million tonnes at the Shymkent Refinery (PKOP). In 2018, under the indicative plan for oil refining and petroleum-product production approved by the Ministry of Energy, Kazakhstan is forecast to process 15.8 million tonnes of oil.

As of the end of 2017, about 28% of all AI-92 gasoline consumed on the domestic market was imported from Russia. The Ministry of Energy estimates that as a result of the modernisation of the aforementioned oil refineries (the modernisation of ANPZ and PNHZ was completed in 2017 and the upgrade of PKOP is expected to be completed in 2018), total Kazakh refining capacity will increase to 17.5 million tonnes of crude oil per year and total production of light oil products will increase by 3.3 million tonnes per year. Thus, by 2019, on completion of the modernisation programme, Kazakhstan should be able to fully meet domestic demand for light oil products from its own resources.

Marketing of KMG EP crude oil and refined products

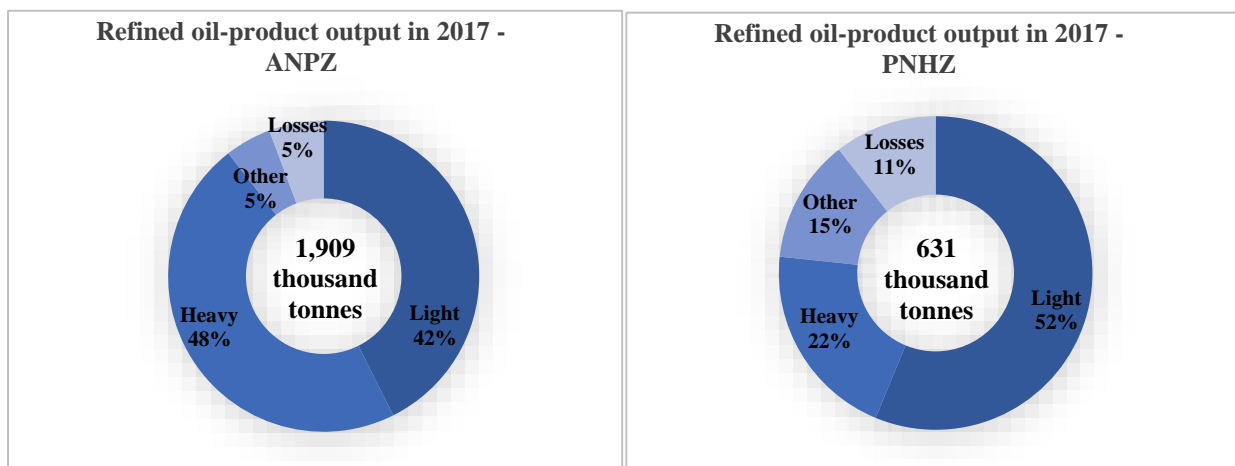
Under Article 62 of the Code of the Republic of Kazakhstan "On Subsoil and Subsoil Management", dated 27 December 2017, the Ministry of Energy (which acts as regulator to the oil and gas sector) implements state oil and gas policy, setting crude supply schedules for domestic (and foreign) processing in sufficient volume to cover domestic demand. Also, under Article 130 of the Code, KMG EP is obliged to prioritise the delivery of oil to ANPZ and PNHZ to meet domestic crude oil demand. The oil it produces can be exported only after it has met its domestic obligations.

In 2017, the Company supplied 2,533 thousand tonnes of crude oil to the domestic market. Of that, 2,364 thousand tonnes of oil products were produced at ANPZ and PNHZ. Total sales of oil products in 2017 amounted to 2,388 thousand tonnes.

In 2017, about 16% of all light oil products supplied by Kazakhstan refineries to the domestic market came from KMG EP facilities.

The Company sells the light oil products produced at the ANPZ, mainly on the domestic market. Dark and other oil products, such as heating oil, sulphur and coke, are shipped for export. All petroleum

products produced at the Pavlodar Refinery, except for vacuum gas oil, are sold by the Company on the domestic market.



The main factors affecting the price of oil products supplied to the domestic market are processing and transportation costs, taxes, levies and duties, the cost of oil production, macroeconomic factors and the legislative restrictions of the Republic of Kazakhstan.

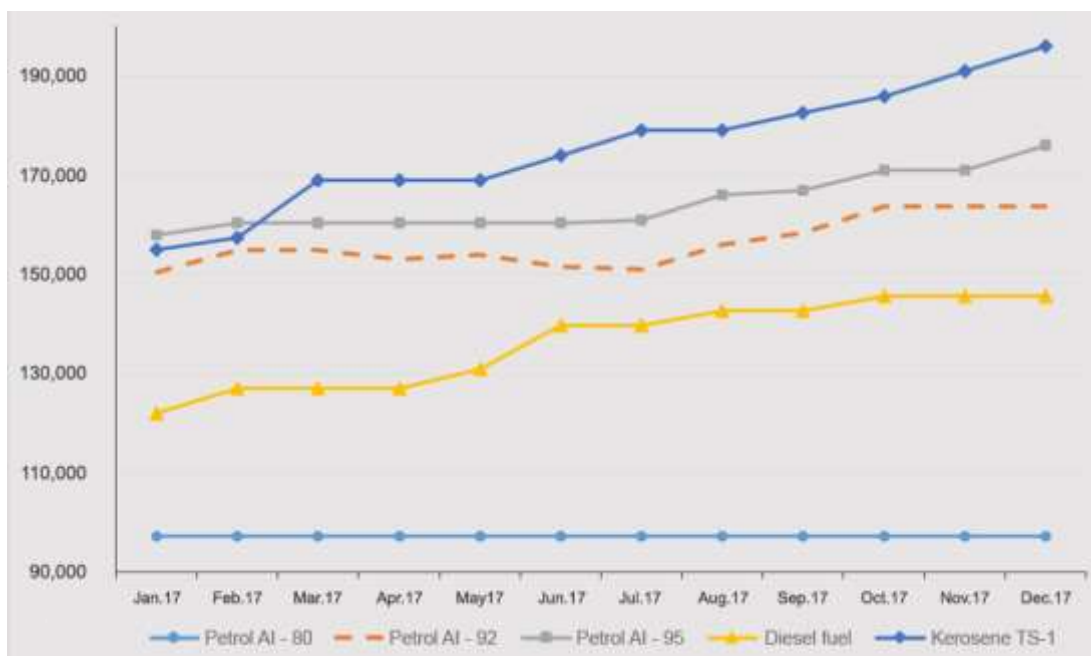
When selling light oil products on the domestic market, KMG EP uses data from the *Argus Caspian Markets* report, which contains quotes for the main grades of oil and oil products in the Caspian and Central Asian markets, as an indicator of oil and oil-product prices on the domestic market.

Prices for light oil products, such as AI-92 gasoline and diesel fuel, are market based. Currently, the state only regulates the price of AI-80 gasoline, in accordance with the amendment to Order No. 183 of the Ministry of Energy of the Republic of Kazakhstan, dated 8 December 2014, “On approval of the list of petroleum products for which state regulation is established”. The maximum retail price of gasoline AI-80 in Kazakhstan is set at 89 tenge per litre.

In September 2015, the Government of Kazakhstan abandoned the regulation of prices for AI-92/93 to eliminate the shortage of that type of gasoline. In August 2016, prices for diesel fuel were also freed from state regulation. As of the end of 2017, the average monthly market price of diesel fuel had increased by 40%. Average monthly prices for high-octane gasoline AI-92 and AI-95 saw 10% growth in 2017, according to the *Argus Caspian Markets* report. Price growth for TS-1 kerosene was about 27% and this was largely due to the significant share (more than 45%) of imports from the Russian Federation, where prices had risen due to higher demand from Russian consumers.

The high proportion of diesel and gasoline that Kazakhstan imports from Russia (16-28% of total consumption) has a significant impact on pricing in the domestic petroleum-products market. The following chart shows 2017 average monthly price changes for the light oil products (free carrier, or FCA refinery terms) the Company sells on the domestic market under the independent processing scheme.

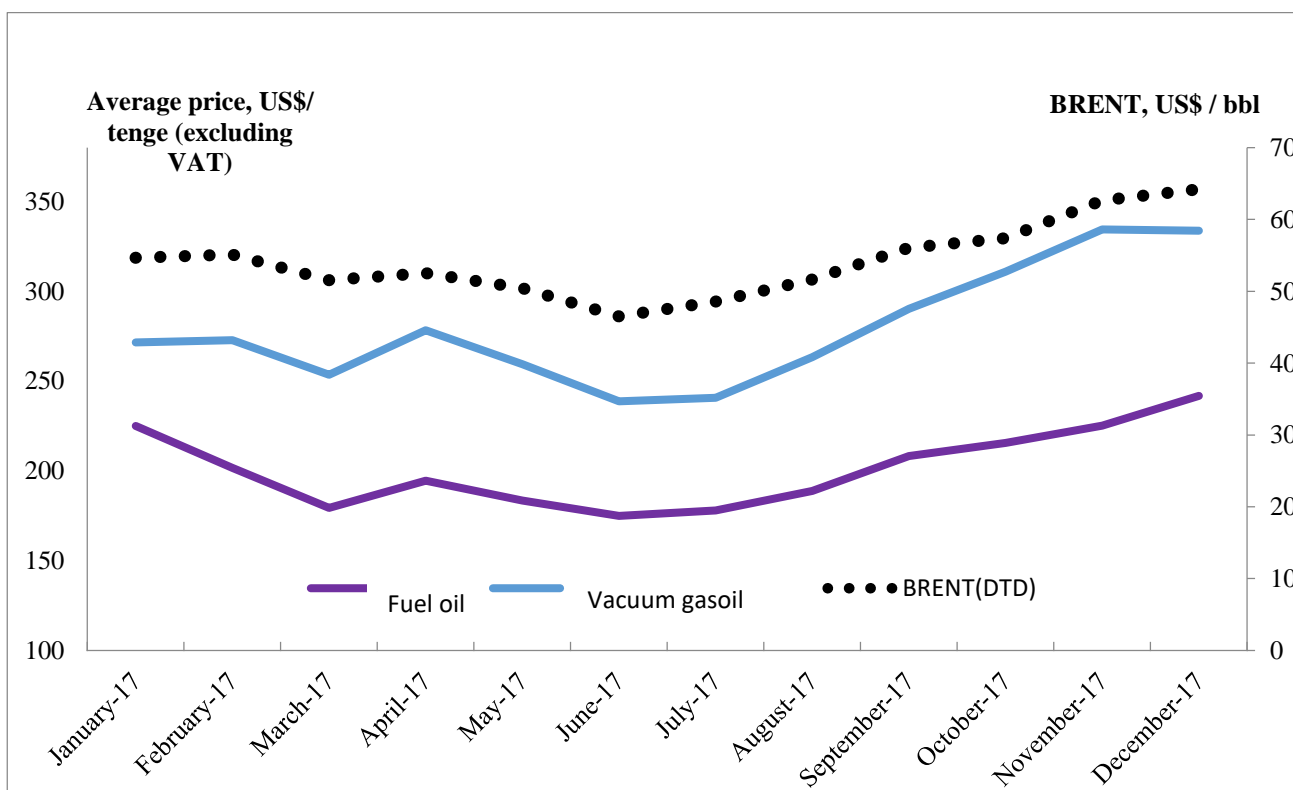
Chart: Price variations for light refined products in 2017



As for the oil products exported from the oil refineries of the Republic of Kazakhstan – fuel oil and vacuum gas oil – KMG EP uses prices quoted on the exchange and published by the Platts news agency, taking the differential into account.

The below graph shows average monthly prices for oil products exported by the Company. They demonstrated positive growth in 2017 and a positive correlation with changes in the price of Brent crude oil.

Chart: Price variations for exported petroleum products produced by ANPZ in 2017



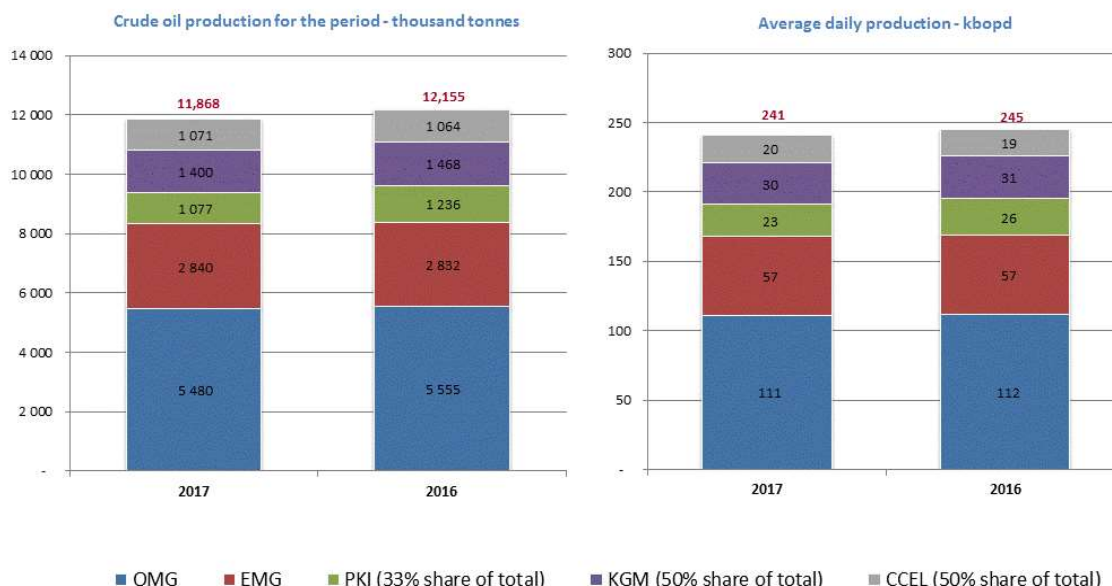
Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, Ministry of Energy of the Republic of Kazakhstan, Argus Caspian Market report, Platts data.

Operational activities overview

Oil production

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

Including its shares in KGM, CCEL and PKI, in 2017, KMG EP produced a total of 11,868 thousand tonnes of oil (241 kbpd), down 2% from 2016.



OMG and EMG production

JSC Ozenmunaigas (OMG) produced 5,480 thousand tonnes (111 kbpd) in 2017, a 1% decrease from 2016, largely due to a decline in the level of production from the existing well stock.

JSC Embamunaigas (EMG) produced 2,840 thousand tonnes (57 kbpd), up 0.3% from 2016. EMG production levels are stable. The total volume of oil produced by OMG and EMG in 2017 was 8,320 thousand tonnes (168 kbpd), a 1% decrease from 2016.

OMG's production volumes for 2017 decreased 1%, or 75 thousand tonnes, from 2016, mainly due to the natural depletion of reserves. This was the result of an increase in water cuts due to production string failures and an increase in well downtime due to underground equipment failures. EMG production increased by less than 1%, or 8 thousand tonnes, primarily due to geological and technical measures taken.

In 2017, OMG and EMG drilled 212 production and injection wells at their key assets, the same as in 2016. Oil production recorded from the new wells at OMG during the year was 297 thousand tonnes, down slightly from 314 thousand tonnes in 2016, due to a period of downtime in 2017. In 2017, both companies changed their oil-production measurement method from metering to a stock tank barrels (STB) method.

OMG workovers of 989 wells resulted in incremental production of 212 thousand tonnes, while 949 well workovers in 2016 led to incremental production of 259 thousand tonnes. Since 2017, incremental production from hole cleaning and squeezing workovers has been included in current activities performed for production maintenance.

Wells as of reporting date*	Drilled in 2017*	Drilled in 2016*		Well workovers 2017	Well workovers 2016	Well servicing 2017	Well servicing 2016
<i>Number of wells</i>				<i>Number of well workovers</i>		<i>Number of well services</i>	
5,107	171	169	OMG	989	949	12,685	13,512
2,692	41	47	EMG	286	246	3,167	3,398
1,765	53	19	PKI (100%)**	151	150	619	623
262	20	23	KGM (100%)**	51	62	93	114
3,765	108	51	CCEL (100%)**	94	59	3,946	3,794

*Development wells, including injection wells

** Includes 100% of the number of well operations related to JVs and associated companies

Oil production from the new wells at EMG in 2017 was 54 thousand tonnes, down from 78 thousand tonnes in 2016. EMG performed 286 well workovers in 2017, resulting in incremental production of 110 thousand tonnes, while 246 well workovers yielded 122 thousand tonnes of incremental production in 2016. New wells and workover wells were offline for longer in 2017 than in 2016 as a result of a delay in the signing of contracts due to tender procedural issues. In total, in 2017, OMG and EMG carried out major repairs to 1,275 wells, compared with 1,195 in 2016. Underground repair operations were conducted at 15,852 wells.

JSC Ozenmunaigas (OMG) and JSC Embamunaigas (EMG) performance as of end 2017			
	OMG	EMG	KMG EP
Number of hydrocarbon fields	2	42	44
Production wells	3,926	2,237	6,163
Injection wells	1,181	455	1,636
Average daily flowrate per well, tonnes of oil per day	4.5	3.7	4.1
2P oil reserves, mmbbl	675	292	1,065*
Lifting costs, US\$/bbl	12.0	8.9	11.0
Lifting costs, tenge/tonne	28,861	21,227	26,255
Oil production in 2017, thousand tonnes per day	15.0	7.8	22.8
Oil production in 2017, kbpd	111	57	168

*Including a 50% share in UOG

OMG's production target for 2018 is 5.6 million tonnes (113 kbpd), while EMG's is 2.9 million tonnes (58 kbpd). OMG and EMG's combined production for 2018 is expected to total 8.5 million tonnes (171 kbpd), 2% more than in 2017, due to a comprehensive stimulation programme for legacy wells, additional well interventions and geological works.

KGM, CCEL and PKI production

The Company's share of production from CCEL, KGM, and PKI in 2017 amounted to 3,547 thousand tonnes of crude oil (73 kbpd), 6% less than in 2016, mainly due to a natural decline in the production of oil from PKI and KGM.

KMG EP's share of planned production at KGM, CCEL and PKI in 2018 is estimated at 3.4 million tonnes (68 kbpd), 5% less than in 2017, mostly due to natural production declines at PKI and KGM.

Key performance indicators of KGM, CCEL and PKI in 2017			
	KGM	CCEL	PKI
Number of fields	3	1	12
Number of production wells	213	2,751	850
Number of injection wells	35	766	361
Oil reserves 2P, mmbbl	66.8	152.6	37.2
Lifting costs, US\$/bbl	2.2	15.3	4.8
Oil production, kbpd	30	20	23

Source: KGM, CCEL and PKI

Complex gas preparation unit (CGPU)

In 2017, the Company entered the completion stage on a major infrastructure project aimed at solving the problem of gas utilisation at the Prorva group of fields operated by JSC Embamunaigas. The engineering, procurement and construction (EPC) contract for the complex gas preparation unit (CGPU) amounted to 39.5 billion tenge, including VAT. Once commissioned, the capacity of the plant will be 150 million cubic metres of gas per year.

The construction of the facility began in 2014. One of its key features – and a first in Kazakhstan – is its use of environmentally friendly LO-CAT technology by Merichem. This means the Company can both eliminate the need to flare its gas and receive marketable products.

The CGPU will produce commercial gas, commercial granulated sulphur and stable gas condensate. The commercial gas will be transported via the UKPG-GSP Tolkyn commercial gas pipeline, while the Company will use the stable gas condensate for its own purposes and the granulated sulphur will be sold on the domestic and export markets.

Crude oil exports and domestic sales

OMG and EMG export their 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 2017, OMG and EMG's combined crude sales were 8,233 thousand tonnes (163 kbpd), of which 69%, or 5,700 thousand tonnes (113 kbpd) of oil, were exported and 31%, or 2,533 thousand tonnes (50 kbpd) of oil, were sold to the domestic market.

Of the 2,533 thousand tonnes (50 kbpd) of crude oil supplied by OMG and EMG to the domestic market, 1,909 thousand tonnes (38 kbpd) were supplied to the Atyrau Refinery (ANPZ) and 624 thousand tonnes (12 kbpd) to the Pavlodar Refinery (PNHZ).

Sales of oil products under the processing scheme totalled 2,388 thousand tonnes in 2017.

Petroleum product production and sale in 2017

Petroleum products Thousand tonnes	Production			Sale		
	ANPZ	PNHZ	Total	ANPZ	PNHZ	Total
Petrol Normal AI-80	21.71	17.75	39.46	21.72	21.17	42.89
Petrol Regular AI-92	191.48	123.49	314.97	195.65	130.14	325.78
Petrol Premium AI-95	22.79	10.85	33.64	28.70	11.91	40.62
Diesel	554.92	175.30	730.22	561.03	165.40	726.43
Jet fuel	9.43	-	9.43	9.78	-	9.78
Total light oil products	800.33	327.39	1,127.71	816.87	328.62	1,145.49
Vacuum gasoil	295.74	28.12	323.86	298.92	28.28	327.20
Mazut export	615.96	91.59	707.54	622.50	94.81	717.31
Bitumen	-	18.76	18.76	-	18.76	18.76
Total dark oil products	911.69	138.46	1,050.16	921.42	141.84	1,063.26
Liquid gas	14.79	29.72	44.51	14.79	32.04	46.83
Furnace oil	23.20	22.90	46.09	22.89	18.32	41.21
Sulphur	0.87	3.28	4.14	1.31	0.24	1.55
Coke calcinated	22.42	-	22.42	22.43	-	22.43
Coke crude	24.55	24.10	48.66	24.02	39.87	63.89
Other	3.69	16.93	20.62	3.65	-	3.65
Total other oil products	89.52	96.92	186.44	89.09	90.47	179.56
Losses	107.45	68.61	176.06	-	-	-
Total	1,909.00	631.38	2,540.38	1,827.38	560.94	2,388.32

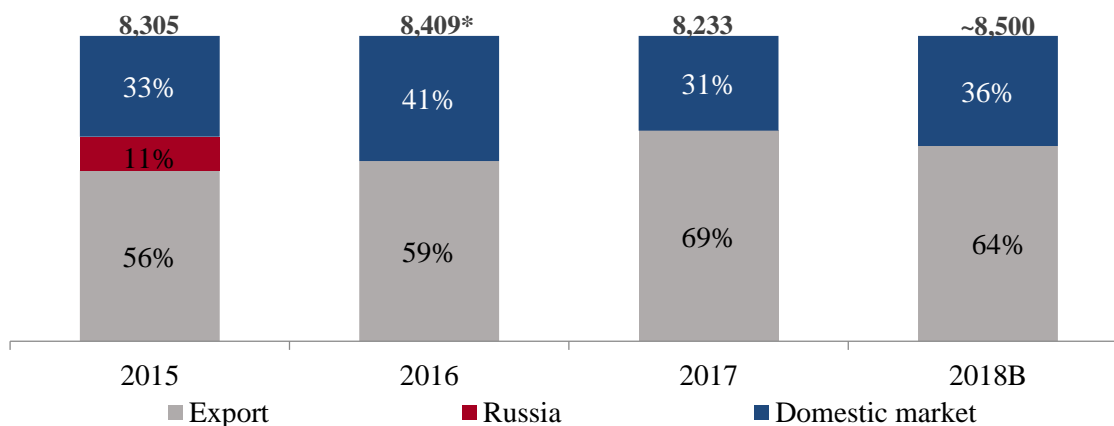
In 2017, the Company sold 31% of the oil produced by OMG and EMG to the domestic market, compared with 41% in 2016.

In 2018, the Company expects OMG and EMG to supply around 36% of their total sales, or 3.0 million tonnes of oil (60 kbpd), directly to the Atyrau Refinery and Pavlodar Refinery for processing into oil products, which will then be sold under the new, independent crude oil processing scheme in effect since April 2016.

Of the 3.0 million tonnes of oil to be supplied to the domestic market in 2018, 1.9 million tonnes (38 kbpd) will go to ANPZ and 1.1 million tonnes (22 kbpd) will go to PNHZ.

The annual average share of oil supplied to the domestic market by OMG and EMG in 2019-2022 is expected to account for around 33% of total sales.

Crude oil sales (OMG and EMG), thousand tonnes



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

The Company's share of the sales of KGM, CCEL and PKI amounted to 3,676 thousand tonnes of crude oil (75 kbpd) in 2017. Of this, 1,832 thousand tonnes (36 kbpd) were exported and the remaining 1,844 thousand tonnes (39 kbpd) were supplied to the domestic market, equivalent to 50% of total sales in volume terms. In 2016, KGM, CCEL and PKI sold 50% of their combined sales to the domestic market.

The Company's share of the volume of oil supplied to the domestic market by KGM, CCEL and PKI in 2018 is expected to amount to 1.6 million tonnes (34 kbpd), or roughly 49% of total sales of the three entities. From 2019 to 2022, the volume of oil supplied to the domestic market by KGM, CCEL and PKI is expected to account for no more than 50% of the companies' total sales.

Crude oil processing

Until April 2016, the Company supplied a portion of its extracted crude oil to KazMunaiGas Refining and Marketing JSC (KMG RM) to fulfil its supply obligations to the domestic market. In April 2016, KMG EP transitioned to an independent crude oil processing scheme for the domestic supplies. Under the new arrangement, since 2016, KMG EP has supplied oil to ANPZ and PNHZ for refining, with KMG RM acting as marketing agent for the subsequent sale of the processed petroleum products. On 1 January 2017, the Company stopped using KMG RM as its marketing agent and started selling refined products independently.

Petroleum products portfolio and prices in 2017

Oil product	ANPZ		PNHZ	
	Output %	Price thousand tenge/tonne	Output %	Price thousand tenge/tonne
Petrol Normal AI-80	1.1%	86.9	2.8%	86.9
Petrol Regular AI-92	10.0%	137.7	19.6%	140.8
Petrol Premium AI-95	1.2%	145.0	1.7%	149.4
Diesel	29.1%	121.3	27.8%	120.7
Jet fuel	0.5%	156.1	0.0%	
Total light oil products	41.9%	125.6	51.9%	127.5
Vacuum gasoil	15.5%	88.7	4.5%	96.4
Mazut export	32.3%	63.5	14.5%	35.0
Bitumen	0.0%		3.0%	62.1
Total dark oil products	47.8%	71.6	21.9%	50.8
Liquid gas	0.8%	30.5	4.7%	30.7
Furnace oil	1.2%	89.5	3.6%	80.4
Sulphur	0.0%	4.1	0.5%	11.0
Coke calcinated	1.2%	51.1	0.0%	
Coke crude	1.3%	21.0	3.8%	13.4
Other	0.2%	205.5	2.7%	
Total other oil products	4.7%	55.1	15.3%	16.8
Losses	5.6%		10.9%	
Total	100.0%	95.0	100.0%	92.9

In 2018, the net revenue from oil-product sales (excluding all processing and marketing costs⁴) is expected to be 62,616 tenge per tonne of oil at ANPZ and 65,072 tenge per tonne of oil at PNHZ. Net sales revenue will depend on the market environment (except for Government-regulated AI-80 gasoline) and the refinery's product portfolio.

Following the upgrades of ANPZ and PNHZ, scheduled for completion in 2018, the yield of light products is expected to increase. From Q4 2018, ANPZ is expected to increase its production of petrochemical products. The 2018 budget assumes an increase in processing fees of approximately 28% at ANPZ and 5% at PNHZ from present levels. The current processing fees are 24,512 tenge per tonne at ANPZ (in effect since April 2017) and 16,417 tenge per tonne at PNHZ (in effect since August 2017).

The Company's expectations may be adjusted to account for changes in the domestic fuel-market situation of the Republic of Kazakhstan.

Net income from oil-product sales in 2017

	(tenge per tonne)	ANPZ	PNHZ
Revenue		89,606	82,805
Costs, including:		(33,301)	(21,513)
Processing		(23,355)	(15,119)
Additives		(485)	(1,053)
Excise duties		(2,493)	(3,809)
Export customs duty		(5,457)	(898)
Selling and transportation expenses		(1,512)	(633)
KMG Refinery and Marketing commission fee		-	-
Net revenue		56,305	61,292
Total volume of crude oil processed and sold (thousand tonnes)		1,936.5	629.3

⁴ With the exception of the cost of oil and the cost of transporting oil to refineries

Reserves

Based on the audit of liquid hydrocarbon reserves conducted by independent consultants DeGolyer and MacNaughton (D&M), KMG EP's proved plus probable (2P) reserves of liquid hydrocarbons were 145 million tonnes (1,065 million barrels) as of 31 December 2017, excluding the Company's share in JV Kazgermunai LLP (KGM), JSC Karazhanbasmunai (CCEL) and PetroKazakhstan Inc. (PKI) – the same as in 2016. Taking into account the volume of oil produced in 2016, the 2P reserves increased by 0.7 million tonne (8 million barrels). The reserve replacement ratio (the ratio of added reserves to annual production) was 100%.

Proved (1P) reserves of liquid hydrocarbons as of 31 December 2017 were 102 million tonnes (754 million barrels), while proved, probable and possible (3P) reserves stood at 193 million tonnes (1,418 million barrels).

Liquid hydrocarbon reserves as of 31 December 2017

	Million tonnes			Million barrels		
	1P	2P	3P	1P	2P	3P
Reserves as of 31 December 2016⁵	93	145	196	684	1,061	1,433
Production	8,3	8,3	8,3	61	61	61
Reserves increase	17,6	8,3	5,5	131	65	46
Reserves as of 31 December 2017	102	145	193	754	1,065	1,418
Present worth at 10%, US\$ million				4,253	5,170	5,840

The reserves of KMG EP's joint ventures are estimated separately by independent auditors⁶. As of the end of 2017, KMG EP's share of the total 2P reserves of liquid hydrocarbons of KGM (50%), CCEL (50%) and PKI (33%) was 36 million tonnes (257 million barrels). Hence, the combined 2P liquid hydrocarbon reserves, including KMG EP's shares in KGM, CCEL and PKI, as of 31 December 2017 totalled 181 million tonnes (1,322 million barrels).

Consolidated 2P reserves as of 31 December 2017	Million tonnes	Million barrels
KMG EP	145	1,065
KGM 50%, CCEL 50%, PKI 33%	36	257
Consolidated reserves	181	1,322

Exploration and appraisal

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

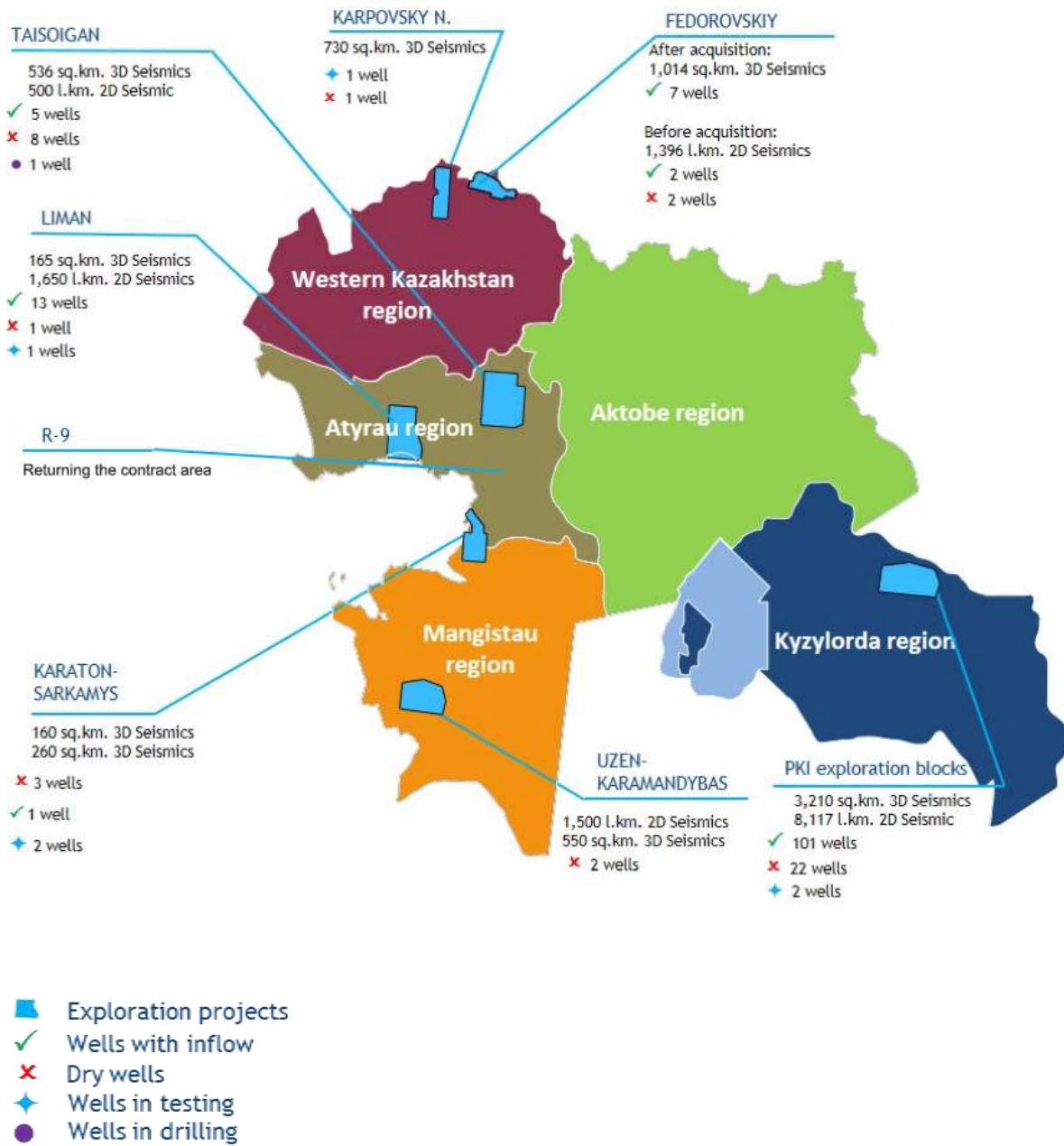
In 2017, the Company continued the exploration and appraisal programme it had started in the Mangistau region in 2016. In areas adjacent to the Uzen and Karamandybas fields, which have been developed since the early 1960s, it carried out a large-scale 3D seismic data acquisition to study the potential of pre-Jurassic formations at depths of more than 6 km.

The Company also wants to develop its business beyond these projects. It is actively reviewing geological and geophysical data on oil and gas fields that are currently under appraisal or in pilot production, to assess new assets based on in-house and independent evaluations of their production potential.

⁵ Assessment of reserves as of 31 December 2016 was conducted by DeGolyer and MacNaughton.

⁶ Assessment of reserves as of 31 December 2017. KGM's assessment was carried out by Neftegasconsult Kazakhstan, PKI reserves were assessed by McDaniel and Associates and CCEL reserves were assessed by Miller & Lents.

The following map depicts the Company's major exploration projects as of 31 December 2017.



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

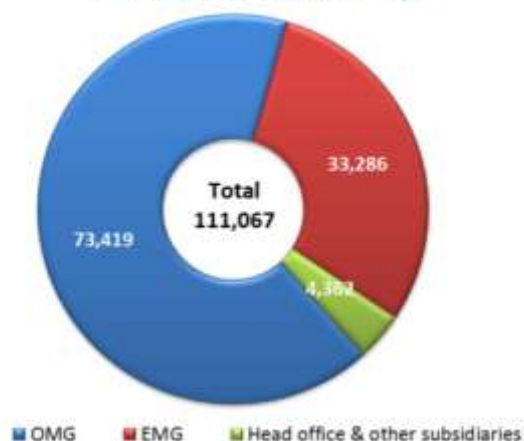
Block (interest)	Date of acquisition	Prospect	Well	Drilling period	Depth	Status as of reporting date
Liman (100%)	19.01.2006	Novobogat SE	PR-4	08.04.2016-21.08.2016	2,262m	PR-4's daily flow is 7 m3/day. PR-5 and PR-7 daily flows are 5,3 m3/day, which is average for this field. PR-8 well is being tested
			PR-5	01.04.2016-29.09.2016	2,500m	
			PR-7	20.09.2016-27.01.2017	2,290m	
			PR-8	22.05.2017-17.11.2017	2,500m	
Uzen-Karamandybas (100%)	18.07.2011	South-western area of the exploration block				3D-MOGT field works spanning an area of 550 l.km are completed. Processing and interpretation of seismic data works were completed. Interregional department Zapkaznedra Technical and scientific committee approved the report. According to the working programme, preparation measures for exploration drilling of Pz-1 have been carried out.
Taisoigan (100%)	29.01.2004	Uaz	U-23	29.08.2017-24.09.2017	1,110m	2-D MOGT seismic field works on the Taisoigan block were completed along with processing of 2-D seismic field data on the Taisoigan block. Further exploration works are under consideration. Well U-23 is with inflow; U-25, Barlybay S-3 are dry. Recultivation of wells territory on Barlybay G-3 is completed. Act is signed by OGPU KainarMunaiGas representative. U-26 is in drilling.
			U-25	21.07.2017-22.08.2017	1,100m	
			U-26	20.12.2017-currently	726m	
			Barlybay S-3 G-3	10.10.2017-16.11.2017	1,025m	
R-9 (100%)	10.06.2007					The Company is in the process of returning the contract area to the State. On 26 December 2017, the Company defended the report on the geological works result on R-9 Block. The Protocol is signed (№147/2017). Transfer of the report into the funds of RCGI Kazgeoinform is expected.
Karaton Sarkamys (100%)	18.07.2011	North-eastern wing of the S. Nurzhanov field	NSV-2	11.09.2017-07.12.2017	3,700m	Re-processing and interpretation of 3D seismic data of the Birlestik cube are completed. Further geological works are under consideration. NSV-2 is in testing of 1 object (with inflow), East Karaton testing is expected, DSV-1 is dry.
			East Karaton-1	12.09.2017-12.12.2017	2,512m	
			Dosmuhambetovskoe DSV-1	06.10.2017-20.12.2017	400m	
Karpovskiy Severniy (KS-100%)	18.10.2011	Orlovskaya Central	SK-2	01.07.2013-18.08.2015	5,755m	The well has commercially unviable gas inflows, conserved.
Fedorovskiy block (UOG-50%)	11.03.2011	Rozhkovskiy				U-25 drilled and tested during 2016 has inflow.
		Pavlovskaya, Yanvartsevskaya				Processing and interpretation of 3-D seismic data on the block is completed. Further works are under consideration.
Doszhan-Zhamansu (24.75% through PKI)	22.12.2009	South Doszhan, South-Eastern Doszhan, Zhamansu	South-Eastern Doszhan-52	01.06.2017-19.06.2017	1,439m	Completed drilling of Zhamansy-10, 11, S-E Doszhan-49, 52, 56. S-E Doszhan-49, 52 and Zhamansu-10, 11 have inflows. S-E Doszhan-56 has gas inflow. Further works are

			South-Eastern Doshan-49	24.06.2017-21.06.2017	2,033m	under consideration. Doshan-65 is in testing, Doszhan-16, Zhamansu-5 are in drilling.
					1,450m	
			South-Eastern Doshan-56	20.07.2017-08.08.2017		
			Doszhan-65	31.07.2017-12.08.2017	815m	
			Doszhan-16	23.12.2017-currently		
			Zhamansu-10	27.11.2016-17.01.2017	2,203m	
			Zhamansu-11	30.09.2017-17.11.2017	2,455m	
			Zhamansu-5	07.10.2017-currently		
			Buharsai-3	29.08.2017-24.09.2017	1,525m	Completed drilling of 2016 the Northern Karabulak-3, Karabulak-19 and Karabulak-31 exploration wells. Northern Karabulak-3 well is dry. Karabulak-19 and Karabulak-31 wells – have inflow.
			Belkuduk-8	01.11.2017-03.12.2017	2,090m	
Karaganda (PKI-33%)	22.12.2009	Karabulak, Buharsai	Karabulak-53	15.08.2017-08.08.2017	1,400m	Drilled Buharsai-3, Karabulak-35, 53, 54, Belkuduk-8 have inflows.
			Karabulak-54	28.09.2017-15.10.2017	1,369m	Further works are under consideration.
			Karabulak-35	29.03.2017-01.05.2017		
			Ketekazgan-18	11.11.2016-24.02.2017	3,180m	Exploration wells are tested: Ketekazgan-18 is in testing, Western Tuzkol-126,130,127 are dry, Western Tuzkol-127, 159 have inflows. Ketekazgan wells 22, 24 drilling is completed, testing is expected.
			Ketekazgan-22,24	09.09.2017-21.12.2017	3,300m 2,510m	
			Western Tuzkol-130	01.02.2017-14.02.2017	1,300m	
			Western Tuzkol-126	01.10.2017-18.10.2017	1,028m	
			Western Tuzkol-127	10.05.2017-23.05.2017	1,100m	
			Western Tuzkol-159	08.09.2017-25.09.2017	1,520m	
			Western Tuzkol-234	07.02.2017-25.02.2017	1,365m	
			Western Tuzkol-237	13.03.2017-26.03.2017	1,257m	
						Western Tuzkol appraisal wells 234, 237 have inflows.
Karavanchi (PKI – 33%)	22.12.2009	Karavanchi	Karavanchi-31	09.02.2017-12.03.2017	1,136m	Karavanchi-31 is seeing water and oil inflows.

*On 15 June 2017, the Company acquired 49% shares in KS EP Investments BV from MOL Hungarian Oil and Gas Plc. for US\$ 1 (one US dollar) and following the acquisition, now owns 100% of the shares in KS EP Investment.

Capital expenditure overview⁷

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



In 2017, the Company's capital expenditure⁸ amounted to 111.1 billion tenge, or 4 billion tenge (3%) less than in 2016. This was primarily due to a decrease in capital expenditure on the construction and modernisation of production facilities, but partially offset by an increase in purchases of fixed assets and higher expenses related to production and exploration drilling. Capital expenditures include the cost of drilling new wells, the construction and modernisation of production facilities, the purchase of fixed and intangible assets and non-production capital expenditure.

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

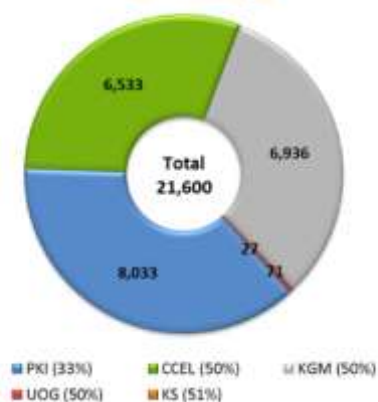
OMG's capital expenditures for the 12 months of 2017 amounted to 73.4 billion tenge, 10.2 billion tenge higher than in 2016. The increase was due to higher volumes of hydraulic fracturing performed on new wells and the purchase of fixed assets (mainly tubing pipes and casing strings), and partially offset by lower volumes of construction work (mainly the reconstruction of oil and water pipelines).

EMG's capital expenditures amounted to 33.3 billion tenge in 2017, 15.4 billion tenge lower than in 2016. In 2016-2017, construction work was carried out at the Prorva gas treatment unit and the main part was completed in 2016. Moreover, in 2017, lower volumes of production drilling and construction works were performed due to delayed schedules of works resulting from tender procedural issues.

Head office and other subsidiaries' capital expenditures in 12m 2017 amounted to 4.4 billion tenge, up 1.2 billion from 2016, primarily due to purchases of intangibles and KS EP exploration drilling.

Since 15 June 2017, KS EP is a 100% consolidated KMG EP entity. Its capital expenditures amounted to 0.5 billion tenge for the period from 15 June to 31 December 2017.

Capital expenditures of equity-accounted entities - million tenge



Capital expenditure of equity-accounted entities

PKI's capital expenditures in 2017 amounted to 24.3 billion tenge (KMG EP's 33% share: 8 billion tenge), which was 6.2 billion tenge higher than in 2016, mainly due to higher drilling volumes and the completion of works on wells.

KGM's capital expenditure for the period was 13.9 billion tenge (KMG EP's 50% share: 6.9 billion tenge), 3.7 billion tenge more than in 2016, mainly due to the higher cost of production drilling in 2017.

⁷ 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 cashflow 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.

⁸ The Company has revised its approach to the calculation of capital expenditure. From 4Q 2013, capex represents the amount of additions to property, plant and equipment. Previously, it represented purchases of property, plant and equipment and intangible assets according to the cashflow statement.

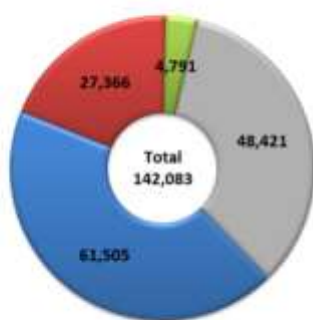
CCEL's capital expenditures in 2017 were 13.1 billion tenge (KMG EP's 50% share: 6.5 billion tenge), 4.3 billion tenge higher than in 2016, primarily due to higher drilling volumes and the construction and modernisation of production facilities.

UOG's capital expenditure amounted to 142 million tenge (KMG EP's 50% share: 71 million tenge), which was 5.5 billion tenge less than in 2016 mainly due to more exploration drilling conducted in 2016 (U-25 drilling and testing works).

KS's capital expenditures amounted to 54 million tenge for the period from 1 January to 15 June 2017 (to 15 June 2017: KMG EP's 51% share: 27 million tenge).

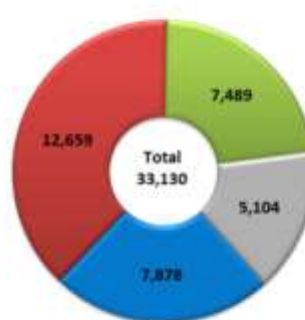
Below are the current 2018 capital-expenditure expectations for consolidated and equity-accounted entities:

Current 2018 capital expenditure expectations for OMG, EMG and other subsidiaries - million tenge



■ Production drilling ■ Construction works

Current 2018 capital expenditure expectations for equity-accounted entities - million tenge (proportional share)*



■ Exploration ■ Other CAPEX **

* Capital expenditure amounts for 2018 presented herein represent currently expected amounts based on management's estimates as of the date of issuance of this report, according to the approved 2018 budget. Amounts do not represent any formal commitments and are subject to changes in any direction.

**Other capex includes fixed assets and intangible purchases.

Financial overview

The following section is based on the Company's audited consolidated financial statements. The amounts shown in US dollars 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.

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(million tenge, unless otherwise stated)</i>					<i>(million tenge, unless otherwise stated)</i>		
290,941	228,538	212,448	37%	Revenue	956,457	727,154	32%
(88,125)	(80,805)	(79,389)	11%	Production expenses	(318,473)	(274,753)	16%
(42,512)	(33,609)	(20,508)	107%	SG&A	(135,324)	(115,022)	18%
(86,436)	(74,648)	(29,628)	192%	Taxes other than on income	(288,070)	(145,431)	98%
(1,087)	(357)	(2,484)	-56%	Exploration expenses	(1,612)	(2,535)	-36%
(9,861)	(8,856)	(8,252)	19%	DD&A	(35,626)	(30,776)	16%
62,920	30,263	72,187	-13%	Operating profit	177,352	158,637	12%
(2,361)	-	-	100%	Reversal for VAT recoverable, net	24,053	13,362	80%
2,268	3,602	(4,997)	145%	Share of results of associate and JVs	20,441	(12,600)	262%
(1,984)	(389)	(1,518)	31%	Loss on disposal of fixed assets	(2,176)	(2,050)	6%
-	-	-	0%	Net loss on acquisition of a subsidiary	(3,249)	-	100%
6,180	6,469	4,872	27%	Finance income, net of costs	25,449	24,195	5%
(30,082)	61,788	(5,608)	436%	Foreign exchange gain / (loss), net	(893)	(12,892)	-93%
(9,955)	(21,240)	(9,083)	10%	Income tax expense	(45,618)	(37,076)	23%
26,986	80,493	55,853	-52%	Net income	195,359	131,576	48%

The increase in net income for 2017 from 2016 was due to an increase in the average Brent crude oil price from US\$ 43.73 per barrel in 2016 to US\$ 54.19 per barrel in 2017, as well as to higher profits from refined-product sales, higher crude-oil export sales and an increase in the share of income of associate and joint ventures. These effects were partially offset by an increase in taxes other than those on income and oil-refining costs in 2017. Mineral extraction tax (MET), rent tax and ECD (export customs duty) expenses were higher in 2017 due to higher Brent prices.

The Company reversed a previously accrued allowance for VAT recoverable in the amount of 30.1 billion tenge following the positive decision on the Company's application for VAT recovery.

In 2017, the Company recorded a loss of 3.2 billion tenge on the net liabilities acquired following the purchase of a 49% share in KS EP Investments BV from MOL Hungarian Oil and Gas Plc. for US\$ 1 (one US dollar).

Revenue

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

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
				Export sales of crude oil			
				<i>UAS pipeline</i>			
139,013	123,418	80,803	72%	Net sales (million tenge)	423,961	282,054	50%
954	1,019	719	33%	Volume (thousand tonnes)	3,412	2,797	22%
145,716	121,117	112,382	30%	Average price (tenge/tonne)	124,256	100,842	23%
60.27	50.40	46.39	30%	Average price (US\$/bbl*)	52.70	40.81	29%
				<i>CPC pipeline</i>			
82,957	52,468	58,529	42%	Net sales (million tenge)	285,657	230,645	24%
546	415	483	13%	Volume (thousand tonnes)	2,288	2,149	6%
151,936	126,429	121,178	25%	Average price (tenge/tonne)	124,850	107,327	16%
62.85	52.61	50.02	26%	Average price (US\$/bbl*)	52.96	43.44	22%
221,970	175,886	139,332	59%	Total sales of crude oil-exported (million tenge)	709,618	512,699	38%
1,500	1,434	1,202	25%	Total crude oil-exported (thousand tonnes)	5,700	4,946	15%
				Total sales of crude oil			
221,970	175,886	139,332	59%	Total net sales of crude oil (million tenge)**	709,618	528,158	34%
1,500	1,434	1,202	25%	Total volume (thousand tonnes)**	5,700	5,776	-1%
147,980	122,654	115,917	28%	Average price (tenge/tonne)	124,494	91,440	36%
61.21	51.04	47.85	28%	Average price (US\$/bbl*)	52.80	37.01	43%
				Sales of oil products			
61,440	46,388	68,371	-10%	Net sales (million tenge)	223,070	181,409	23%
610	489	798	-24%	Volume (thousand tonnes)	2,369	2,315	2%
100,721	94,826	85,678	18%	Average price (tenge/tonne)	94,162	78,362	20%
301.20	285.28	255.70	18%	Average price (US\$/tonne)	288.75	229.29	26%
41.66	39.46	35.37	18%	Average price (US\$/bbl*)	39.94	31.71	26%
7,531	6,264	4,745	59%	Other sales (million tenge)	23,769	17,587	35%
290,941	228,538	212,448	37%	Total revenue (million tenge)	956,457	727,154	32%

* Converted at 7.23 barrels per tonne of crude oil

**Total net sales in 1Q 2016 include net domestic sales of crude oil to KMG RM (830 thousand tonnes amounting to 15,459 million tenge)

The Company exports crude oil via two principal routes, the pipeline owned by the Caspian Pipeline Consortium (CPC) and the Uzen-Atyrau-Samara pipeline (UAS) owned by KazTransOil JSC (in Kazakhstan).

The relative profitability of these two export routes depends on the quality of crude oil in the pipeline, 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 particular route.

Prior to April 2016, the Company sold a portion of the crude oil it produced to KazMunaiGas Refining and Marketing JSC (KMG RM), a related party, to meet its domestic supply obligations. KMG RM then processed this crude oil and sold the refined products. In April 2016, the Company ceased sales of crude oil to KMG RM and started processing crude oil at the Atyrau (ANPZ) and Pavlodar (PNHZ) refineries and selling the subsequent refined products on its own account, which resulted in an increase in income and higher volumes of oil-product sales.

The Government of Kazakhstan requires KMG EP to supply the state with a large amount of oil products, specifically light distillates, to meet domestic fuel requirements and to support agricultural producers in the spring and autumn sowing seasons. It generally achieves this by imposing an export ban on

light distillates, or by issuing quotas to supply agricultural producers. Domestic market oil product 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.

*Statement of net revenue from sales of refined products (ANPZ)**

4Q 2017	3Q 2017	4Q 2016		2017	2016**
47,243	33,335	46,301	Revenue	173,524	142,095
(17,581)	(13 635)	(18,321)	Costs, including:	(64,489)	(59,392)
(12,087)	(9,245)	(11,997)	Processing	(45,227)	(39,947)
(248)	(144)	(320)	Additives	(939)	(591)
(1,231)	(1,517)	(1,095)	Excise duties	(4,828)	(2,773)
(2,528)	(1,999)	(3,327)	Export customs duty	(10,567)	(10,768)
(1,487)	(730)	(364)	Selling and transportation expenses	(2,928)	(1,000)
-	-	(1,218)	KMG Refining and Marketing commission fee	-	(4,313)
29,662	19,700	27,980	Net revenue	109,035	82,703
462.44	357.24	544.2	Volume of oil products sold, thousand tonnes	1,827.38	1,840.89
26.94	21.97	35.0	Processing losses, thousand tonnes	109.14	111.21
489.38	379.21	579.2	Total volume of crude oil processed and sold, thousand tonnes	1,936.52	1,952.10
60,612	51,950	48,308	Net revenue, tenge per tonne of crude oil	56,305	42,366

*Statement of net revenue from sales of refined products (PNHZ)**

4Q 2017	3Q 2017	4Q 2016		2017	2016**
14,768	13,461	22,726	Revenue	52,110	40,241
(4,147)	(3,602)	(6,819)	Costs, including:	(13,538)	(12,279)
(2,858)	(2,433)	(4,742)	Processing	(9,515)	(8,614)
(175)	(178)	(301)	Additives	(662)	(515)
(441)	(899)	(1,019)	Excise duties	(2,397)	(1,778)
(565)	-	-	Export customs duty	(565)	-
(108)	(92)	(173)	Selling and transportation expenses	(399)	(278)
-	-	(584)	KMG Refining and Marketing commission fee	-	(1 094)
10,621	9,859	15,907	Net revenue	38,572	27,962
151.48	135.15	260.2	Volume of oil products sold, thousand tonnes	560.94	482.70
18.00	15.99	31.3	Processing losses, thousand tonnes	68.37	57.70
169.48	151.14	291.5	Total volume of crude oil processed and sold, thousand tonnes	629.30	540.40
62,668	65,235	54,569	Net revenue tenge per tonne of crude oil	61,292	51,743

*These statements include sales of refined products within the group

**The data presented is for period 1 April – December 2016

From 1 April 2017, processing tariffs at the Atyrau Refinery increased from 20,501 tenge to 24,512 tenge per tonne of crude oil. From 1 August 2017, processing tariffs at Pavlodar Refinery increased from 14,895 tenge to 16,417 tenge per tonne of crude oil.

From October 2016, following changes in Kazakhstan’s tax regime, a higher excise duty on diesel, of 9,300 tenge per tonne, had to be applied for the April-October period. In April 2017, the application period for the higher excise duty was changed to June-October. These factors affected ANPZ net revenue in tenge per tonne terms in June-October 2017. Railway transportation expenses also increased from 1 August 2017.

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



*Converted at actual barrels per tonne of crude oil.

** The Company switched to the oil processing scheme in April 2016. Netbacks of ANPZ and PNHZ for 2017 and 2Q-4Q 2016 are based on the net revenue in 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 increased year on year in 2017, primarily due to higher Brent prices in 2017, but were partly offset by increases in rent tax, MET and ECD.

In 2017, refinery netbacks improved mainly due to higher revenues from light oil products.

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 sales were previously determined in an annual negotiation process with KMG RM and the Parent Company.

Production expenses

The following table shows a breakdown of the Company's production expenses, primarily from the OMG and EMG operations.

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(million tenge, unless otherwise stated)</i>					<i>(million tenge, unless otherwise stated)</i>		
41,573	41,618	44,328	-6%	Employee benefits	163,866	152,422	8%
14,945	11,678	16,725	-11%	Refinery processing costs	54,742	48,548	13%
12,010	9,241	7,472	61%	Repairs and maintenance	34,201	24,434	40%
6,931	6,299	6,862	1%	Materials and supplies	21,898	20,003	9%
5,542	5,170	5,424	2%	Energy	21,534	20,958	3%
1,926	1,906	1,535	25%	Transportation services	7,167	5,435	32%
4,280	(7,952)	1,722	149%	Change in crude oil balance	(3,362)	1,303	-358%
(737)	8,871	(3,463)	-79%	Recognition of environmental remediation obligation	8,134	(3,463)	335%
(1,282)	1,570	(3,790)	66%	Asset retirement obligation (ARO) on depleted oil fields/ movement in ARO	288	(3,790)	108%
2,937	2,404	2,574	14%	Other	10,005	8,903	12%
88,125	80,805	79,389	11%	Total production expenses	318,473	274,753	16%

Production expenses increased by 43.7 billion tenge, or 16%, on the year in 2017, primarily due to an increase in employee benefits, oil-refinery costs, repairs and maintenance expenses and the accrual of environmental provisions. This was partly offset by a change in the crude oil balance.

Employee benefit expenses in 2017 increased by 8%, or 11.4 billion tenge, from 2016, mainly due to a 7% basic salary indexation for production personnel from 1 January 2017 under the terms of the collective agreement and the accrual of bonus provisions for 2017.

Oil refinery costs increased in 2017 from 2Q-4Q 2016 as a result of higher volumes of oil products sold, a higher Atyrau Refinery processing tariff from 1 April 2017, and a higher Pavlodar Refinery processing tariff from 1 August 2017.

In 2017, additional environmental provisions in the amount of 8.9 billion tenge were accrued at OMG and EMG for the remediation of historical land contamination.

Repairs and maintenance costs increased due to an increase in the volume of well servicing performed by third parties, as well as higher tariffs and volumes of hydraulic fracturing works in 2017.

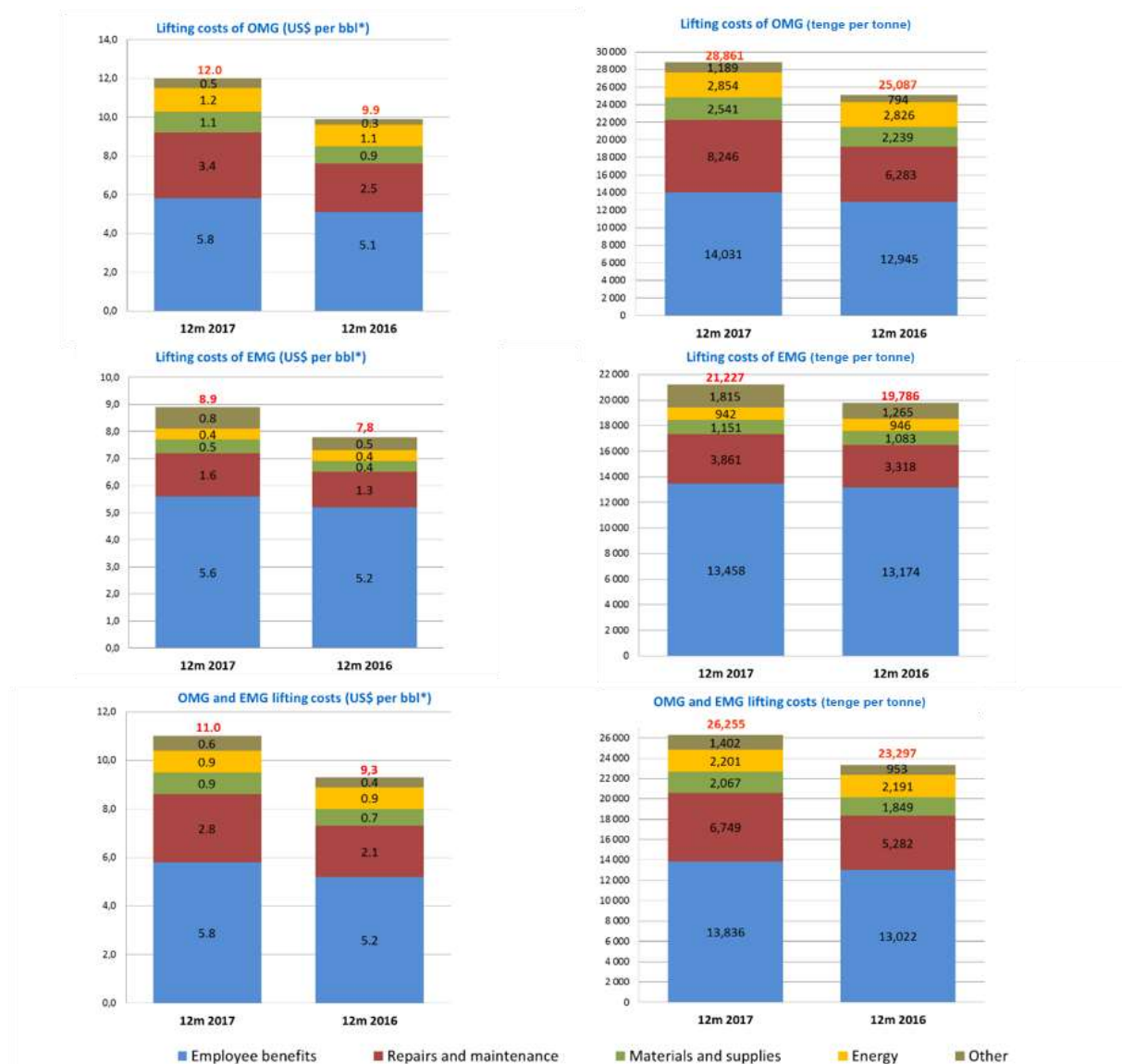
Transportation services costs increased in 2017, mainly due to an increase in the transportation of workers at production sites and a rise in the number of special vehicles required for production purposes.

Lifting costs

Lifting cost per barrel is calculated as the production cost of the OMG and EMG subsidiaries, including materials and supplies, production payroll, repairs and maintenance, and other production expenses, excluding DD&A, taxes, contractual social obligations, actuarial costs, obligatory professional pension deductions and other expenses, divided by total crude oil produced.

As most of OMG and EMG's production costs are in tenge, lifting costs in US\$ per bbl terms increased in 2017. This was largely due to fluctuations in the average tenge-US\$ exchange rate that arose from the Government of the Republic of Kazakhstan and the National Bank of Kazakhstan's decision to adopt a free-float exchange-rate regime for the tenge in August 2015.

The following charts show the production lifting costs of OMG and EMG in US\$/bbl* and tenge per tonne terms:



*Converted at 7.36 barrels per tonne of crude oil

Selling, general and administrative expenses

The following table shows a breakdown of the Company's selling, general and administrative expenses, stemming mainly from the OMG, EMG and KMG EP Head Office operations.

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(million tenge, unless otherwise stated)</i>					<i>(million tenge, unless otherwise stated)</i>		
27,950	25,332	23,072	21%	Transportation expenses	102,971	91,851	12%
5,197	5,231	6,352	-18%	Employee benefits	19,059	18,331	4%
(2,454)	87	(13,516)	-82%	Accrual/ (reverse) of fines and penalties	(5,258)	(14,117)	-63%
-	-	1,802	-100%	Agency fees	-	5,407	-100%
2,831	661	319	787%	Consulting and audit services	4,396	3,238	36%
647	268	311	108%	Repairs and maintenance	1,389	1,212	15%
474	322	565	-16%	Sponsorship	1,038	2,093	-50%
7,867	1,708	1,603	391%	Other	11,729	7,007	67%
42,512	33,609	20,508	107%	Total SG&A expenses	135,324	115,022	18%

Selling, general and administrative expenses amounted to 135.3 billion tenge in 2017, 18% higher than in 2016. The increase was mainly due to a rise in transportation and employee benefit costs and a smaller reversal of previously accrued expenses for fines and penalties, with a partial offset from the absence of KMG RM agency fees.

In 2017, the Company successfully appealed the outcome of its 2009-2012 comprehensive tax audit, reversing fines and penalties (previously provisioned for) in the amount of 6.3 billion tenge. In addition, the Company filed an additional CIT declaration for 2012-2015 at OMG, as a result of which the Company accrued fines and penalties amounting to 1.3 billion tenge.

The 5.4 billion tenge in agency fees accrued in 12m 2016 were primarily down to commissions paid to KMG RM for the sale of the Company's oil products. Since 1 January 2017, these commissions have been no longer incurred, as the Company manages sales of refined products on its own account.

The increase in transportation expenses in 2017 compared with 2016 was primarily due to higher export sales via the UAS pipeline route in 2017.

Employee benefit expenses increased in 2017, largely due to a 7% basic-salary indexation for administrative personnel from 1 January 2017 under the terms of the collective agreement.

Other expenses increased due to higher Board of Directors expenses stemming from financial advisory services in relation to the buyback of the Company's shares, as well as the cost of sending KMG EP group workers to the EXPO exhibition.

Taxation

Non-income taxes

The following table presents a breakdown of the Company's taxes, other than those on income; they stem largely from OMG and EMG's operations.

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(million tenge, unless otherwise stated)</i>					<i>(million tenge, unless otherwise stated)</i>		
28,929	23,136	20,881	39%	Export customs duty	100,962	76,411	32%
26,135	24,130	(473)	5625%	MET	91,565	39,188	134%
28,502	21,435	4,753	500%	Rent tax	79,888	18,164	340%
1,749	1,692	1,671	5%	Property tax	6,568	6,699	-2%
173	240	238	-27%	Environmental tax	877	769	14%
948	4,015	2,558	-63%	Other taxes	8,210	4,200	95%
86,436	74,648	29,628	192%	Total taxes other than on income	288,070	145,431	98%

Taxes other than those on income in 2017 increased by 142.6 billion tenge, or 98%, from 2016, mainly due to higher ECD, rent tax, MET (mineral extraction tax) and other taxes.

The increase in subsoil user taxes and payments to the budget, such as MET, rent tax and ECD, was due to higher export sales and a higher average Brent price in 2017 (US\$ 54.19 per barrel compared with US\$ 43.73 per barrel in 2016). This was partially offset by a lower average tenge-US\$ exchange rate in 2017.

The increase in the MET was due to a rise in the OMG tax rate from 9% to 13%, as in 2016, OMG received MET tax relief from the state authorities for that year only.

ECD expenses increased on the year in 2017, mainly due to higher export sales of crude oil and oil products following the Company's decision to switch to the independent oil processing scheme from April 2016. Crude oil ECD expenses increased, too, due to higher Brent prices in 2017. Under Kazakhstan legislation, ECD rates are dependent on Brent prices. These effects were partially offset by a lower tenge-US\$ exchange rate.

Other tax increases in 2017 were due to a seasonal increase in excise duties on diesel products sold. From October 2016, due to changes in tax legislation, the higher excise duty on diesel of 9,300 tenge per tonne had to be applied from April to October. In April 2017, the application period for the higher excise duty was changed to June-October.

Income taxes

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(million tenge, unless otherwise stated)</i>					<i>(million tenge, unless otherwise stated)</i>		
36,941	101,733	64,936	-43%	Profit before tax	240,977	168,652	43%
34,673	98,131	69,933	-51%	Profit before tax (with adjustments*)	196,483	181,252	8%
9,955	21,240	9,083	10%	Income tax	45,618	37,076	23%
9,955	21,240	9,083	10%	Income tax (with adjustments*)	45,618	35,374	29%
27%	21%	14%	93%	Effective tax rate	19%	22%	-14%
29%	22%	13%	123%	Effective tax rate (with adjustments*)	23%	20%	15%

* Profit before tax and income tax expenses excluding the share of the results of JVs and associated companies, impairment charges and allowance for the VAT-recoverable reversal.

The Company's effective income tax rate in 2017 was lower than in 2016, primarily due to the reversal of previously accrued tax provisions and deferred tax benefits. Income-tax provisions were reversed in 2017 as a result of the further reduction in claims arising from the 2009-2012 comprehensive tax audit. Deferred tax benefits mainly resulted from MET and rent tax prepayments. Also, in 2016, significant amounts of OMG PPE deferred tax expenses resulted in a higher effective tax rate.

Overview of JVs and associate operations

Below is the Company's share of the income of associates and joint ventures, as reflected in the Company's audited, condensed, consolidated financial statements.

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(million tenge, unless otherwise stated)</i>					<i>(million tenge, unless otherwise stated)</i>		
3,606	2,969	334	980%	Share of income / (loss) at KGM	19,169	4,312	345%
(672)	1,083	(4,768)	-86%	Share of loss at PKI	3,149	(15,334)	121%
(665)	(450)	(563)	18%	Share of loss at UOG	(1,877)	(1,578)	19%
2,269	3,602	(4,997)	145%	Share of losses at associates and JVs	20,441	(12,600)	262%

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 in the Kyzylorda region. The Company acquired a 50% stake in KGM in April 2007.

KGM's oil production in 2017 was 2,800 thousand tonnes (KMG EP's 50% share was 1,400 thousand tonnes), which was 136 thousand tonnes, or 5%, lower than in 2016.

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

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(thousand US\$, unless otherwise stated)</i>					<i>(thousand US\$, unless otherwise stated)</i>		
140,725	146,429	128,059	10%	Revenue	575,101	455,391	26%
(79,815)	(66,573)	(95,602)	-17%	Operating expenses	(273,384)	(339,728)	-20%
(440)	(104)	(386)	14%	Finance income / (cost), net	895	(835)	207%
(2,650)	2,993	(1,130)	135%	Foreign exchange gain / (loss), net	(4,595)	(6,459)	-29%
(33,468)	(60,437)	(22,560)	48%	Income tax (expense) / benefit	(162,758)	(58,148)	180%
24,351	22,309	8,381	191%	Net income	135,259	50,221	169%
674	705	736	-8%	Crude oil production, thousand tonnes	2,800	2,936	-5%

The increase in 2017 revenue was mainly due to higher Brent prices and an increase in domestic sales prices compared with 2016. Higher income tax expenses were due to higher profits before tax and excess-profit taxes accrued in 2017.

KGM's crude oil sales split by route was as follows:

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(thousand tonnes)</i>					<i>(thousand tonnes)</i>		
530	588	578	-8%	Domestic market	2,288	2,061	11%
138	115	156	12%	Export via KCP	500	867	-42%
668	703	734	-9%	Total crude oil sales	2,788	2,928	-5%

Operating expenses decreased due to lower DD&A, ECD and MET expenses in 2017. Other costs (general and administrative expenses included) were lower in 2017, due to the commercial discovery bonus and the akimat (municipal) sponsorship accrued in 2016. These effects were partially offset by an increase in rent taxes arising from higher average Brent prices in 2017, an increase in employee benefits, and repair and maintenance costs.

The increase in employee benefits and repair and maintenance costs was due to a lower average tenge-US\$ exchange rate in 2017. The increase in employee benefits was also due to a one-off payment of 7% for basic salary indexation.

Operating expenses on a per-barrel-sold basis were as follows:

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(US\$ per bbl sold*)</i>					<i>(US\$ per bbl sold*)</i>		
4.1	4.2	4.2	-2%	DD&A	4.0	4.7	-15%
2.1	2.2	2.1	0%	Transportation expenses	2.2	2.2	0%
1.4	1.0	1.1	27%	Export customs duty	1.1	1.6	-31%
1.9	1.3	1.5	27%	Mineral extraction tax	1.5	1.6	-6%
1.8	1.1	1.2	50%	Repairs and maintenance	1.1	0.9	22%
1.2	0.8	1.1	9%	Employee benefits	0.9	0.8	13%
1.7	0.9	0.7	143%	Rent tax	1.0	0.7	43%
0.4	0.6	0.9	-56%	Materials and supplies	0.4	0.5	-20%
-	-	-	0%	Fines and penalties	-	0.2	-100%
1.0	0.5	4.2	-76%	Other	0.5	1.9	-74%
15.6	12.6	17.0	-8%	Total operating expenses	12.7	15.1	-16%

* Converted at 7.7 barrels per tonne of crude oil.

The Company's share of KGM's income, as reflected in the audited consolidated financial statements of KMG EP, represents a proportionate share of the results of KGM for 2017, adjusted for the impact of amortisation of the fair value of the licences, partially offset by a related deferred tax benefit of 3 billion tenge (4.2 billion tenge in 2016).

In June 2017, KGM declared dividends amounting to 82 billion tenge, or US\$ 250 million, for the year ended on 31 December 2016 (KMG EP's 50% share was 41 billion tenge, or US\$ 125 million). The actual level of dividends received by the Company from KGM in 2017 was 40.4 billion tenge, or US\$ 121.6 million. In January 2018, dividends for past periods amounted to 1.1 billion tenge.

For a capital expenditure analysis of the Company's JVs and associates, please see 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.

In 2017, PKI produced 3,263 thousand tonnes of oil (33% share: 1,077 thousand tonnes), or 13% less than in 2016. The decline in production was due to reserve depletion at some of PKI's mature fields.

PKI's key financial and operational indicators (100%) are shown below:

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(thousand US\$, unless otherwise stated)</i>					<i>(thousand US\$, unless otherwise stated)</i>		
204,786	185,631	197,487	4%	Revenue	785,282	682,357	15%

(164,196)	(105,811)	(222,496)	-26%	Operating expenses	(535,121)	(672,955)	-20%
(2,988)	(2,714)	5,027	-159%	Finance cost, net	(10,644)	(19,719)	-46%
(28,642)	(47,510)	1,761	-1726%	Income tax expense	(139,485)	(27,214)	413%
8,960	29,596	(18,221)	149%	Net income / (loss)	100,032	(37,531)	367%
806	808	905	-11%	Crude oil production, thousand tonnes	3,263	3,747	-13%

The year-on-year increase in revenue in 2017 was mainly due to higher average Brent prices and domestic prices and was partially offset by lower sales volumes. Higher income tax expenses in 2017 stemmed from higher profits before tax and excess-profit taxes accrued in 2017.

PKI's crude oil sales split by route was as follows:

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(thousand tonnes)</i>					<i>(thousand tonnes)</i>		
605	663	554	9%	Domestic sales	2,446	2,405	2%
96	41	198	-52%	Export via KCP (PKKR 100%)	396	616	-36%
69	58	77	-10%	Export via KCP (KGM 50%)	250	433	-42%
18	15	28	-34%	Export via KCP (Kolzhan 100% & PKVI 75%)	81	102	-21%
6	22	20	-70%	Export via KCP (TP 50%)	48	72	-33%
6	-	14	-57%	Export Uzbekistan (TP 50%)	35	61	-43%
800	799	891	-10%	Total crude oil sales	3,256	3,689	-12%

Operating expenses decreased significantly in 2017 due to lower DD&A costs, transportation costs and other expenses. These effects were partially offset by an increase in rent tax resulting from higher average Brent prices in 2017. PPE impairment was included in other expenses for 2016.

Operating expenses on a per-barrel-sold basis were as follows:

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(US\$ per bbl sold*)</i>					<i>(US\$ per bbl sold*)</i>		
1.8	7.4	4.5	-60%	DD&A	5.9	7.6	-22%
6.1	2.4	2.9	110%	Transportation expenses	3.5	2.7	30%
1.3	1.0	2.1	-38%	Export customs duty	1.5	1.8	-17%
2.0	1.8	1.4	43%	Repairs and maintenance	1.8	1.4	29%
2.1	1.8	1.6	31%	Employee benefits	1.8	1.4	29%
1.7	1.0	1.5	13%	Mineral extraction tax	1.4	1.4	0%
1.4	1.0	1.1	27%	Materials and supplies	1.1	0.9	22%
(1.0)	1.0	1.3	-177%	Rent tax	0.7	0.8	-13%
3.8	-	0.1	3700%	Fines and penalties	1.0	0.1	900%
7.5	(0.4)	15.7	-52%	Other	2.7	5.5	-51%
26.7	17.0	32.2	-17%	Total operating expenses	21.4	23.6	-9%

* Converted at 7.75 barrels per tonne of crude oil

The share of PKI's results reflected in the Company's audited consolidated financial statements represents a proportionate share of the results of PKI in 2017, adjusted for the impact of amortisation of the fair value of the licences to the tune of 7.6 billion tenge (11.1 billion tenge in 2016).

In June 2017, the Company received dividends from PKI amounting to 10 billion tenge (net of withholding tax), or US\$ 31 million, for the year ended 31 December 2016.

On 11 October 2017, the partners of PKI agreed to distribute US\$ 100 million as a dividend payment (the Company's share being US\$ 33 million). In November 2017, the Company received these dividends, amounting to 10 billion tenge net of withholding tax, or US\$ 31 million.

For a capital expenditure analysis of the Company's JVs and associates, please see the *capital expenditure overview* section.

CCEL

As per the arrangements of the purchase agreement, KMG EP's interest in CCEL is reflected as a financial asset in the audited consolidated financial statements of the Company, in accordance with IFRS. CCEL's results included here 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, 230km from Aktau. The field was discovered in 1974 and is the largest shallow field of high-viscosity oil in the CIS; it is exploited using thermal methods.

As of 31 December 2017, the Company had 38 billion tenge (US\$ 114.2 million) in receivables from CCEL. The Company accrued 3.8 billion tenge (US\$ 11.5 million) of interest income in 2017 relating to the US\$ 26.87 million annual priority return from CCEL. Payments are usually made twice a year, in 2Q and 4Q.

In 2017, CCEL produced 2,141 thousand tonnes (50% share: 1,071 thousand tonnes) of crude oil, a 1% increase from 2016.

CCEL's key financial and operational indicators (100%) were as follows:

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(thousand US\$, unless otherwise stated)</i>					<i>(thousand US\$, unless otherwise stated)</i>		
235,857	141,088	155,263	52%	Revenue	726,412	565,317	28%
(142,937)	(142,718)	(139,177)	3%	Operating expenses	(567,887)	(488,334)	16%
(5,166)	(4,450)	4,217	-223%	Finance cost, net	(18,720)	(11,305)	66%
(22,246)	5,247	(11,109)	100%	Income tax (expense) / benefit	(34,358)	(4,766)	621%
65,508	833	9,194	613%	Net income / (loss)	105,447	60,912	73%
540	546	539	0%	Crude oil production, thousand tonnes	2,141	2,127	1%

Revenues in 2017 increased primarily due to higher Brent crude oil prices than in the previous year. In 2016, income tax charges for prior years had been reversed as a result of a positive ruling on the 2009-2012 complex tax audit appeal and deferred tax losses carried forward.

CCEL's crude oil sales by route were split as follows:

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(thousand tonnes)</i>					<i>(thousand tonnes)</i>		
367	192	280	31%	Export via Novorossiysk	1,203	1,105	9%
166	123	175	-5%	Export via Ust'-Luga	470	843	-44%
-	30	-	100%	Export via Batumi	180	-	100%
-	-	38	0%	Domestic market	40	38	5%
533	345	493	8%	Total crude oil sales	1,893	1,986	-5%
54	104	33	62%	Domestic market (bitumen)	233	109	113%
587	449	526	12%	Total crude oil & bitumen sales	2,126	2,095	1%

Total operating expenses increased on the year in 2017, mainly due to rent tax and ECD expenses, other expenses, repairs and maintenance, materials and supplies and employee benefit expenses. The increase in ECD and rental tax expenses was a result of higher Brent crude oil prices in 2017. In addition, in 2017, oil-processing tariffs and refinery volumes at bitumen plants were increased and included in other costs. The higher repairs and maintenance costs were attributable to an increase in the number of well workovers in 2017. The increase in materials and supplies expenditure was due to higher costs in 2017.

Operating expenses on per-barrel-sold basis were as follows:

4Q 2017	3Q 2017	4Q 2016	Change		2017	2016	Change
<i>(US\$ per bbl sold*)</i>					<i>(US\$ per bbl sold*)</i>		
6.3	8.8	8.6	-27%	Employee benefits	8.1	7.9	3%
7.3	7.3	7.5	-3%	Transportation expenses	7.4	7.2	3%
7.0	6.6	6.4	9%	Export customs duty	7.0	5.8	21%
3.2	3.2	3.7	-14%	Energy	3.5	3.8	-8%
1.8	2.9	3.2	-44%	DD&A	2.8	3.2	-13%
7.8	5.9	3.6	117%	Rent tax	5.9	2.4	146%
2.8	2.4	1.2	133%	Repairs and maintenance	2.9	1.7	71%
1.2	0.9	1.0	20%	Materials and supplies	1.1	0.8	38%
0.3	0.4	0.3	0%	Mineral extraction tax	0.3	0.3	0%
2.4	9.2	6.9	-65%	Other	5.9	3.7	59%
40.1	47.6	42.4	-5%	Total operating expenses	44.9	36.8	22%

* Converted at 6.68 barrels per tonne of crude oil.

For the capital expenditure analysis of the Company's JVs and associates, please see the *capital expenditure overview* section.

Lifting cost and netback analysis of JVs and associated companies

The lifting costs of producing JVs and associates are represented as follows:

	KGM	PKI	CCEL
	<i>(thousand US\$, unless otherwise stated)</i>		
Employee benefits	13,280	29,953	102,775
Materials	8,103	26,699	13,613
Repair and maintenance	12,013	25,995	36,056
Energy	10,682	18,057	43,983
Other	3,807	20,739	23,079
Total lifting expenses	47,885	121,443	219,506
Production (thousand tonnes)	2,800	3,263	2,141
Lifting cost US\$ per bbl*	2.2	4.8	15.3

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

The netback of export sales at major producing JVs and associates is represented as follows:

	KGM	PKI	CCEL
	<i>(US\$ per bbl sold*, unless otherwise stated)</i>		
Benchmark end-market quote (Brent)	54.2	54.2	54.2
Price differential and premium of bbl difference, net	(5.6)	(6.7)	(2.9)
Average realized price	48.6	47.5	51.3
Rent tax	(5.8)	(5.9)	(5.6)
Export customs duty	(6.3)	(6.5)	(6.7)
Transportation expenses	(4.1)	(5.3)	(7.0)
MET	(5.6)	(3.4)	(0.3)
Netback price	26.8	26.4	31.7

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

The netback of domestic sales at major producing JVs and associates is represented as follows:

	KGM	PKI	CCEL
	<i>(US\$ per bbl sold*, unless otherwise stated)</i>		
Realized price	21.5	25.3	20.5
Transportation expenses	(1.5)	(1.5)	(1.8)
MET	(0.5)	(0.4)	(0.3)
Netback price	19.5	23.4	18.4

*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) and investment (capital expenditure) and to reach its growth targets via acquisition. Management believes that the Company has an adequate liquidity position to meet its obligations and pursue investment opportunities.



In 2017, net financial asset inflows from operating activities and foreign exchange amounted to 215.5 billion tenge, which is 79.5 billion tenge more than in 2016. The increase was mainly due to higher income from crude oil exports and the sale of oil products during the reporting period.

Net financial asset outflows from investment activities were 29.4 billion tenge in 2017 versus an outflow of 62.2 billion tenge in 2016. The decline in net outflows was largely the result of greater dividends received from joint ventures and associates (33.4 billion tenge more than in 2016).

Net outflows from financing activities in 2017 were 21.3 billion tenge (outflow of 2.3 billion tenge in 2016). The increase in outflows was mainly associated with dividends paid to shareholders, which amounted to 18.9 billion tenge. Dividends repaid in 2016 totalled 137 million tenge.

Net cash position

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

	As of 31 December 2017	As of 31 December 2016	Change
	(million tenge, unless otherwise stated)		%
Current portion	5,669	5,483	3%
Non-current portion	1,807	3,844	-53%
Total borrowings	7,476	9,327	-20%
Cash and cash equivalents	421,643	162,091	160%
Other current financial assets	889,687	983,257	-10%
Non-current financial assets	34,778	35,961	-3%
Total financial assets	1,346,108	1,181,309	14%
Foreign currency denominated cash and financial assets, %	98%	97%	
Net cash	1,338,632	1,171,982	14%

Risk factors

The Company's activities involve numerous risks and uncertainties in the economic, political, legislative, social, production and financial spheres. When making decisions, interested parties need to take into account risk factors that may affect the Company's financial and operating results.

The risk management system is an integral part of the Company's corporate governance and is an ever-evolving process, whereby the Company systematically identifies, evaluates and manages its risk portfolio, while analysing past, present and future developments.

Further information on these risk factors can be found in the Company's *Prospectus for ordinary shares and GDR issues*. An analysis of the key financial risks can be found in the annual audited consolidated financial statements.

An additional, though incomplete, list of the principal risks is presented below.

Key risk	Description	Risk management
Political risk	<p>The country's political leadership has the capacity to change foreign or domestic policy in ways that can significantly affect the investment attractiveness of the country in general and the Company, in particular.</p> <p>The Government is at liberty to substantially cut export quotas, or change the rules governing the volume and price of deliveries to the domestic market, in ways that could have a significant impact on the Company's financial performance.</p> <p>The Government can oblige the Company to supply it with oil to meet the state's oil-delivery obligations under inter-governmental agreements at below-export prices.</p> <p>Legislative changes are a risk, including tax legislation aimed at maximising budget revenues from the energy and natural resource industries.</p> <p>The Government can limit the Company's ability to manage its own cashflow, including the allocation of its deposit and cash portfolio.</p> <p>Changes in the Government's foreign-exchange policy could affect the Company's financial results.</p>	<p>The Company is taking appropriate measures to maintain economic sustainability in the current political climate.</p> <p>The Company is working jointly with its Parent Company and the relevant energy authorities to ensure a good balance of stakeholder interests.</p> <p>The Company is actively cooperating with industry, labour unions and professional associations (the Association of Kazakhstan Taxpayers, KazEnergy and the National Chamber of Entrepreneurs, etc.) with a view to proposing legislation that would set out the rights of the KMG EP's group of companies.</p>
Economic risk	<p>Changes in global market prices for oil and oil products, which remain extremely volatile, pose significant risk. The high level of volatility is due to factors affecting the global balance of supply and demand, in particular, the international political climate and conflicts affecting key oil-producing countries, as well as the political environment in key energy-producing regions. Low oil and oil product prices over an extended period, on either the domestic or the international markets, inevitably have a negative impact on the Company's financial performance, especially if prices fall below the cost of production.</p>	<p>The Company pays special attention to economic risk and takes the following measures:</p> <ul style="list-style-type: none"> — It uses conservative oil price forecasts when preparing its annual budgets and periodic forecasts and conducts sensitivity analyses to various levels of crude oil futures prices. — It monitors the crude oil price forecasts of the leading global analytical agencies and analyses

	<p>Current legislation regulating the procurement of goods and services does not permit improvements in the efficiency of technical support and logistics.</p> <p>The lack of a competitive environment among suppliers and contractors could negatively affect the quality of work and services provided to the Company.</p> <p>Adverse changes in the financial system of Kazakhstan could worsen conditions for the placement of free cash.</p> <p>There is a risk of an increase in processing fees at the refineries used under the independent oil-processing scheme.</p>	<p>the economic feasibility of oil-price hedging.</p> <p>— It publishes its procurement announcements in open sources to help fuel a competitive environment.</p> <p>— It closely controls the quality of services provided by suppliers and contractors.</p>
Investment risk	<p>KMG EP's production assets are at mature fields, in the later stages of operation, characterised by a high water cut. The depletion of reserves could have a substantial effect on the Company's long-term strategy and equity value.</p> <p>Measures along the lines of the following could affect the replacement potential of the Company's resource base:</p> <ul style="list-style-type: none"> — Limits on the number of new onshore assets available for purchase in Kazakhstan; — Increased competition from large international oil companies for access to oil and gas assets. 	<p>The Company seeks to maximise the potential of its assets and targets opportunities to increase its resources.</p> <p>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 conduct geological studies in promising areas with a view to locating potential oil and gas fields and boost its hydrocarbon resources.</p>
Risks associated with integrating the Company with a major shareholder	<p>The repurchase of KMG EP's global depositary receipts and common shares, and its delisting from the London and Kazakhstan Stock Exchanges, will see NC KMG take full control of the Company's activities. Currently, the rights of NC KMG are limited by the regulatory rules governing public companies, as well as the terms of the Relationship Agreement.</p> <p>There is a high probability that the integration of the Company with its major shareholder will lead to a simplification of the management structure and a reduction in operating expenses for the NC KMG group of companies. The integration of the two companies will carry the risk (not limited to them, alone) of lost accumulated expertise, information and data in respect of the KMG EP's group of companies arising from the potential departure of key and/or expert employees.</p>	<p>The Company will seek to retain key, expert employees following its integration with its major shareholder.</p>
Regional risk	<p>The risk of social and economic upheaval in the Company's operating regions is potentially high. The Company's assets in the Mangistau region, for example, as demonstrated on a number of occasions, are at risk of social conflict and strikes,</p>	<p>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</p>

	<p>with a material impact on the Company's operations and performance.</p> <p>Climatic conditions in the Company's operating regions vary significantly by season. The assets' geographical remoteness requires that the Company pay special attention to secure transport and electricity supply to ensure continuous operation.</p>	<p>social programmes are carefully targeted.</p> <p>To minimise the potential consequences of risks associated with climatic events, including the threats posed by natural disasters, the Company pays close attention to measures to ensure continuity of business operations and industrial safety.</p>
Exploration risk	<p>The risks associated with exploration activities are failure to confirm a planned increase in the resources being explored and the rising cost of current geological exploration projects.</p> <p>Exploration work also carries accident risk – for example, an oil well running out of control, harming the health of workers and/or the environment. Such accidents can entail property damage, sizeable costs for well repairs, compensation for damage to the health of workers, and/or compensation for harm to the environment, all of which would negatively affect the cost and timing of an exploration programme.</p>	<p>To increase the success rate of exploration programmes and reduce associated risks, the Company carries out comprehensive geological and geophysical analyses, in addition to traditional seismic surveys. These include geochemical and gravimetric exploration techniques and special geophysical data-processing methods.</p>
Production risk	<p>Key factors that can affect the efficiency of production include:</p> <ul style="list-style-type: none"> — The status and condition of the main stock of wells; — An increase in the water-cut level at the Company's fields; — The technical integrity of equipment; — The continuity of power supply; — Weather conditions; — The timeliness of procurement and supply of equipment; — The quality of delivered equipment; — The rise in the 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; — The non-fulfilment of planned organisational-technical and geological-technical measures; — The safety of operating personnel; — Environmental security; — Effectiveness of planning; — Compliance with state regulators; — Social instability; and — The failure or breakdown of primary equipment. 	<p>The Company uses the latest methods and technologies to control key business production processes.</p> <p>To reduce these risks, the Company takes preventative measures and is carrying out a modernisation programme, together with major equipment repairs. Its core production equipment is insured against loss by fire, explosion, and natural or other hazards, and the Company also insures against the risk of well blowouts.</p>

<p>Health, safety and environmental risk</p>	<p>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.</p> <p>There is always a risk associated with ambiguities in the interpretation of environmental laws and regulations, which may not always work in the Company's favour and which could potentially lead to claims and penalties.</p>	<p>The Company takes measures to prevent the occurrence of such threats, including control over occupational health and safety environments, hazard identification and safety training for personnel.</p> <p>The Company's current labour protection systems and health, safety and environmental protection policies function in accordance with ISO 14001 and OHSAS 18001.</p> <p>Every year, the Company insures against occupational safety and environmental risks associated with its own activities and projects.</p>
<p>Financial risk: currency and inflation risk</p>	<p>The Company conducts its principal operations in the Republic of Kazakhstan and uses the Kazakhstan tenge (KZT) as its base accounting currency. Wages, energy costs and logistics services costs are all sensitive to the tenge inflation rate.</p> <p>Much of the Company's revenues are denominated in US dollar or are linked to it. Some of the Company's expenses are also denominated in foreign currency or depend significantly on the fluctuations of foreign currencies (mainly the US\$ and, to a lesser extent, the euro and the Russian rouble) against the tenge. Currently, approximately half the Company's operating costs are denominated in tenge. A change in the tenge-US\$ rate has a significant impact on the profitability of oil exports.</p> <p>The Company holds its cash funds in Kazakhstan banks and abroad. The global geopolitical situation, economic sanctions (some in allied countries) and the decisions of foreign courts can all influence the Company's ability to manage its money abroad.</p>	<p>The Company's treasury department operates an efficient, centralised treasury policy and cash management system.</p>
<p>Financial risk: credit risk</p>	<p>Operations associated with the movement of materials and cashflows for counterparties are most susceptible to credit risks. These risks start with the financial institutions that service the Company's financial flows and extend through to the financial operations of the end-buyers of products and the contractors providing services to the Company.</p>	<p>An efficient centralised cash management system has been put in place by the Company's treasury department.</p>
<p>Tax risk</p>	<p>The tax system of the Republic of Kazakhstan is characterised by low levels of enforcement in respect of recently adopted regulations. It is also characterised by the risk of additional taxation, fines and penalties being levied based on a broad interpretation of the legislation. These factors complicate the Company's tax planning.</p>	<p>The Company tries to minimise such risks by participating in work to improve the quality of the tax code and suggesting amendments. In addition, the</p>

		Company continues to defend its interests in the courts.
Changes in customs regulations and duties	As the Company is engaged in foreign trade, factors such as changes to customs regulations and the volatility of export customs duties (ECD) can all adversely affect its financial results.	The Company continuously monitors changes in the current legislation of the Republic of Kazakhstan and works with the authorities on changes to customs regulations and on the harmonisation of the fiscal environment for subsoil-use companies.
Partner risk	<p>The Company cooperates with and engages both foreign and local companies in various areas of its business. While this may have limited or no impact on the way its partners conduct their business or operate, it can have an effect on the completion of specific projects and the operating and financial performance of the Company.</p> <p>Changes in the terms and timing of payment for the supply of crude oil by purchasers are probable, due to the unforeseen deterioration of a financial position and/or other internal and external factors faced by the purchaser.</p>	The Company pays particular attention when selecting appropriate partners and seeks to develop long-term and mutually beneficial partner relationships.
Information security risk	The Company is exposed to risks in the area of information security.	The Company pays particular attention to ensuring the integrity of important information, the security of storage and confidentiality of business data.
Corporate governance risk	One of the major factors hampering the efficient operation of the Company is a decline 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 personnel reserves.

<p>Fraud and corruption risk</p>	<p>Allocating resources in a way that is 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 completely unacceptable, regardless of the extent of the financial damage caused.</p> <p>Fraud and corruption can lead to the imposition of significant monetary fines, the suspension or termination of trading of the Company's securities, and civil or criminal legal action against employees and/or senior officials in accordance with the laws of the Republic of Kazakhstan or United Kingdom.</p>	<p>The Company takes all possible steps to prevent illegal activities and actions that could cause it reputational damage.</p> <p>The Company is subject to 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.</p> <p>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 Company's whistleblowing policy can be found on the corporate website.</p> <p>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.</p> <p>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</p>
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		<p>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.</p>
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Corporate social responsibility

Health, safety and environmental protection

KMG EP's leadership strategy is not just about achieving high production volumes and putting in a strong financial performance. The Company believes that to achieve its operational goals, it must also improve the quality of its environmental management and be at the forefront of labour protection. The Board of Directors of KMG EP closely monitors management's efforts to improve safety and ensure a consistent reduction in accident rates, occupational injuries and incidences of occupational disease.

Company policy

The main elements of the Company's policy on environmental protection, occupational safety and health can be summarised as follows:

- The Company will comply with the laws and regulatory requirements of the Republic of Kazakhstan, as well as with international law and multilateral agreements governing oil-industry activities.
- The Company will strive to improve the environmental performance of its activities and achieve its targets in this area.
- The Company will work towards consistent improvement of its environmental performance and strive to put its practices on a par with those of the world's leading oil companies.
- The Company will strive to minimise the impact of its activities on the environment.
- The Company will increase the effectiveness of its environmental control measures, by introducing modern information technologies, technical diagnostics and telemetry.
- The Company will organise appropriate levels of training and development for permanent and contracted staff, to ensure that personnel are fully aware of the Company's obligations and responsibilities in the fields of labour protection, safety and environmental protection. It will further encourage resource savings, in particular, via the re-use and reprocessing of materials.

Operational safety and labour protection

Key statistical indicators in the field of occupational safety and health

Subsidiary	Total number of man hours worked			Number of lost-time injuries (LTIs)			Lost-time injury frequency (LTIF), million man hours			Number of fatalities			Fatal accident rate		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
OMG	17,715,060	16,928,670	17,024,688	7	20	7	0.40	1.18	0.41	1	3	1	5.6	17.7	5.9
EMG	8,897,682	9,248,135	9,096,054	9	1	4	1.01	0.11	0.44			1	0.0	0.0	11.0
KBM	4,246,218	4,250,239	4,233,065	4	1	2	0.94	0.24	0.47	1			23.6	0.0	0.0
KGM	1,454,432	1,261,051	1,237,394	3		1	2.06	0.00	0.81				0.0	0.0	0.0
Karpovskiy Severniy	41,126	36,464	25,528				0.00	0.00	0.00				0.0	0.0	0.0
Ural Oil & Gas	87,482	73,426	64,606				0.00	0.00	0.00				0.0	0.0	0.0
UTTIOS	1,857,383	1,716,459	1,681,577	1	2	2	0.54	1.17	1.19				0.0	0.0	0.0
KazGPZ	1,790,419	1,725,136	1,698,471	1			0.56	0.00	0.00				0.0	0.0	0.0
KMG EP-Catering	1,141,824	1,084,131	1,447,188				0.00	0.00	0.00				0.0	0.0	0.0
OzenMunai-Service	3,471,949	3,620,133	2,530,944	12	7	8	3.46	1.93	3.16				0.0	0.0	0.0
Ken-Kurylyys-Service	1,585,602	1,655,239	1,115,458	5	1		3.15	0.60	0.00				0.0	0.0	0.0
UDTV	311,194	282,211	280,086				0.00	0.00	0.00				0.0	0.0	0.0
ArgymakTrans-Service		2,429,448	2,367,957	4				0.00	0.00					0.0	0.0
TulparMunai-Service		1,242,028	1,172,551	0	1			0.81	0.00					0.0	0.0
Total KMG EP group companies	42,600,371	45,552,770	43,975,567	46	33	24	1.08	0.72	0.55	2	3	2	4.7	6.6	4.5

Industrial safety is a priority for KMG EP's management. In recent years, the Company has carried out large-scale work to ensure the safety of workers. This has primarily involved the improvement of working conditions, including the construction of household complexes, canteens, administrative and household campuses, as well as operator buildings and other facilities. Company's management also pays close attention to the quality of special work clothing, footwear and personal protective equipment it purchases.

Expenditure on health, safety and environmental protection (million tenge)		
Organisation	2016	2017
Labour protection, industrial and fire safety		
OMG	789	778
EMG	409	852
KBM	336	458
KGM	341	304
Subtotal	1,875	2,392
Personal protective equipment		
OMG	1,059	1,152
EMG	341	400
KBM	188	245
KGM	106	79
Subtotal	1,694	1,876
Total	3,569	4,268

Oil production can be dangerous. KMG EP is actively working to reduce the risk of life-threatening incidents and other events potentially harmful to personnel.

In 2017, no such incidents were registered at Karpovskiy Severniy LLP, Ural Oil and Gas LLP, KazGPZ LLP, KMG EP-Catering LLP, Ken-Kurylys-Service LLP, UDTV LLP, LLP TulparMunaiService or LLP ArgymakTransService.

There were 23 production-related accidents in other divisions, in which 24 workers were injured: 4 of them were seriously harmed and 18 received light injuries. Tragically, there were two fatalities.

Still, there has been progress in improving the safety of the Company's workers. In 2017, there were eight fewer industrial accidents than in 2016.

The Company's occupational-accident statistics for the last three years can be seen in the following table:

Industrial accidents at the KMG EP group of companies over the past three years			
Organisation	Number of production accidents		
	2015	2016	2017
OMG	7	18	7
EMG	7	1	3
KBM	4	1	2
KGM	3	0	1
Karpovskiy Severniy LLP	0	0	0
Ural Oil and Gas LLP	0	0	0
UTTiOS LLP	1	2	2
KazGPZ LLP	1	0	0

KMG EP-Catering LLP	0	0	0
OzenMunayService LLP	12	7	8
Ken-Kurylys-Service LLP	5	1	0
UDTV LLP	0	0	0
TulparMunaiService LLP	0	1	0
ArgymakTransService LLP	4	0	0
Total KMG EP group of companies	44	31	23

An analysis of the accidents that took place in 2017 shows that more than half of them occurred as a consequence of non-compliance with safety regulations or negligence by the victim.

After each accident, an investigatory commission is called to examine the circumstances of and reasons for the incident, as well as to develop measures to prevent a recurrence.

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

In recent years, KMG EP has launched and implemented a number of programmes to improve the safety culture, overall occupational safety and environmental protection.

One of the main projects aims to increase the transparency of reporting on occupational safety and health. Within the framework of this project, all workplace injuries (even minor ones) are recorded, targeted inspections are carried out at subsidiary production facilities, and personnel are trained in the timely reporting, recording and investigation of accidents at work. During the year, targeted checks were carried out at divisional operating centres, and frequent meetings, briefings and clarification events were held.

In 2017, as part of KMG EP's Memorandum of Cooperation with ENI, training programmes were held for employees of the KMG EP Group. Twelve OMG staff, including two specialists in the field of labour protection and two environmental specialists were trained at ENI's corporate university in Milan. Over six months, those employees improved their professional skills, gained international experience and completed practical training at ENI production facilities.

Last year also saw the introduction of the Behavioural Safety Audit programme – essentially, an early-warning system for occupational injuries and an important step in developing a culture of safe practice. It involves leadership, individual managerial commitment and the ability of staff to anticipate and prevent potential risks and incidents. In 2017, 19,588 behavioural safety observations were carried at the production facilities of KMG EP's subsidiaries and affiliates.

In addition, a broader meeting aimed at enhancing joint venture and subsidiary management of matters relating to industrial safety, labour protection and the environment was held in September 2017 – the first time in six years. The event was chaired by the General Director of KMG EP, with the participation of national authorities in the field of industrial safety, labour and environmental protection, as well the deputy akim of the Mangistau region. The meeting addressed key issues related to industrial safety, labour protection and the environment, discussed prospective tasks facing management and awarded certificates to outstanding specialists at KMG EP's subsidiaries and joint ventures.

Environmental protection

The increase in the cost of the Company's environmental protection activities for 2016-2017 can be seen in the following table.

Environmental protection costs (billion tenge)		
Organisation	2016	2017
OMG	1.43	2.5
EMG	0.69	0.45
KBM	0.56	0.76
KGM	0.43	0.38
KMG EP Total	3.11	4.09

KMG EP fully acknowledges its duty to the community to extract its natural resources in a responsible manner and to preserve and protect the environments in which it operates.

It allocates significant funding to environmental protection activities. It spent 3.11 billion tenge on environmental protection in 2016 and 4.09 billion tenge in 2017 – an increase of almost a third on the year. Environmental control regulations require that the Company constantly monitor and offset the negative impact of OMG and EMG's production on the environment.

The industrial environmental monitoring of OMG and EMG is organised in accordance with the Environmental Monitoring Programme, as well as the requirements of environmental legislation and regulatory and methodological documents regulating this type of environmental protection activity. The Environmental Monitoring Programme determines the processes and procedures for monitoring changes in the natural environment that result from industrial activity, spanning air, sewage, groundwater, soil, vegetation, wildlife and radiation levels. It further sets out strict methodology for laboratory testing and results processing, as well as requirements for inspection, documentation, cartography, report writing and data compilation.

Management also carries out periodic checks at KMG EP's operating units, including field visits to production sites.

Dynamics of gaseous pollutant emissions, tonnes

Organisation	Permitted emissions volume for 2016	Actual emissions volume for 2016	Permitted emissions volume for 2017	Actual emissions volume for 2017
OMG	11,727	8,295	10,007.69	6,697.35
EMG	6,973	5,018	10,872.95	5,116.01
KBM	5,452	4,355	5,470.11	5,470.11
KGM	2,881	1,920	4,740.21	1,324.83
Total	27,033	19,588	31,090.96	18,608.3

In 2016, the total volume of pollutants emitted into the atmosphere by KMG EP was 19,588 tonnes; in 2017, it was down 5% on the year to 18,608.3 tonnes.

Gas utilisation

The gas produced during OMG's oil production process is fully utilised by KazGPZ LLP.

EMG is in the process of setting up an associated gas utilisation and processing programme, which aims to reduce and eventually eliminate gas flaring at its wellheads. The programme should help tackle a number of environmental issues, reduce soil and water pollutants and cut greenhouse gas and other emissions.

Two projects, worth more than 3 billion tenge, are already underway: The processing and transportation of associated gas from the NGDU Zhaikmunaigas fields at Isatay region and associated gas

from the NGDU Dossormunaigas East Makat field at Makatskiy region. The projects will allow the liquid petroleum gas, which is processed to commodity standard, to be used at their own fields and any surplus to be sold to the people of Isatay, Makat and Kyzylkogin regions through the JSC KazTransGasAimak system.

The capacity of the NGDU Zhaikmunaigas plant will be 20 million cubic metres of gas per annum, while the capacity of the NGDU Dossormunaigas plant will be 40 million cubic metres.

In 2017, the Company completed and put into commission a complex gas treatment unit at the Prorva fields, with a capacity of 150 million cubic metres a year. The plant extracts petroleum gas from hydrogen sulphide and separates the condensate. The purified gas is then transported to the Central Asia–Center gas pipeline through the Borankol gas processing plant of JSC MNC KazMunayTeniz for sale to consumers.

Karazhanbasmunai (KBM) repurposes 100% of its associated gas to meet its own production needs.

Kazgermunai’s (KGM) excess gas is also processed, with some of the resulting gas used for its own production needs and the rest transferred to residents of the Kyzylorda region as fuel.

KMG EP undertook the following environmental protection measures in 2017 in conjunction with OMG, EMG, KBM and KGM:

In total, 193.6 thousand tonnes of production and consumption waste were processed, recycled and/or safely disposed of at landfill sites in 2017. This included 11.4 thousand tonnes (EMG - 1.99 thousand tonnes; OMG - 8.9 thousand tonnes; KBM - 0.49 thousand tonnes) of waste processed by the companies themselves. 120.4 thousand tonnes were made safe using humate-containing compounds at OMG, while 10 thousand tonnes were processed at EMG via biological remediation. The amount of waste recycled by the third parties amounted at 51.8 thousand tonnes (EMG - 3.1 thousand tonnes; OMG - 2.5 thousand tonnes; KGM - 18.3 thousand tonnes; and KBM - 27.9 thousand tonnes).

Organisation	Volume of recycled and processed waste (thousand tonnes)	
	2016	2017
OMG	70.9	131.8
EMG	15.2	15.1
KBM	19.4	28.4
KGM	10.7	18.3
TOTAL	116.2	193.6

Measures to prevent pollution of the Caspian Sea

To prevent pollution of the Caspian Sea, the Company uses stepped steel structures with a special filling, known as ‘Reno mattresses’, which reinforce the coastline and avert landslides.

In 2017, 8.6km of protective damming was reinforced at the Teren-Uzek and Zapadnaya Prorva fields. In addition, EMG continues to monitor flooded wells at the Tazhigali oilfield.

Social responsibility

Social responsibility is at the heart of Company values. Since its inception, KMG EP has spent billions of tenge on the construction of residential buildings, sports and health centres, kindergartens, and school and hospital reconstruction in the Atyrau and Mangistau regions, as well as on the relocation of residents from settlements around exhausted EMG deposits. The Company's social policy is specifically aimed at promoting the development of the regions in which it operates.

Social policy

KMG EP's human resources policy is governed by the Company's Code of Business Ethics (available at https://kmgep.kz/uploads/files/Code_of_Ethics__Eng.pdf). Its key points are:

- The Company will comply with the legal and regulatory requirements of the Republic of Kazakhstan, as well as with international laws and multilateral agreements governing the activities of oil companies.
- All Company employees have the right to work in safe and healthy conditions, to recognition and due assessment of their contribution to the Company, to improve their professional skills, and to have open and constructive discussion of the quality and effectiveness of their work.
- The Company will not tolerate discrimination based on nationality, race, religion, age, sex, political conviction, or other grounds.
- Any decision on employment, evaluation, promotion, training, professional development, compensation or dismissal of an employee should be based solely on qualification, merit and an evaluation of Company needs.
- The Company will pay compensation to its employees, guided by such considerations as their level of qualification, the complexity and quality of their work, and their achievement of production and financial objectives.
- The Company will organise individual training and development programmes for employees so that they can fulfil their duties effectively.

The Company fully acknowledges its responsibility to maintain social stability in its operating regions and to ensure a decent standard of living for the local population. KMG EP, therefore, frequently incurs additional costs to preserve jobs, irrespective of production requirements, and to provide all payments and benefits set out in the collective agreement, including medical insurance and training.

Despite the difficult economic climate, the Company plans to maintain social payments and the constant element of employee wages at current levels, provided economic conditions do not deteriorate.

As previously mentioned, KMG EP allocates financial resources for the social development of its operating regions within the framework of subsoil-use contracts. In 2017, the Company spent 1.9 billion tenge (US\$ 6 million) on social projects in the Atyrau and Mangistau regions. Local executive bodies decide on the direction of these funds according to social need and the demands of the population. Last year, the funding was channelled to repair roads, improve urban neighbourhoods and create community jobs for the unemployed, among other things.

Spending on social projects (million tenge)									
Year	Atyrau region (EMG)			Mangistau region (OMG)			Mangistau region (KBM)		
	Total	Compulsory	Voluntary	Total	Compulsory	Voluntary	Total	Compulsory	Voluntary
2016	595.2	595.2	0	900	900	0	277.9	257.6	20.4
2017	754.8	754.8	0	900	900	0	225.9	162.5	63.4

In 2017, KMG EP spent 754.8 million tenge on the development of the social infrastructure of Atyrau region, largely on furthering the work of non-profit organisations and individuals in the cultural and humanitarian spheres.

It also spent 311.5 million tenge on constructing a secondary school for 424 students and 313.5 million tenge on building a kindergarten with 290 places in Sagyz in the Kyzyl-Kuginsky district (230 million tenge), as well as a kindergarten with 100 places in Tashchagyl in the Atyrau region (83.4 million tenge). It funded the construction of a cultural centre for 200 people in Zhanbai in the Isatay district, as well as a 160-seat sports and health complex in Akystau in the Isatay district and a paramedic-obstetric station in the village of Karabau in the Kyzylkoginskiy district.

In 2017, in the Mangistau region, the Company allocated funds for the purchase of apartments for low-income workers. It spent a further 436.2 million tenge to buy vehicles for the local healthcare and police services (86.2 million tenge), to create social workspaces for the residents of Zhanaozen (200 million tenge) and to build roads in Zhetibai (150 million tenge).

The Company provided funds for education, healthcare, physical culture and sport, public organisations, socially significant facilities, maternity and childhood protection, assistance for vulnerable members of the population affected by natural disasters, and for hosting socially significant events.

In 2018, the Mangistau region plans to allocate funds for the development of social infrastructure in Zhanaozen and Karakiyanskiy districts to the tune of 900 million tenge under the subsoil-use contract. It also plans to fund the development of cultural, education, health and sports projects, support vulnerable segments of the population, implement state programmes and hold public events.

In 2018, KMG EP plans to allocate funds worth 622.2 million tenge for social projects in Atyrau region and 1,120 million tenge in Mangistau region.

Employee development

From the very beginning, KMG EP has provided annual training and professional development courses for employees. To perpetuate unified corporate policies and strategic priorities, the Company undertakes various educational programmes for employees⁹. In 2017, 49,071 KMG EP group employees enhanced their qualifications, up 21% from 2016.

KMG EP Youth Engagement Policy – Alternates Day

KMG EP holds an annual ‘Alternates Day’, at which the Company’s young professionals gain experience in other disciplines. In 2017, the event took place on 28 June. Part of the Company’s Youth Engagement Policy, the Alternates Day encourages KMG EP’s young workers to take charge of basic business processes, thus fostering their self-development, independence and sense of responsibility.

The event gives selected staff the opportunity to don the mantle of leadership for a day and familiarises them with other corporate activities, with a view to generating new ideas for improving business processes. The project aims to promote a ‘knowledge and experience exchange’ between colleagues and to enhance the Company’s human-resource management. This year, the chosen understudies not only slipped into the shoes of department heads, but also those of managing directors.

The event was attended by 34 of KMG EP’s young workers in 2017 and almost all units of the Company were involved.

While the Alternates were busy running departments for the day, the heads of department were engaged in a ‘storytelling’ training course. This is a new trend in the field of personnel management and managers learned about the process of creating corporate ‘stories’ to facilitate the mentoring process, promote creative collaboration and improve communication.

⁹ If an employee has attended more than one training session a year, the total number of training sessions is counted.

KMG EP Youth Engagement Policy – Young Specialists Day

KMG EP has held an annual Young Specialists Day since 2013, bringing together young professionals from the Company's subsidiary organisations and joint ventures to share project knowledge and exchange experience. The event gives them the opportunity to present innovative ideas and encourages them to work together to achieve collective goals.

Selection is based on a competition that challenges young specialists to design a project aimed at improving a particular production process. The judgement criteria include the project's realisation potential and economic efficiency.

In 2017, the Young Specialists Day was held on 8-9 June at JSC Embamunaigaz, KMG EP's subsidiary in Atyrau. For the first time, it took the format of a science and technology conference, with presentations and discussions on past and current projects at Company subsidiaries and joint ventures.

Thirty-seven young specialists participated, from OMG, EMG, KBM, KGM, TulparMunaiService LLP, Ural Oil and Gas LLP, ArgymakTransService LLP and Karpovskiy Severniy LLP.

On the first day, the participants were divided into specialist groups to present their project work, aimed at improving corporate processes. The second day saw 10 employees from various subsidiaries and joint ventures hold presentations on current and recent projects. The groups were divided up as follows:

- 1) geology and engineering,
- 2) oil and gas production techniques and technology,
- 3) the economy, and
- 4) production process, power engineering and automated process control systems.

A committee chose the five best projects and their authors were given the opportunity to work with management with a view to implementing their ideas at Company level.

Uzdik Maman professional skills competition

KMG EP has held the annual Uzdik Maman professional skills competition for employees of its subsidiaries and joint ventures since 2006. The Uzdik Maman professional skills competition has been held at NC KMG since 2016.

This prestigious competition is aimed at attracting young people to apprenticeships and positions at KMG EP, to identify and disseminate best practices, help attract young people to training and employment in skilled professions, and boost the professional skill and theoretical knowledge of workers both within the Company and at its affiliates and subsidiaries.

The competition is held in three rounds: the first at KMG EP production-unit level, the second at subsidiary level and, since 2016, the third at JSC KMG NC group level.

In 2017, the first and second rounds were held at subsidiary level in nine organisations: OMG, EMG, KBM, KGM, LLP ArgymakTransService, LLP TulparMunaiService, LLP OzenMunaiService, LLP UTTiOS and LLP Ken-Kurylyys-Service. The winners went through to the final at NC KMG group level.

In 2017, the contest was held on 26-29 September at KBM headquarters. There were 126 participants from 17 professions, including oil and gas production operators, well research operators, reservoir-pressure maintenance operators, turners, chemical-analysis lab technicians, electric and gas welders, electricians, locksmiths, well-work teams, motor mechanics, car mechanics, cementing specialists, drivers, processing-unit operators, process-pump machinists, compressor-plant machinists and lab assistants.

On 29 September, the results of the contest were announced in Aktau, attended by senior management from NC KMG. KMG EP subsidiaries took first place in 10 categories, second place in 10 categories and third place in nine categories.

Training of welders at oilfield-service companies

From July to October 2017, KMG EP, with funding from OMG, organised training for 57 welders from three oilfield service subsidiaries, Ken-Kurylys-Service LLP, OzenMunaiService LLP and UDTV LLP. The aim of the course was to introduce the welders to new production processes and help them to master modern welding techniques in a bid to increase productivity and improve the quality of work.

The training comprised three parts: a theoretical course, practical training and testing. All work carried out by the welders underwent both visual and radiographic inspection. Forty-nine of the welders were successful on their first attempt. All 57 welders passed the training module in semiautomatic (mechanised) welding, and received their certificates of completion, while 55 welders received full welding licences and admission to the profession.

Welding is a profession that involves high levels of training and responsibility. The stability and durability of critical metal structures depends directly on the quality of the work performed by the welder. Through continuous professional development, the Company aims to significantly improve the skills of its welders and give them hands-on experience of new technological advances in the welding industry.

KMG EP's corporate HR forum

In previous years, KMG EP had held annual seminars for the heads of personnel of its subsidiaries and joint ventures for the purposes of progress updates and forward planning. In 2017, to give its human resources personnel a platform to present and discuss ongoing and new projects, the Company decided to organise an ideas and experience exchange in 'forum' format, participation in which was taken not only by the heads of personnel, but also by staff at the resources and remuneration services subsidiaries and corporate units.

In addition to looking back over the 14-year human-resources history of KMG EP, the corporate HR forum's task was to look to the future, identify the trends in HR and enable staff to participate in master classes by leading Russian and Kazakhstan experts in the field of human-resources development.

The forum was held on 9-10 November 2017 in Astana. Each day of the Forum had its own mission and name. The first day of the event involved a retrospective assessment of HR projects implemented by the Company, which had brought about economic efficiencies. Projects were discussed, key ideas were pinpointed and participants reflected on how to replicate past successes across the group.

The day also included a panel discussion, entitled *My HR History in KMG EP*. Panel invitees were people for whom KMG EP has been of particular significance: T.K. Khituov, Member of the Committee for Economic Reform and Regional Development of the Mazhilis (lower house) of Parliament of the Republic of Kazakhstan; A.A. Uzbekov, Chief Financial Officer of Kazakhtelecom JSC; M.E. Egimbayeva, Managing Director of JSC NC Kazakh Tourism; and A.K. Shanenova, Managing Director of KMG EP Oilfield Services Projects. The panel discussion was moderated by B.B. Askarov, Head of Staff of JSC KazMunaiGas E&P.

The second day of the forum was dedicated to learning from HR experts about the current trends and their implications for the future HR of the Company. The overall objective of the forum was planning for the future and developing a corporate HR strategy based on experience, current projects and knowledge gleaned from the forum's masterclasses.

The Ombudsman

In February 2017, KMG EP created the role of corporate Ombudsman to help improve corporate governance by integrating ethical principles into company best practices. These include the concepts of transparency and professional good faith, mutual respect among staff members, a commitment to fair treatment, and zero tolerance of any kind of discrimination.

The Company believed that the need to improve its corporate image, instil stronger values and embed a professional ethics culture called for an efficient mechanism to quickly identify and resolve ethical issues and potential conflicts. The responsibilities of the ombudsman include the settlement of disputes, mediation in

cases of disagreement, and making appropriate recommendations or referring issues to other corporate resources for resolution.

Business conduct

Policy and principles

The Company's general approach to business ethics is defined by its Business Principles, available at https://kmgep.kz/uploads/file/Business_Principles_of_KMGEP.pdf. There are seven basic principles:

- The Company values and protects its reputation for all of its stakeholders.
- The Company strives for continued improvement.
- The Company is committed to legitimacy, transparency and honesty in all of its business dealings.
- 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.

KMG EP's approach to matters of business conduct is governed by its Code of Ethics and Anti-Bribery and Corruption policies (both available on the Company's official website at https://kmgep.kz/eng/the_company/corporate_governance/corporate_documents_and_busine/). Their key points include:

- The Company will not tolerate any form of corrupt practice committed by employees or officers, or by Interested Persons, and strives to undertake all necessary measures possible 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 become aware of. In such cases, employees are guaranteed confidentiality and their rights and interests will be protected from unlawful restriction of their rights and interests, including retaining of their job position.
- Employees and officers of the Company are required to avoid any actions and contacts 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 interactions 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 make 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 their acknowledgement of receipt and understanding of this Code.
- The Company encourages employees to engage in 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 biannually.

This approach is also supported by the Company's Disclosure Policy, Policy for Dealing in Securities, Whistleblowing Policy and the Company Charter. All these documents are available for review on the Company's official website.

Corporate governance

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

The Board of Directors is the Company's governing body and the Management Board is its executive body. The Chief Executive Officer chairs the Management Board and sits on the Board of Directors. He is the sole representative of the executive body on the Board of Directors. Four members of the Board of Directors, including the Chairman, Dauren Karabayev, 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. The system ensures that the Company continually seeks to maximise value, while at the same time working in the best interests of the entire shareholder base and other parties affected by its activities.

Overseeing relations with its principal shareholder is one of the most important tasks of the Company's corporate-governance system. A Relationship Agreement between KMG EP and its parent company, NC KMG, established KMG EP's business independence and its obligation to act in the interests of all shareholders. Despite the termination of this Agreement following the Company's delisting and the abolition of certain Charter provisions giving additional influence to Independent Directors, 30% of the Board of Directors will remain independent going forward. In addition, at any meeting of the Board of Directors to consider a related-party transaction, the Board will have to ensure that at least two of the deciding Directors are without interest in that transaction. Thus, the Company will keep in place mechanisms to ensure the adoption of balanced and effective corporate decisions.

Board of Directors

The Company's Board of Directors 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. KMG EP's Independent Directors use their experience to balance the influence of the principal shareholder and to closely supervise management decisions.

Structure

As of 31 December 2017, the Board of Directors comprised the following eight members:

Name	Position
Dauren Karabayev	Chairman of the Board of Directors
Kurmangazy Iskaziyeu	Member of the Board of Directors (CEO)
Gustave van Meerbeke	Member of the Board of Directors
Oleg Karpushin	Member of the Board of Directors
Ardak Mukushov	Member of the Board of Directors
Philip Dayer	Independent Director
Francis Sommer	Independent Director
Alastair Ferguson	Independent Director

Election of Board members and changes in the composition of the Board of Directors during the year

On 23 May 2017, by decision of the Annual General Meeting of shareholders, the Board of Directors was established at eight members and its term was set at 23 May 2017 to 23 May 2018, inclusive.

Following the results of the AGM on 23 May 2017, the following individuals were elected to the Board of Directors:

1. Igor Goncharov – a representative of JSC NC KazMunayGas
2. Dauren Karabayev – a representative of JSC NC KazMunayGas
3. Ardak Mukushov – a representative of JSC NC KazMunayGas
4. Gustav van Meerbeke – a representative of JSC NC KazMunayGas
5. Kurmangazy Iskaziyeu – CEO (Chairman of the Management Board) of the Company
6. Philip Dayer – Independent Director
7. Alastair Ferguson – Independent Director
8. Francis Sommer – Independent Director

On 19 September 2017, Dauren Karabayev was elected as the new Chairman of the Board of Directors of KMG EP.

Following the results of the Extraordinary General Meeting of Shareholders on 19 October 2017, it was decided to duly terminate the Board of Directors membership of Igor Goncharov and to elect Oleg Karpushin (as a representative of JSC NC KazMunayGas) to the Board of Directors for the established term of the Board of Directors of the Company as a whole.

Members of the Board of Directors and their biographies

Dauren Karabayev (Chairman of the Board of Directors, Executive Vice President – Financial Director of NC KMG)

Kurmangazy Iskaziyeu (CEO, Chairman of the Management Board of the Company)

Gustave Van Meerbeke (Independent Consultant for Oil and Gas, representative of NC KMG)

Oleg Karpushin (Executive Vice President for Production, Exploration and Oilfield Services of NC KMG)

Ardak Mukushov (Vice President for Legal Support of NC KMG)

Philip Dayer (Independent Director of KMG EP)

Francis Sommer (Independent Director of KMG EP)

Alastair Ferguson (Independent Director of KMG EP)

Dauren Karabayev

Chairman of the Board of Directors, CFA, Executive Vice President – Financial Director of JSC NC KazMunayGas (has acted as Chairman of the Board of KMG EP since 19 September 2017).

Time on the Board: Less than one year.

Previously, he held the post of Deputy Chairman of the Board of Halyk Bank JSC.

He holds an MSc in Finance from Mays Business School, Texas A&M University.

Dauren Karabayev was elected to the Board of Directors on 23 May 2017 and is a member of the KMG EP Nomination and Strategic Planning committees.

Kurmangazy Iskaziyeu

Chief Executive Officer, Chairman of the Management Board of the Company.

Time on the Board: More than two years.

Kurmangazy Iskaziyeu has held the position of CEO (Chairman of the Management Board) of KMG EP since 23 September 2015.

From December 2013 to January 2015, he was Managing Director for Geology and Senior Geologist at JSC NC KazMunayGas. From February 2012 to December 2013, he was Deputy Chairman of the Board of NC KMG for geology and future projects. From 2004 to 2008, he held the position of Deputy Director, then Director of the Department of Geology and Development of KMG EP.

He started his career at the Balykshin department of exploratory drilling (BURB) of the Embanefit Production Association. 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.

Kumangazy Iskaziyeu was elected to the Board of Directors of the Company on 26 November 2015. He is a member of the KMG EP Strategic Planning Committee.

Gustave Van Meerbeke

Independent Consultant for Oil and Gas, Member of the Board representing NC KMG.

Time on the Board: More than one year.

Gustave Van Meerbeke has been a member of the Board of Directors of KMG EP, as a representative of NC KMG, since 13 April 2016.

Gustave Van Meerbeke, a Dutch citizen, received a master's degree in geology from the University of Leiden, the Netherlands, in February 1972. He then worked three years for Anglo-American Corporation of South Africa, seconded to De Beers Consolidated Diamond Mines.

In 1975, he moved to Royal Dutch/Shell, where he worked as a geologist for 24 years, performing various functions in Swaziland (coal), the UK, Oman, Brunei, Indonesia and the Netherlands. During his time in The Hague, he was the first regional geologist on a team responsible for the development and advisory support

of new companies in the Middle East, South Asia and Africa, as well as a business consultant for Russia and the CIS. He also served as director for various Shell exploration and development companies in Russia and the Caspian region: Shell Kazakhstan Development BV, Shell Tulpar BV, Shell Temir BV, Salym Petroleum Development NV.

In 1999, he joined ABN Amro as an industry banker for oil and gas; he remained in that position through Royal Bank of Scotland's takeover of ABN Amro in 2007. He retired from RBS on 1 December 2011.

Oleg Karpushin

Executive Vice President for Production, Exploration and Oilfield Services of JSC NC KazMunayGas.

Time on the Board: Less than one year.

Oleg Karpushin was elected to the Board of Directors of KMG EP on 19 October 2017.

He graduated with honours from the Russian State Oil and Gas Academy as a mining engineer-geologist and gained his MBA at the Fuqua Business School of Duke University (NC, US).

For more than 11 years, he has held senior positions in the Shell group of companies, including Salym Petroleum Development NV, Shell Petroleum Development Company of Nigeria and Sakhalin Energy Investment Co. He was also Deputy Chairman of the Board and Director of Production at PJSC Novatek.

Ardak Mukushov

Vice President for Legal Support at JSC NC KazMunayGas.

Time on the Board: Less than one year.

Ardak Mukushov was elected to the Board of Directors of KMG EP on 23 May 2017 and has held the position of Vice President for Legal Support at JSC NC KazMunayGas since January 2017.

Prior to that, he held various management positions at NC KMG and at the Ministry of Oil and Gas of the Republic of Kazakhstan. Since May 2014, he has been a member of the Board of Directors of JSC KazTransOil and, since April 2016, a member of the Board of Directors of JSC KazTransGas.

He has a degree in law and legal education from Lev Gumilev Eurasian University and a degree in economics from the Ryskulov Kazakh University of Economy.

Philip Dayer

Independent Director of KMG EP.

Time on the Board: More than seven years.

Philip Dayer has been an Independent Director on the Board of Directors of KMG EP since May 2010.

A Bachelor of Law and full member of the Institute of Chartered Accountants in England and Wales, he qualified as a chartered accountant at KPMG and subsequently worked in investment banking, at firms including Barclays De Zoete Wedd and Citicorp, for 25 years, advising companies listed on the LSE.

In 2005, he left ABN AMRO Hoare Govett and advised OJSC Rosneft Oil Company on the successful placement of its securities in 2006. He was Chairman of the Audit Committee of Dana Petroleum before its acquisition by KNOC.

He is currently an Independent Non-Executive Director and Chairman of the Audit Committee of The Parkmead Group, Independent Non-Executive Director at VTB Capital and PJSC Severstal. He has been a Senior Independent Non-Executive Director and Chairman of the Remuneration Committee of AVEVA Group Plc, an Independent Non-Executive Director at Navigators Underwriting Agency PLC, IP Plus PLC and Arden Partners PLC.

He is the Chairman of the KMG EP Audit and Nominations Committees, a member of the Remuneration and Strategic Planning Committees, and a member of the Independent Committee under the Company's Board of Directors (which is composed exclusively of Independent Directors).

Francis Sommer

Independent Director of KMG EP.

Time on the board: Less than 1 year.

Francis Sommer has been an Independent Director on the Board of Directors of KMG EP since 23 May 2017.

He has been an Independent Director of Nobel Oil E&P (UK) Ltd (Nobel Upstream) since 2014 and a Partner in LetterOne (L1) Energy (UK) since 2013. He was Executive Vice President for Production and Technology at OJSC TNK BP Holding in the Russian Federation from 2009 to 2013.

He holds a master's degree in oil technology from the University of Texas at Austin and a bachelor's degree in physics from New York University.

He is Chairman of the KMG EP Remuneration Committee, a member of the Audit, Strategic Planning and Nominations Committees, and a member of the Independent Committee under the Company's Board of Directors.

Alastair Ferguson

Independent Director of KMG EP

Time on the Board: More than four years

Alastair Ferguson has been an Independent Director on the Board of Directors of KMG EP since October 2013.

He has 37 years of experience in the oil and gas industry, mainly at BP. Since 2003, he has been living in Moscow, having first worked at TNK-BP from 2003 to 2011 as Executive Vice President for Gas Business Development, then later developing his own consulting business to advise clients on Russian and Ukrainian energy. He is a senior advisor at XENON Capital Partners.

Since 1 January 2015, he has been Chairman of the Board of Directors of Zoltav Resources.

He is the Chairman of the KMG EP Strategic Planning Committee and a member of the Audit, Remuneration and Nominations Committees, as well as a member of the Independent Committee under the Company's Board of Directors.

Compliance with the Corporate Governance Code

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.

The Corporate Governance Code of Samruk-Kazyna JSC and the Corporate Governance Code of the Company

Resolution of the Government of the Republic of Kazakhstan No. 239, dated 15 April 2015, approved the Corporate Governance Code of Samruk-Kazyna JSC, applicable to all companies belonging to the group of Samruk-Kazyna JSC. The corporate governance code of Samruk-Kazyna JSC was compiled on the basis of existing international best practice in the field of corporate governance.

The Company adapted the Corporate Governance Code of Samruk-Kazyna JSC to the existing corporate governance system of the Company, as well as the UK Corporate Governance Code, adopted in 2016 (with the exception of certain provisions, which are described in this section of the annual report). The Board of Directors of the Company approved the Company's Corporate Governance Code in a new version in December 2016. Further, the Corporate Governance Code was then submitted for approval to the Annual General Meeting of Shareholders in May 2017. By decision Annual General Meeting of shareholders, further consideration of the issue was postponed.

The Company's Corporate Governance Code focuses on key principles of good corporate governance, such as sustainable development, equitable shareholder rights and treatment, professionalism of the Board of Directors and Management, risk management and internal controls, and transparency.

The amendments adopted by the Company establish the Company's corporate governance obligations in addition to those provided for by the Code of Corporate Governance of Samruk-Kazyna JSC. The Company believes that these additional changes significantly strengthen the Company's corporate governance regime. The company also takes into account the provisions of the UK Corporate Governance Code and will strive to continuously improve its corporate governance standards in future.

The following are some of the principles and provisions of the Company's Corporate Governance Code that are supplementary to the requirements of the legislation of the Republic of Kazakhstan (namely, the Corporate Governance Code of Samruk-Kazyna JSC).

Introduced additional principles of corporate governance:

- 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 on relationships with shareholders of the Company;
- Division of responsibilities between the Chairman of the Board of Directors and the CEO;
- Provisions defining the role of the Chairman of the Board of Directors;
- Requirement for a minimum number of Independent Directors;
- 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; and
- Provisions concerning the appointment/reappointment of members of the Board of Directors.

The current version of the Company's Corporate Governance Code is available on the Company's website. The proposed new version of the Company's Corporate Governance Code will be submitted for consideration to the Company's shareholders and will be made available to the general public if approved by the Annual General Meeting of shareholders of the Company.

In 2017, the Company complied with the provisions of the current Corporate Governance Code in all material respects.

Differences between the Corporate Governance Code of the Company and the provisions of the UK Corporate Governance Code

The main differences between the Company's Corporate Governance Code and the provisions of the UK Corporate Governance Code are described below.

- The appointment of the Chairman the Board of Directors must meet the independence criteria set forth in the UK Corporate Governance Code.

The Company's Corporate Governance Code does not include a provision on the independence of the chairman of the Board of Directors and, in the opinion of the Directors, the Chairman of the Board would not satisfy the independence criteria set forth in the relevant provision of the UK Corporate Governance Code or the corresponding provision of the Company's Corporate Governance Code. The Chairman of the Board of Directors is the representative of a major shareholder.

- The UK Corporate Governance Code provides that at least half of the members of the Board, excluding the Chairman, should be Independent Directors.

In contrast, the Corporate Governance Code and the Company's Charter stipulate that at least 30% of the members of the Board of Directors should be Independent Directors. According to the Company's Charter, a number of key issues, including related party transactions, major transactions, approval of social expenses, concluding subsoil-use contracts, require the approval of a majority of Independent Directors. The Charter of the Company is available on the corporate website.

- The UK Corporate Governance Code stipulates that Non-Executive Directors should carefully analyse the Board's work to ensure that it meets the agreed goals and objectives, monitor its activities, and verify the completeness of the financial information provided, and that financial control and risk management systems, management are effective and reliable.

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

- The UK Corporate Governance Code provides for the liability of Non-Executive Directors for determining the appropriate levels of remuneration for Executive Directors and, in addition, fulfilling a leading role in appointing and, if necessary, dismissing Executive Directors and in planning succession.

The Company's Corporate Governance Code gives responsibility for determining the appropriate levels of remuneration for Executive Directors to the Remuneration Committee of the Board of Directors and provides for the participation of the Nominations Committee of the Board of Directors in the process of electing and dismissing Executive Directors. In practice, the majority shareholder determines the appointment and level of remuneration of members of the Management Board.

Diversity policy

The Company is committed to the development and protection of diversity in all areas of activity. Issues related to equal opportunities and cultural diversity are defined in the Business Principles, the Company's Code of Ethics and the Company's internal documents. The Company does not allow discrimination on national, racial, religious, sexual, age, political or other grounds. All decisions regarding hiring, evaluation, promotion, training, further development, remuneration and dismissal of employees are taken solely on the basis of qualification, merit and performance.

The Company has created equitable conditions for professional development necessary for production activities. Citizens of the Republic of Kazakhstan make up 99.9% of Company employees, of which 92% are Kazakhs and 7% are employees of other nationalities. To achieve its strategic goals, the Company seeks to attract qualified specialists, while providing equal opportunities to all age groups. By age category, the number of employees over 36 years is 57%, including 6% at the age of retirement a, while young professionals account for 43% of employees.

40% of the Company's employees are women, 60% are men. The managing directors are one woman and eight men.

The Company supports employees of subsidiaries and dependent companies seeking to improve their skills and professional development. In 2017, employees from the Company's subsidiaries and dependent companies were admitted to certification training, which was offered to 8% of all Company employees. Four percent of employees passed the certification qualification.

In compliance with the regulatory requirements of the Kazakhstan and London Stock Exchanges, the Company employs foreign specialists with experience, skills or achievements in a specific field of activity. In 2017, the Company employed two foreign specialists, including one Canadian citizen and one Russian citizen.

The Company strives to ensure the development of personal diversity among the top management of the Company, as well as when electing candidates to the Company's bodies. The Board of Directors included one woman until May 2017. In 2017, the members of the Board of Directors of the Company included two British citizens, one citizen of the United States, one Dutch national and one citizen of the Russian Federation. The Company's Management Board elected employees of the Company, of whom, four were under the age of 40, three were aged 40-50 years and two were more than 50 years of age.

The composition of the Board of Directors and the Management Board of the Company ensures the effectiveness of the Company's strategic and business objectives.

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 UK FCA (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 Board of Directors has established the independence of Directors and believes that Philip Dayer, Edward Walsh, Francis Sommer 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.

Management Board structure

On 28 June 2017, following the decision of the Board of Directors of the Company, the following changes were made to the Management Board:

- The decision was made to duly terminate the tenure of the following members of the Management Board: Kairbek Yeleussinov, Deputy CEO for JSC Ozenmunaigas Project and Dauletzhan Khassanov, Deputy CEO and CEO of JSC Ozenmunaigas.
- The decision was made to elect to the Management Board, for the remaining term of the Board as a whole, Kuanyshbay Nurgaliyev, Managing Director for Operations and Field Development, and Bekmurat Naizabekov, Managing Director of Marketing, Purchase and Sales of Oil.
- On 1 August 2017, by decision of the Board of Directors, Bekzat Abaiyldanov, a member of the Company's Management Board, was named CEO of JSC Ozenmunaigas.

Members of the Management Board as of 31 December 2017

Name	Position
Kurmangazy Iskaziyeu	Chief Executive Officer (Chairman of the Management Board)
Bekzat Abaiyldanov	Deputy General Director for Production, General Director of JSC Ozenmunaigas
Dastan Abdulgafarov	Deputy General Director for Economics and Finance
Malik Salimgereyev	Deputy Director General for Health, Safety, Environmental and Perspective Development
Shane Drader	Financial Director-Financial Controller
Kuanyshbay Nurgaliyev	Managing Director for Operations and Field Development
Bekmurat Naizabekov	Managing Director of Marketing, Purchase and Sale of Oil

Responsibility of the Board of Directors and Management Board

The distribution of powers between the Board of Directors, the Management Board and the General Director of the Company is determined by Company Charter Sections 12 and 13. In addition, the powers and responsibilities of the Board of Directors and the Board are regulated by the Regulations of the Board of Directors and of the Management Board.

The Board of Directors is responsible to shareholders for effective management and proper control over the Company's activities and acts in accordance with the approved decision-making system. The most important functions of the Board of Directors, among other significant responsibilities, are to determine the direction of the Company's strategic development and policy and to make decisions on potential acquisitions of oil and gas assets.

The Management Board, in turn, is responsible for developing an action plan for the implementation of these functions and for the current operating activities of the Company. The Board reports to the Board of Directors for the status of the work carried out to achieve the Company's goals.

Matters considered by the Board of Directors in 2017

The Board meets on a regular basis and as necessary.

In 2017, the BoD held 38 meetings, including 10 meetings in person and 28 meetings remotely.

During the year, the Board of Directors considered, among other things, 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);
- 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 2016;
- Introducing proposals on the amount of dividends to be paid for 2016;
- Review of plans and reports of the internal audit department, and the status of implementation of the internal audit department's recommendations;
- Company KPIs;
- The Company's bank limits;
- Risk management; and
- The Company's development programme for oil-service assets.

In 2017, the following documents were considered by the Board of Directors:

- Approval of a new version of KMG EP's Anti-Corruption Policy;
- Approval of a new version of the regulations governing the Nominations Committee of the Board of Directors; and
- Changes and additions to the Code of Corporate Ethics of KMG EP.

In 2017, the Independent Committee under the Board of Directors carried out its activities on issues related to the repurchase, redemption, and/or delisting of shares and/or other securities placed on the Kazakhstan and/or foreign exchanges, the underlying asset of which are the Company's shares. The Independent Committee is composed solely of Independent Directors of the Company, which include Philip Dayer, Francis Sommer and Alastair Ferguson. In accordance with the Regulations on the Independent Committee, consulting services were purchased from HSBC and Rothschild's in relation to the repurchase, redemption and/or delisting of shares and/or other securities placed on the Kazakhstan and/or foreign exchanges with the underlying assets being the Company's shares.

Board and Board Committee attendance data

Meeting attendance by members of the Board of Directors and members of the Committees of the Board of Directors in 2017 was as follows:

	Board of Directors	Audit Committee	Nominations Committee	Remuneration Committee	Strategic Planning Committee
Number of meetings held in 2017	38	12	5	7	2
Dauren Karabayev	29	-	-	-	2

Kurmangazy Iskazyev	38	-	-	-	2
Igor Goncharov	22	-	5	-	-
Ardak Mukushov	29	-	-	-	-
Serik Abdenov	9	-	-	-	-
Oleg Karpushin	16	-	-	-	-
Assiya Syrgabekova	9	-	-	-	-
Gustave Van Meerbeke	38	-	-	-	-
Alastair Ferguson	38	12	5	7	2
Philip Dayer	38	12	5	7	2
Francis Sommer	29	6	3	4	2
Edward Walsh	9	6	2	3	-

The Management Board is the executive body that supervises the Company's current activities. In 2017, 31 meetings of the Management Board were held on a regular or as-necessary basis. In 2017, the Management Board approved a number of matters concerning the day-to-day operating activity of the Company.

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	Remuneration Committee	Nominations Committee	Strategic Planning Committee	Independent Committee
Philip Dayer	Francis Sommer	Philip Dayer	Alastair Ferguson	Philip Dayer
Francis Sommer	Philip Dayer	Francis Sommer	Dauren Karabayev	Francis Sommer
Alastair Ferguson	Alastair Ferguson	Dauren Karabayev	Kurmangazy Iskazyev	Alastair Ferguson
		Alastair Ferguson	Philip Dayer	
			Francis Sommer	

Committees of the Board of Directors

AUDIT COMMITTEE

MEMBERS OF THE AUDIT COMMITTEE

In 2017, this committee, starting from 23 May 2017 was composed exclusively of Independent Directors, namely, Philip Dayer (Chairman of the Committee), Francis Sommer 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.

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

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

Every year, at the Annual 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 2017

In 2017, the Audit Committee held 12 meetings.

The Chairman of the Audit Committee decides the frequency and timing of the meetings. The number of meetings is determined in accordance with the Committee's performance of its duties. At least four meetings per year must be held to coincide with key dates in the preparation cycle for financial reporting and audit of the Company (namely, on completion of preparations for the internal and external, for the preparation of the interim financial statements, for preliminary announcements and the Annual Report). In 2017, the Audit Committee reviewed the following issues:

1. Financial statements:
 - a. Review of issues in relation to the preparation of financial statements in accordance with IFRS;
 - b. Approval of quarterly and annual financial statements to be disclosed to the Kazakhstan Stock Exchange and London Stock Exchange;
 - c. Approval of the press releases in relation to the financial statements and operating and financial reviews.
2. Internal audit:
 - a. Review and approval of the internal audit department's operational plan;
 - b. Internal audit-team staff issues;
 - c. Reports of the internal audit.
3. Monitoring of the risk management and internal audit systems.
4. Compliance matters.

REMUNERATION COMMITTEE

MEMBERS OF THE REMUNERATION COMMITTEE

The Remuneration Committee held seven meetings in 2017. Meetings of the Committee are held on an as-needed basis, but at least once every six months. Meetings may be convened at the request of the Chairman of the Committee, a member of the Committee, or the Board of Directors resolution.

RESPONSIBILITIES AND DUTIES OF THE REMUNERATION COMMITTEE

The Remuneration Committee is responsible for monitoring the remuneration system for the Board of Directors, the General Director, Management Board members and other Company employees, as well as comparing the Company's remuneration policy with those of other companies.

The Committee is also responsible for developing and providing recommendations on the criteria for determining the amount and terms of remuneration and compensation for the members of the Board of

Directors, the General Director and members of the Company's Management Board, as well as for approving the terms of the Company's option plans and other long-term incentive programmes.

The Remuneration Committee oversees the alignment of the Company's remuneration policy and remuneration system with its development strategy and financial position, as well as the labour-market situation.

In addition, the Committee monitors the implementation of decisions made at the Annual General Meeting of shareholders in determining the amounts to be paid to and procedures for remunerating the members of the Company's Board of Directors.

The Remuneration Committee provides regular updates on its activities to the Board of Directors. In addition, it conducts an annual review of its compliance with its terms of reference and provides the outcome of this review to the Board of Directors.

ACTIVITIES OF THE REMUNERATION COMMITTEE IN 2017

In 2017, the Remuneration Committee considered the following issues, among other things:

- Recommendations to the Board of Directors on the amount and terms of remuneration to the members of the Board of Directors of JSC KazMunaiGas Exploration Production;
- Determination of the amount of official salaries and terms of pay and bonuses to members of the Management Board, employees of the internal audit service, and the corporate secretary.

The total amount of remuneration accrued to Independent Directors for the year ended 31 December 2017 can be seen in the following table:

Name	Annual remuneration	Physical attendance	Phone-video conference	Meetings of independent Directors	Chairmanship of committee	Total for 2017 (excluding taxes)	Total for 2017 (including taxes)
	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	US\$ thousands	tenge thousands
Alastair Ferguson	150.00	70.00	15.00	100.00	15.00	350.00	127,357
Francis Sommer	78.63	40.00	15.00	60.00	9.11	202.74	74,698
Edward Walsh	58.87	10.00	10.00	10.00	5.88	94.75	33,639
Philip Dayer	150.00	70.00	15.00	100.00	55.24	390.24	142,214

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

Total remuneration for Management Board members in 2017 was 461 million tenge.

NOMINATIONS COMMITTEE

In 2017, the members of the Nominations Committee from 23 May 2017 were Philip Dayer (Chairman of the Committee), Francis Sommer, Dauren Karabayev (from 19 September 2017) and Alastair Ferguson (from February 2017). The Committee's main objective is to increase the efficiency and improve the quality of the work of the Board of Directors in selecting specialists to fill Company positions, as well as to oversee succession planning and determine the selection criteria for candidates for membership of the

Board of Directors and Management Board, as well as the positions of CEO/General Director and Company Secretary.

The Nomination Committee considers issues related to changes in the composition of the Board of Directors and Management Board, as well as the retirement or appointment of additional or replacement directors. It also has the power to appoint or terminate the employment of the Company Secretary.

ACTIVITIES OF THE NOMINATIONS COMMITTEE IN 2017

In 2017, the Nominations Committee held five meetings, at which the following issues were discussed:

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

STRATEGIC PLANNING COMMITTEE

In 2017, the members of the Strategic Planning Committee from 23 May 2017 were Alastair Ferguson (Chairman of the Committee), Francis Sommer, Dauren Karabayev, Philip Dayer and Kurmangazy Iskazyev.

The main purpose of the Committee is to develop and provide recommendations to the Board of Directors in determining the Company's priorities and development strategy.

ACTIVITIES OF THE STRATEGIC PLANNING COMMITTEE IN 2017

In 2017, the Strategic Planning Committee held two meetings, at which the following issues were discussed:

- The election of the Chairman of the Committee, and
- The conclusion of a deal.

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 owned shares as of 31 December 2017, the number of which must be reported. The requirement does not apply to GDR holders, however, the Company deems it necessary to note that on 30 September 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 business travel insurance and the reimbursement of costs incurred during business travel, in accordance with the Company's internal policies.

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 the requirements of the Listing Rules of the London Stock Exchange and of the UK Combined Code of Corporate Governance.

The Company's chain of command and the interaction between the various branches of the internal control system ensure the required level of independence necessary for the internal control function to operate effectively, and are in line with international best practice in this area.

In 2015, the Company's risk management system made changes to its policy for the purposes of improving risk management practices. The policy determines the Company's risk management strategy, while the distribution of roles and responsibilities within the risk management system determines the direction of management and employee actions with a view to achieving Company objectives.

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

The Management Board has established a Risk Management Committee to oversee risk management. 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 auspices of the Company's Management Board.

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

The main objectives of the Committee are the prompt consideration of risk management issues within the Company, the preparation of recommendations for the Management Board in relation to 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 page 61. Information about financial risks can be found in the *Notes to the consolidated financial statements*.

Information about taxation in the UK

The overview below is based on UK law and HM Revenue and Customs practices in force as of the date of this document, both of which are subject to change, potentially 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 the withholding of tax at source in the UK. Dividend payments on shares will not be subject to UK withholding 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, on a case-by-case basis, 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 GBP 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 TAX AT SOURCE

Dividend payments in respect of shares and GDRs are subject to Kazakhstan withholding 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 the calculation of such credit. A UK Holder which is a company is not generally subject to UK corporation tax on dividend payments and is thus not usually 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.

Consolidated financial statements for 2017

KazMunaiGas Exploration Production Joint Stock Company

*For the year ended December 31, 2017
with independent auditor's report*

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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 and its subsidiaries (the Company), which comprise the consolidated statement of financial position as at 31 December 2017 and 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 Company as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company 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 the matter below, our description of how our audit addressed this 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

How our audit addressed the key audit matter

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: on the identification of indications that assets may be impaired; depreciation, depletion and amortization; 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 Company's data.

Description of the methodology used for the estimation of oil and gas reserves is included in *Note 3* to the consolidated financial statements.

Other information included in the Company's 2017 Annual report

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

The Annual Report of the Company 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 Company'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 Company or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company'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 Company'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 Company'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 Company 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 Company 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.

Ernst & Young LLP



Jim Ducker
Audit Partner



Adil Syzdykov
Auditor

Auditor Qualification Certificate
No. МФ – 0000172 dated 23 December 2013

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KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Statement of Financial Position

Tenge million

	Notes	As at December 31,	
		2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	377,160	311,597
Intangible assets	6	16,296	11,607
Investments in joint ventures	8	127,548	144,532
Investments in associate	9	116,970	135,633
Receivable from a jointly controlled entity	8	11,519	16,696
Loans receivable from joint venture	8	28,049	29,638
Other financial assets	7	34,778	35,961
Deferred tax asset	19	53,215	51,459
Other assets		6,085	970
Total non-current assets		771,620	738,093
Current assets			
Inventories	10	30,697	24,774
Income taxes prepaid		2,483	51,567
VAT recoverable, net of allowance	2	21,574	16,680
Mineral extraction and rent tax prepaid		–	15,676
Export customs duty and other taxes prepaid	2	20,717	15,071
Prepaid expenses	2	16,190	11,529
Trade and other receivables	7	132,680	74,121
Receivable from a jointly controlled entity	8	26,496	17,617
Other financial assets	7	889,687	983,257
Cash and cash equivalents	7	421,643	162,091
Total current assets		1,562,167	1,372,383
Total assets		2,333,787	2,110,476
EQUITY			
Share capital	11	165,418	165,343
Other capital reserves		2,347	2,448
Retained earnings		1,619,466	1,444,351
Foreign currency translation reserve		321,488	321,370
Total equity		2,108,719	1,933,512
LIABILITIES			
Non-current liabilities			
Borrowings		1,807	3,844
Deferred tax liability	19	138	138
Provisions	13	51,845	45,300
Total non-current liabilities		53,790	49,282
Current liabilities			
Borrowings		5,669	5,483
Provisions	13	31,795	45,926
Income taxes payable		3,888	33
Mineral extraction tax and rent tax payable		52,181	8,571
Trade and other liabilities		77,745	67,669
Total current liabilities		171,278	127,682
Total liabilities		225,068	176,964
Total liabilities and equity		2,333,787	2,110,476

The notes on pages 105 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income*Tenge million*

	Notes	For the year ended December 31,	
		2017	2016
Revenue	14	956,457	727,154
Share of results of associate and joint ventures	8,9	20,441	(12,600)
Finance income	18	29,760	30,037
Total revenue and other income		1,006,658	744,591
Production expenses	15	(318,473)	(274,753)
Selling, general and administrative expenses	16	(135,324)	(115,022)
Net loss on acquisition of a subsidiary	4	(3,249)	–
Exploration expenses		(1,612)	(2,535)
Depreciation, depletion and amortization	5, 6	(35,626)	(30,776)
Taxes other than on income	17	(288,070)	(145,431)
Net reversal of allowance on VAT recoverable	23	24,053	13,362
Loss on disposal of property, plant and equipment		(2,176)	(2,050)
Finance costs	18	(4,311)	(5,842)
Foreign exchange loss, net		(893)	(12,892)
Profit before tax		240,977	168,652
Income tax expense	19	(45,618)	(37,076)
Profit for the year		195,359	131,576
Foreign currency translation difference		118	(11,771)
Other comprehensive income / (loss) for the period to be reclassified to profit and loss in subsequent periods		118	(11,771)
Actuarial (loss) / gain, net of tax	13	(496)	563
Other comprehensive (loss) / income for the period not to be reclassified to profit and loss in subsequent periods		(496)	563
Total comprehensive income for the year, net of tax		194,981	120,368
EARNINGS PER SHARE – Tenge thousands			
Basic and diluted	12	2.86	1.93

The notes on pages 105 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows*Tenge million*

	Notes	For the year ended December 31,	
		2017	2016
Cash flows from operating activities			
Profit before tax		240,977	168,652
Adjustments to add / (deduct) non-cash items			
Depreciation, depletion and amortization	5, 6	35,626	30,776
Share of results of associate and joint ventures	8, 9	(20,441)	12,600
Loss on disposal of property, plant and equipment (PPE)		2,176	2,050
Recognition of share-based payments	11	–	1,410
Forfeiture of share-based payments		(13)	(63)
Unrealised foreign exchange loss on non-operating activities		1,028	12,003
Reversal of allowance on VAT recoverable, net	23	(24,053)	(13,362)
Change in provisions		4,678	(15,566)
Net loss on acquisition of a subsidiary	4	3,249	–
Other non-cash income and expense		4,807	2,829
Add finance costs	18	4,311	5,842
Deduct finance income	18	(29,760)	(30,037)
Working capital adjustments			
Change in other assets		(926)	(1,025)
Change in inventories		(5,923)	(1,949)
Change in export customs duty, VAT recoverable and other taxes prepaid	2	12,136	9,053
Change in prepaid expenses	2	(4,661)	6,463
Change in trade and other receivables		(57,593)	20,500
Change in trade and other payables		775	9,956
Change in mineral extraction and rent tax payable and prepaid		61,208	(18,384)
Income tax paid, net of amounts refunded		(9,974)	(42,398)
Net cash generated from operating activities		217,627	159,350
Cash flows from investing activities			
Purchases of PPE and advances paid for PPE		(104,954)	(101,233)
Proceeds from sale of PPE		670	784
Purchases of intangible assets		(6,624)	(3,672)
Loans provided to the joint ventures	8	(1,218)	(5,146)
Dividends received from joint ventures and associate, net of withholding tax		60,899	27,515
Withdrawal / (placement) of term deposits		95,783	(170,927)
Cash acquired with subsidiary	4	181	–
Interest received		18,807	15,972
Net cash generated from / (used in) investing activities		63,544	(236,707)
Cash flows from financing activities			
Repayment of borrowings		(2,371)	(2,128)
Dividends paid to the Company's shareholders		(18,906)	(137)
Net cash used in financing activities		(21,277)	(2,265)
Net change in cash and cash equivalents		259,894	(79,622)
Cash and cash equivalents at the beginning of the year		162,091	237,310
Net foreign exchange difference on cash and cash equivalents		(342)	4,403
Cash and cash equivalents at the end of the year	7	421,643	162,091

The notes on pages 105 to 135 are an integral part of these consolidated financial statements.

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Statement of Changes in Equity

Tenge million

	Share capital	Treasury shares	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total Equity
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 loss	–	–	–	563	(11,771)	(11,208)
Total comprehensive income	–	–	–	132,139	(11,771)	120,368
Recognition of share-based payments (Note 11)	–	–	1,410	–	–	1,410
Forfeiture of share-based payments	–	–	(63)	–	–	(63)
Exercise of employee options	–	2,339	(2,844)	505	–	–
Dividends	–	–	–	(52)	–	(52)
As at December 31, 2016	263,095	(97,752)	2,448	1,444,351	321,370	1,933,512
Profit for the year	–	–	–	195,359	–	195,359
Other comprehensive loss	–	–	–	(496)	118	(378)
Total comprehensive income	–	–	–	194,863	118	194,981
Forfeiture of share-based payments	–	–	(13)	–	–	(13)
Exercise of employee options	–	75	(88)	13	–	–
Dividends	–	–	–	(19,761)	–	(19,761)
As at December 31, 2017	263,095	(97,677)	2,347	1,619,466	321,488	2,108,719

The notes on pages 105 to 135 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Tenge million unless otherwise stated

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

KazMunaiGas Exploration Production Joint Stock Company (the “Company”) is incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons and refined products with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company’s direct majority shareholder is National Company KazMunaiGas JSC (“NC KMG” or the “Parent Company”), which represents the state’s interests in the Kazakh oil and gas industry and which holds 63% of the Company’s outstanding shares as at December 31, 2017 (December 31, 2016: 63%). The Parent Company is 90% owned by Sovereign Wealth Fund Samruk-Kazyna JSC (“Samruk-Kazyna”), 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 OzenMunaiGas JSC and EmbaMunaiGas JSC. In addition, the Company has oil and gas interests in the form of wholly owned subsidiaries, jointly controlled entities, an associate and certain other controlling and non-controlling interests in non-core entities. These consolidated financial statements reflect the financial position and results of operations of all of the above interests.

2. 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 3.

Exchange rates

The official rate of Kazakhstan Tenge (“Tenge”) to the US Dollar at December 31, 2017 and December 31, 2016 was 332.33 and 333.29 Tenge, respectively. Any translation of Tenge amounts to the US Dollar or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Reclassifications of comparative information

The consolidated statement of financial position and consolidated statement of cash flows have been revised to present more detailed classification of certain items based on their nature to provide the users of the financial statements with more relevant information about the financial position and cash flows of the Company.

Effect on the consolidated statement of financial position as at December 31, 2016

	As previously	Reclassifications	As reclassified
Taxes prepaid and VAT recoverable	22,567	(22,567)	–
Prepaid expenses	20,713	(9,184)	11,529
Export customs duty and other taxes prepaid	–	15,071	15,071
VAT recoverable, net of allowance	–	16,680	16,680

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.1 Basis of preparation (continued)***Reclassifications of comparative information (continued)**Effect on the consolidated statement of cash flows for the twelve months ended December 31, 2016*

	As previously	Reclassifications	As reclassified
Cash flows from operating activities			
Change in taxes prepaid and VAT recoverable	6,095	(6,095)	–
Change in prepaid expenses	9,421	(2,958)	6,463
Change in export customs duty, VAT recoverable and other taxes prepaid	–	9,053	9,053

The above mentioned reclassifications did not have any impact on the consolidated financial statements of the Company. The management believes that such presentation is more transparent as they reflect the nature of such assets.

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:

- IAS 12 Income Taxes Recognition of Deferred Tax Assets for Unrealised Losses (Amendments);
- IAS 7 Statement of Cash Flows Disclosure Initiative (Amendments);
- Amendments to IFRS 12 Disclosure of Interests in Other Entities: Classification of the scope of disclosure requirements in IFRS 12 from Annual Improvements Cycle 2014-2016.

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):

- IFRS 9 Financial instruments: classification and measurement (January 1, 2018);
- IFRS 15 Revenue from Contracts with Customers (January 1, 2018);
- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments) (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);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (January 1, 2018);
- IFRIC 23 Uncertainty over Income Tax Treatments (January 1, 2019);
- Improvements to IFRSs 2014-2016 cycle (January 1, 2018).

IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Company will adopt the new standard on the required effective date and will not restate comparative information. As at the reporting date the Company has not completed a detailed impact assessment of all three aspects of IFRS 9, which will be completed prior to issuance of financial statements for the three months ended March 31, 2018. This assessment may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018.

Based on the Company's analysis of IFRS 15, its revenue recognition method for contracts will not change with the application of the new standard, and revenues will continue be recorded on a month-by-month basis in accordance with actual invoices.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investments 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.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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"), amortization 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).

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.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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 derecognized.

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 amortization 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.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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 unrealized 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.

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, maximizing the use of relevant observable inputs and minimizing 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.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

Fair value (continued)

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 amortization) 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.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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 amortization (“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”).

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.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Share capital (continued)

Share-based payment transactions (continued)

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 183,443 Tenge per month in 2017 (2016: 171,442 Tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. In addition 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.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

Long-term employee benefits (continued)

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. 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)

Tenge million unless otherwise stated

3. 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 long-term 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, 2017 the Company did not carry out an assessment due to absence of impairment or impairment reversal indicators.

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.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Asset retirement obligations (continued)

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 15.46% and 16.29% of the provision at December 31, 2017 and 2016 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, 2017 were 5.0% and 10.0% respectively (2016: 5.0% and 10.0%). 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.

Long term employee benefits

The costs of the defined long-term employee benefits to employees before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments on the future. These include determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The mortality rate is based on publicly available mortality tables. Increase in future salary and pension is based on expected future inflation rates for the respective country.

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)***Long term employee benefits (continued)*

Principal actuarial assumptions used for valuation of employee benefit obligation as at December 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate	10.00%	10.00%
Inflation rate	5.00%	5.00%
Expected increase in long-term benefits	7.00%	7.00%
Expected salary increase	7.00%	7.00%

As at December 31, 2017 and 2016 the average duration of post-retirement benefit obligation was 10 years.

Sensitivity analysis of employee benefits obligation for the change in significant estimates as at December 31, 2017.

	Decrease	Increase
Discount rate	-0.5%	+0.5%
	794	(738)
Rate of increase in long-term benefits	-0.5%	+0.5%
	(746)	796

4. BUSINESS COMBINATION

On June 15, 2017 the Company acquired a 49% share in KS EP Investments BV (“KS EP Investments”) from MOL Hungarian Oil and Gas Plc. (“MOL”) for 1 US Dollar and following the acquisition now owns a 100% interest in KS EP Investments.

KS EP Investments is a subsoil use right holder under the Contract for Exploration of Oil, Gas and Condensate at Karpovskiy Severniy contract area in the Western Kazakhstan region. The exploration license expired on December 31, 2017 and currently an extension is being negotiated with the Ministry of Energy of Kazakhstan.

The following table summarises the consideration paid for KS EP Investments and the amounts of the assets acquired and liabilities assumed at the acquisition date:

	Fair value as of 15 June, 2017
Other financial assets	119
Cash in banks	181
Total assets	300
Accrued liability	(2,547)
Withholding tax payable	(981)
Provisions	(422)
Trade payable	(21)
Other current liabilities	(2)
Total liabilities	(3,973)
Total identifiable net liabilities	(3,673)
Less:	
Fair value of previously held investment in 51% of KS EP Investments	–
Consideration paid	–
Total consideration transferred	–
Loss on acquisition	(3,673)
Other comprehensive income reclassified to profit and loss	424
Net loss on acquisition	(3,249)

The Company and MOL had a preexisting relationship with KS EP Investments in the form of a loan issued and expired on June 30, 2017 with a 6.7% annual interest rate. Total undiscounted outstanding balance of loan including interest accrued comprised 106,880 thousands US Dollars (33,950 million Tenge) at acquisition date. As at December 31, 2017 the loan was fully repaid by virtue of an increase in KS EP Investment share capital.

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***4. BUSINESS COMBINATION (continued)**

Considering that the Company fully impaired its 51% share in loan receivable from KS EP Investments and acquired the right for 49% of loan receivable from KS EP Investments for 0.5 US Dollars, the fair value of 100% receivable from KS EP Investments is valued at zero at the acquisition date. Accordingly, the loan payable of KS EP Investments was also valued at zero as of June 15, 2017, and the Company has recorded a loss on acquisition of a subsidiary in the amount of 3,249 million Tenge included in these accounts. As the investments in KS EP Investments were fully impaired, difference between consideration paid and net liabilities acquired was expensed to profit and loss.

The loss incurred by KS EP Investments for the period from June 15, 2017 till December 31, 2017 is 1,404 million Tenge and the amount of loss that would have been incurred if the acquisition took place at the beginning of 2017 is 570 million Tenge.

5. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Other assets	Construction work-in-progress	Total
Net book amount				
at January 1, 2016	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
Additions	516	3,285	99,136	102,937
Change in ARO estimate	1,213	–	–	1,213
Disposals	(1,940)	(1,220)	(698)	(3,858)
Transfers from construction-in-progress	80,950	8,918	(89,868)	–
Internal transfers	1,016	(1,061)	45	–
Depreciation charge	(28,681)	(6,048)	–	(34,729)
Net book amount at December 31, 2017	267,071	49,058	61,031	377,160
At December 31, 2017				
Cost	961,876	129,041	68,668	1,159,585
Accumulated depreciation	(366,170)	(42,689)	–	(408,859)
Accumulated impairment	(328,635)	(37,294)	(7,637)	(373,566)
Net book amount	267,071	49,058	61,031	377,160
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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***6. INTANGIBLE ASSETS**

	Exploration and evaluation assets	Other intangibles	Total
Net book amount			
at January 1, 2016	7,103	2,516	9,619
Additions	2,492	1,038	3,530
Disposals	(605)	(45)	(650)
Amortization charge	(79)	(813)	(892)
Net book amount at December 31, 2016	8,911	2,696	11,607
Additions	5,051	1,570	6,621
Disposals	(427)	(15)	(442)
Impairment	(593)	–	(593)
Amortization charge	–	(897)	(897)
Net book amount at December 31, 2017	12,942	3,354	16,296
At December 31, 2017			
Cost	32,319	10,492	42,811
Accumulated amortization	(17,876)	(7,036)	(24,912)
Accumulated impairment	(1,501)	(102)	(1,603)
Net book amount	12,942	3,354	16,296
At December 31, 2016			
Cost	27,695	9,145	36,840
Accumulated amortization	(17,876)	(6,347)	(24,223)
Accumulated impairment	(908)	(102)	(1,010)
Net book amount	8,911	2,696	11,607

7. FINANCIAL ASSETS*Other financial assets*

	2017	2016
US dollar denominated held to maturity deposits	32,100	33,276
Tenge denominated held to maturity deposits	2,678	2,682
Other	–	3
Total non-current	34,778	35,961
US dollar denominated term deposits	887,214	980,958
Great Britain pound denominated term deposits	2,473	2,299
Total current	889,687	983,257
	924,465	1,019,218

As at December 31, 2017 the non-current US dollar denominated term deposits include restricted deposits in the amount of 32,100 million Tenge (December 31, 2016: 33,276 million Tenge), which are kept in blocked accounts designated as a liquidation fund per requirements of subsoil use contracts.

The weighted average interest rate on US dollar denominated term deposits as at December 31, 2017 was 1.73% (2016: 2.37%).

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***7. FINANCIAL ASSETS (continued)***Trade and other receivables*

	2017	2016
Trade receivables	131,272	73,348
Dividend receivables	1,121	670
Other	1,291	1,178
Allowance for doubtful receivables	(1,004)	(1,075)
	132,680	74,121

As at December 31, 2017 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGas Trading AG ("KMG Trading") a subsidiary of the Parent Company, amounting to 90,323 million Tenge (2016: 57,503 million Tenge).

As at December 31, 2017 the Company's trade receivables also included receivables from sales of refined products to KazMunaiGas Onimderly LLP ("KMG Onimderly"), subsidiary of the Parent Company, amounting to 36,874 million Tenge (2016: 13,704 million Tenge). Trade receivables from KMG Onimderly includes 22,714 million Tenge that is overdue (2016: nil). No provisions were accrued for these amounts.

As at December 31, 2017 69% of the Company's trade receivables are denominated in USD (2016: 78%).

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

	2017	2016
Current	108,969	73,606
0-30 days overdue	9,142	–
30-90 days overdue	14,277	444
90 and more days overdue	292	71
	132,680	74,121

Cash and cash equivalents

	2017	2016
US dollar denominated term deposits with banks	392,350	34,957
Tenge denominated term deposits with banks	19,613	30,078
US dollar denominated cash in banks and on hand	8,724	95,402
Tenge denominated cash in banks and on hand	728	1,467
Great Britain pound denominated cash in bank and on hand	228	187
	421,643	162,091

Cash in 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 as at December 31, 2017 was 7.91% (2016: 14.17%). The weighted average interest rate on US dollar denominated deposits in as at December 31, 2017 was 0.83% (2016: 1.79%).

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

	Ownership share	2017	2016
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	49,517	71,634
Interest in JV Ural Group Limited BVI ("UGL")	50%	78,031	72,898
		127,548	144,532

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***8. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (continued)**

Movement in investment in joint ventures during the reporting period:

	2017	2016
Carrying amount at January 1	144,532	154,453
Share of total comprehensive income	17,292	2,734
Dividends declared	(40,954)	(15,107)
Foreign currency translation difference	(442)	(2,698)
Share in additional paid in capital	7,120	5,150
Carrying amount at December 31	127,548	144,532

Kazgermunai and UGL 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:

	2017	2016
Cash and cash equivalents	37,914	39,695
Other current assets	8,467	11,151
Non-current assets	135,767	153,839
	182,148	204,685
Current liabilities	54,424	33,907
Non-current liabilities	28,691	27,510
	83,115	61,417
Net assets	99,033	143,268
Proportion of the Company's ownership	50%	50%
Carrying value of the investment	49,517	71,634
	2017	2016
Revenue	187,527	155,633
Operating expenses	(96,410)	(126,851)
- including depreciation and amortization	(28,021)	(36,325)
- including equity method accounting adjustments	(6,051)	(8,393)
Profit from operations	91,117	28,782
Finance income	1,306	946
Finance cost	(1,015)	(1,231)
Profit before tax	91,408	28,497
Income tax expense	(53,071)	(19,873)
Profit and other comprehensive income for the year	38,337	8,624
The Company's share of the comprehensive income for the year	19,169	4,312

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

Notes to the Consolidated Financial Statements (continued)*Tenge million 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:

	2017	2016
Cash and cash equivalents	47	297
Other current assets	10	13
Non-current assets	219,834	215,892
	219,891	216,202
Current liabilities	188	1,743
Non-current financial liabilities	54,733	57,970
Non-current liabilities	8,908	10,694
	63,829	70,407
Net assets	156,062	145,795
Proportion of the Company's ownership	50%	50%
Carrying value of the investment	78,031	72,898

	2017	2016
Revenue	8	40
Operating expenses	(1,197)	(1,373)
Loss from operations	(1,189)	(1,333)
Finance income	17	17
Finance cost	(1,890)	(1,652)
Loss before tax	(3,062)	(2,968)
Income tax expense	(691)	(187)
Loss and other comprehensive loss for the year	(3,753)	(3,155)
The Company's share of the comprehensive loss for the year	(1,877)	(1,578)

During 2017 the Company provided interest free loans in the amount of 3,734 thousand US dollars (1,218 million Tenge) to UGL (2016: 10,950 thousand US dollars or 3,742 million Tenge). On initial recognition the loans were recognised at the fair value of 1,011 thousand US dollars (330 million Tenge) determined by discounting future cash flows (2016: 3,655 thousand US dollars or 1,249 million Tenge). Investments in UGL were adjusted accordingly to recognize effect of discounting.

During 2017 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 2023-2024 to 2023-2026. This extension resulted in a decrease of the carrying amount of these loans by 6,198 million Tenge. Carrying value of the loans from UGL totaled 84,403 thousand US dollars (28,049 million Tenge) at December 31, 2017 (2016: 88,927 thousand US dollars or 29,638 million Tenge).

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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***8. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (continued)***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 508.8 million US dollars (169,101 million Tenge) as at December 31, 2017 (2016: 512.3 million US dollars or 170,760 million Tenge). The Total Maximum Amount represents the balance of 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 recognizes in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount of 26.9 million US Dollars which yields an effective interest rate of 15% per annum on an annual basis until 2020, plus the right to retain any dividends in excess of the total Maximum Guaranteed Amount. The carrying amount of this receivable at December 31, 2017 amounted to 114 million US dollars (37,953 million Tenge) (2016: 103 million US dollars or 34,227 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 dollars plus annual interest of 8% less the cumulative amount of the guaranteed payments received.

9. INVESTMENTS IN ASSOCIATE

	Ownership share	2017	2016
Interest in Petrokazakhstan Inc. (“PKI”)	33%	116,970	135,633

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

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

Movement in investment in associate during the reporting period:

	2017	2016
Carrying amount at 1 January	135,633	154,241
Share of the total comprehensive income / (loss)	3,592	(16,201)
Dividends declared	(21,530)	–
Foreign currency translation difference	(725)	(2,407)
Carrying amount at December 31	116,970	135,633

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

	2017	2016
Cash and cash equivalents	45,919	54,443
Other current assets	38,985	42,735
Non-current assets	359,332	433,384
	444,236	530,562
Current liabilities	30,659	20,300
Non-current liabilities	59,122	99,253
	89,781	119,553
Net assets	354,455	411,009
Proportion of the Company’s ownership	33%	33%
Carrying value of the investment	116,970	135,633

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***9. INVESTMENTS IN ASSOCIATE (continued)**

	2017	2016
Revenue	137,912	128,809
Operating expenses	(127,742)	(180,166)
- including depreciation and amortization	(25,781)	(45,265)
- including equity method accounting adjustments	(23,076)	(33,639)
Profit / (loss) from operations	10,170	(51,357)
Share in profit of joint ventures	23,371	7,282
Finance income	246	256
Finance cost	(3,279)	(5,217)
Profit / (loss) before tax	30,508	(49,036)
Income tax (expense) / benefit	(20,964)	2,570
Profit / (loss) for the year	9,544	(46,466)
Other comprehensive income / (loss) to be reclassified to profit and loss in subsequent periods	1,342	(2,628)
Total comprehensive profit / (loss) for the year	10,886	(49,094)
The Company's share of the comprehensive income / (loss) for the year	3,592	(16,201)

10. INVENTORIES

	2017	2016
Crude oil	11,134	7,915
Refined products	5,108	4,531
Materials	14,455	12,328
	30,697	24,774

As at December 31, 2017 the Company had 218,607 tons of crude oil and 73,168 tons of refined products (2016: 200,071 tons of crude oil and 92,696 tons of refined products) in storage and transit.

11. SHARE CAPITAL

	Shares outstanding	
	Number of shares	Tenge million
As at January 1, 2016	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
Reduction of treasury stock due to exercise of share options	6,673	75
As at December 31, 2017	68,378,540	165,418

11.1 Share capital*Authorized shares*

The total number of authorized shares is 74,357,042 (2016: 74,357,042). 70,220,935 of authorized shares are ordinary shares (2016: 70,220,935) and 4,136,107 are non-redeemable preference shares (2016: 4,136,107). 43,087,006 of the outstanding shares are owned by the Parent Company as at December 31, 2017 (2016: 43,087,006). The shares of the Company have no par value.

Shares held in Treasury

As at December 31, 2017 the Company holds purchased ordinary and preference shares of 3,905,355 and 2,073,147, respectively (2016: 3,912,028 and 2,073,147).

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 2017 amounted to 289 Tenge per one ordinary and preferred share (2016: 25 Tenge per share for preferred shares).

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***11. SHARE CAPITAL (continued)****11.2 Employee share option plans**

The Company's share option plan elapsed in December 2016 and therefore no grants or expense were recognized during the year ended December 31, 2017 (2016: 1,410 million Tenge).

Under various existing employee option plans in prior years the Company granted share options to incentivize and reward key employees, senior executives, and member of the board of directors, except for independent directors. As at December 31, 2017 all previously granted options have vested.

Movement in the year

The following table illustrates the number of GDR's (No.) and weighted average exercise prices in US dollars per GDR (WAEP) of and movements in share options during the year:

	2017		2016	
	No.	WAEP	No.	WAEP
Outstanding at January 1	780,457	18.03	1,557,560	10.34
Granted during the year	–	–	625,391	–
Exercised during the year	(40,038)	–	(1,255,391)	–
Forfeited during the year	(29,359)	15.05	(24,015)	18.31
Expired during the year	–	–	(123,088)	13.00
Outstanding at December 31	711,060	19.17	780,457	18.03
Exercisable at December 31	711,060	19.17	780,457	18.03

The weighted average remaining contractual life for share options outstanding as at December 31, 2017 is 0.75 year (2016: 1.75 years). The range of exercise price for options outstanding at December 31, 2017 was 18.05 US Dollars – 26.10 US dollars per GDR (2016: 0.00 US Dollars – 26.10 US Dollars). The Company's option plan is an equity settled plan 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, 2017 the amount per share outstanding is 30,790 Tenge (2016: 28,240 Tenge).

12. EARNINGS PER SHARE

	2017	2016
Weighted average number of all shares outstanding	68,376,953	68,283,721
Profit for the year	195,359	131,576
Basic and diluted earnings per share, thousands tenge	2.86	1.93

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.

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***13. PROVISIONS**

	Environmental remediation	Taxes and related fines and penalties	Asset retirement obligation	Employee benefits	Total
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
At January 1, 2017	14,256	43,386	17,170	16,414	91,226
Additional provisions	8,592	2,074	2,248	1,114	14,028
Unused amounts reversed	–	(15,982)	(265)	–	(16,247)
Unwinding of discount	1,598	–	1,732	1,567	4,897
Changes in estimate	(458)	–	(41)	496	(3)
Used during the year	(1,164)	(6,542)	(902)	(1,653)	(10,261)
At December 31, 2017	22,824	22,936	19,942	17,938	83,640
Current portion	5,824	22,936	1,543	1,492	31,795
Non-current portion	17,000	–	18,399	16,446	51,845

Environmental remediation and asset retirement obligation

An obligation has been recognized for asset retirement costs associated with the approved plan to return depleted oil fields to the Government. The Company has recognized an additional provision for environmental remediation related to historical contamination at its oil and gas fields. The Company engaged external consultants to estimate the provisions.

Employee benefits

The Company has collective labor agreements for social benefits of employees. Employee benefits are considered as other long-term employee benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected cost of these benefits is accrued over the year of employment using the same accounting methodology as used for the defined benefit plan. These benefits are unfunded.

Change in employee defined benefit obligations during 2017 and 2016 are as follows:

	2017	2016
Present value of defined benefits obligation at the beginning of the year	16,414	16,256
Current service cost	1,092	1,001
Interest cost	1,567	1,278
Past service cost	–	90
Actuarial losses / (gains) – charged to profit and loss	22	(48)
Actuarial losses / (gains) – charged to other comprehensive income	496	(563)
Benefits paid	(1,653)	(1,600)
Present value of defined benefits obligation at the end of the year	17,938	16,414
Less: current portion of present value of defined benefit obligation	1,492	1,233
Non-current portion of present value of defined benefits obligation	16,446	15,181

	2017	2016
Present value of defined benefits liability at the end of the year	17,938	16,414
Net liabilities	17,938	16,414
Current service cost	1,092	1,001
Interest cost	1,567	1,278
Past service cost	–	90
Actuarial losses / (gains)	22	(48)
Costs recognised during the year	2,681	2,321

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***14. REVENUE**

	2017	2016
Export:		
Crude oil	709,619	512,699
Refined products	68,826	54,733
Gas products	125	162
Domestic:		
Refined products	154,244	126,676
Gas products	10,246	7,683
Crude oil	–	15,459
Other sales and services	13,397	9,742
	956,457	727,154

15. PRODUCTION EXPENSES

	2017	2016
Employee benefits	163,866	152,422
Refinery processing costs	54,742	48,548
Repairs and maintenance	34,201	24,434
Materials and supplies	21,898	21,007
Energy	21,534	20,958
Change in environmental remediation provision	8,134	(3,463)
Transportation services	7,167	5,435
Change in asset retirement obligation	288	(3,790)
Change in crude oil balance	(3,362)	1,303
Other	10,005	7,899
	318,473	274,753

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Transportation expenses	102,971	91,851
Employee benefits	19,059	18,331
Consulting and audit services	4,396	3,238
Repairs and maintenance	1,389	1,212
Sponsorship	1,038	2,093
Agency fee	–	5,407
Net reversal of fines and penalties	(5,258)	(14,117)
Other	11,729	7,007
	135,324	115,022

17. TAXES OTHER THAN ON INCOME

	2017	2016
Export customs duty	100,962	76,411
Mineral extraction tax	91,565	39,188
Rent tax	79,888	18,164
Property tax	6,568	6,699
Other taxes	9,087	4,969
	288,070	145,431

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***18. FINANCE INCOME / COSTS****18.1 Finance income**

	2017	2016
Interest income on deposits with banks	21,383	19,157
Interest income on receivable from joint ventures and jointly controlled entity	8,146	8,873
Other	231	2,007
	29,760	30,037

18.2 Finance costs

	2017	2016
Unwinding of discount on asset retirement obligation	1,732	1,670
Unwinding of discount on ecology remediation obligation	1,598	1,265
Valuation allowance on loan to KS EP	–	1,404
Other	981	1,503
	4,311	5,842

19. INCOME TAXES

Income tax expense comprised the following for the years ended December 31:

	2017	2016
Corporate income tax	45,084	17,936
Excess profit tax	2,290	(1,203)
Current income tax	47,374	16,733
Corporate income tax	(482)	20,514
Excess profit tax	(1,274)	(171)
Deferred income tax	(1,756)	20,343
Income tax expense	45,618	37,076

The following table provides a reconciliation of the Kazakhstan income tax rate to the effective tax rate of the Company on profit before tax.

	2017	2016
Profit before tax	240,977	168,652
Income tax	45,618	37,076
Effective tax rate	19%	22%
Statutory income tax	20%	20%
Increase / (decrease) resulting from		
Withholding tax	1%	1%
Excess profit tax	1%	–
Income tax of prior years	1%	(2%)
Reversal of tax provision	(4%)	–
Share of result of associate and joint ventures	(2%)	1%
Non-taxable income	–	(1%)
Allowance for VAT recoverable	(2%)	(2%)
Non-deductible expenses	4%	5%
Effective tax rate	19%	22%

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***19. INCOME TAXES (continued)**

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, 2016	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
Recognised in the statement of comprehensive income	(12,884)	3,390	9,521	1,729	1,756
At December 31, 2017	26,458	15,544	9,774	1,439	53,215

Deferred tax liabilities:

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2016	(240)	–	–	–	(240)
Recognised in the statement of comprehensive income	102	–	–	–	102
At December 31, 2016	(138)	–	–	–	(138)
At December 31, 2017	(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.

Sales and purchases with related parties during the twelve months ended December 31, 2017 and 2016 and the balances with related parties at December 31, 2017 and December 31, 2016 are as follows:

	2017	2016
Revenue and other income		
Entities under common control	831,309	632,678
Other state controlled entities	32	165
Associate	22	34
Joint ventures	4,819	4,391
Purchases of goods and services		
Entities under common control	100,190	102,248
Other state controlled entities	21,782	21,363
Joint ventures	1,207	1,189
Interest earned on financial assets		
Interest earned on loans to Joint ventures	4,393	6,660
Average nominal interest rate on loans to Joint ventures	0.00%	1.04%
Valuation allowance on financial assets		
Joint ventures	–	3,783
Salaries and other short-term benefits		
Members of the Board of Directors	378	300
Members of the Management Board	461	549
Share-based payments		
Members of the Management Board	–	914

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***20. RELATED PARTY TRANSACTIONS (continued)**

	December 31, 2017	December 31, 2016
Trade and other receivables, prepaid expenses		
Entities under common control	134,513	77,992
Joint ventures	67,898	64,626
Other state controlled entities	1,611	872
Associate	5	11
Trade payables		
Entities under common control	3,308	3,771
Joint ventures	781	684
Other state controlled entities	695	275

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 5,700,842 tons of crude oil in 2017 (2016: 4,945,797 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 128,012 Tenge in 2017 (2016: 107,433 Tenge).

During 2017 and 2016 there were no export sales of refined products to related parties. Domestic sales of refined products to related parties represented 891,126 tons of refined products (2016: 847,569 tons) sold to KMG Onimderly, subsidiary of Parent Company.

Purchases and payables

Transportation services related to the shipment of 5,945,000 tons of crude oil (2016: 6,256,857 tons) and transshipment of 2,288,469 tons of crude oil to Caspian Pipeline Consortium collection point in 2017 (2016: 2,148,682 tons) were purchased from a subsidiary of the Parent Company for 36,178 million Tenge in 2017 (2016: 33,602 million Tenge).

The Company purchased processing services from subsidiaries of the Parent Company for 54,742 million Tenge (2016: 54,468 million Tenge). 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 amortization of share based payments over the vesting period. During 2017 the Company did not grant any options to the members of the Management Board (2016: 411,728 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, 2017 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 dollar exchange rate, with all other variables held constant (due to changes in the fair value of monetary assets and liabilities).

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)***Foreign currency risk (continued)*

	Increase/ decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2017		
US dollar	+ 10.00%	91,980
US dollar	- 10.00%	(91,980)
2016		
US dollar	+ 13.00%	127,774
US dollar	- 13.00%	(127,774)

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 credit ratings, unless otherwise stated.

Banks	Location	Rating ¹⁰		2017	2016
		2017	2016		
Halyk Bank	Kazakhstan	BB (negative)	BB (negative)	254,240	316,322
Mizuho Bank	UK	A (stable)	A (stable)	168,561	–
ING Bank	Netherlands	A + (stable)	A (stable)	166,856	158,566
Societe Generale	UK	A (stable)	A (stable)	164,948	162,469
BNP Paribas	UK	A (stable)	A (stable)	161,740	166,295
Bank of Tokyo Mitsubishi	UK	A (stable)	A+ (negative)	161,481	–
HSBC bank plc	UK	AA – (stable)	AA – (negative)	113,319	166,836
Kazkommertsbank	Kazakhstan	B+ (watch positive)	B – (negative)	74,485	157,844
Credit Suisse	Switzerland	A (stable)	A (stable)	39,338	25,473
ABN Amro	Netherlands	A (positive)	A (stable)	33,354	–
ATF bank	Kazakhstan	B (negative)	B (negative)	5,302	9,636
Bank of Scotland	UK	A (positive)	A (negative)	2,472	2,299
Citi bank N.A.	UK	A + (stable)	A+ (stable)	3	13,514
Bank RBK	Kazakhstan	CCC (watch dev)	B – (stable)	–	1,789
Other				9	266
				1,346,108	1,181,309

¹⁰ Source: official sites of the banks and rating agencies as at December 31 of the respective year

Notes to the Consolidated Financial Statements (continued)*Tenge million 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, based on contractual undiscounted payments:

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

At December 31, 2017	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	639	4,961	1,810	1,008	8,418
Trade and other liabilities	77,745	–	–	–	–	77,745
	77,745	639	4,961	1,810	1,008	86,163

Commodity price risk

The Company is exposed to the effect of fluctuations in the price of crude oil, which is quoted in US dollars 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, 2017 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, 2017 and 2016.

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.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

23. COMMITMENTS AND CONTINGENCIES (continued)

Local market obligation

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. The price for such supplies of crude oil prior to April 1, 2016, was subject to agreement with the Parent Company and this price could have been materially below international market prices. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Company's business, prospects, financial condition and results of operations.

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

In regards to refined products, the Kazakhstan government also requires to supply a major portion of oil products, specifically light distillates, to meet domestic fuel requirements and to support agricultural producers during spring and autumn sowing campaigns. This is achieved by either refusal to allow export of light distillates or by issuing quotas to supply agricultural producers. Local market oil products prices are significantly lower than international market prices and domestic prices for some of the refined products and 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, 2017.

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

2009-2012 Comprehensive tax audit

On December 11, 2017 the final decision of the Supreme Court related to the Company's appeal of the tax audit results for the 2009 to 2012 tax years was issued and final assessment amounted to 6,534 million Tenge that includes principal, fines and penalties. Accordingly, the tax provision in the amount of 7,031 million Tenge was reversed in these financial statements.

VAT recoverability

In May and June 2017 EmbaMunaiGas JSC and OzenMunaiGas JSC received acts of tax audits for the period 2012 to 2015 that confirmed the Company's right to reimburse VAT receivable for the amounts of 4,033 million Tenge and 26,073 million Tenge, respectively. The tax acts also confirmed that 2,053 million Tenge and 2,006 million Tenge of VAT were not recoverable for EmbaMunaiGas JSC and OzenMunaiGas JSC, respectively.

In these financial statements, the Company has reversed 30,106 million Tenge of previously accrued VAT allowance. Total remaining VAT allowance as at December 31, 2017 is 10,668 million Tenge.

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.

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***23. COMMITMENTS AND CONTINGENCIES (continued)***Oilfield licenses (continued)*

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 comprehensive 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 Energy 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:

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

Commitments arising from oilfield and exploration licenses

Year	Capital expenditures	Operational expenditures
2018	136,903	4,538
2019	12,140	3,758
2020	4,440	3,709
2021-2048	–	17,053
	153,483	29,058

Commitments of Kazgermunai

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

Year	Capital expenditures	Operational expenditures
2018	6,049	5,255

Commitments of UGL

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

Year	Capital expenditures	Operational expenditures
2018	589	490

Commitments of PKI

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

Year	Capital expenditures
2018	685

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

24. SUBSEQUENT EVENTS





Refund of VAT

In February 2018 4,683 million Tenge of VAT related to 2016 was received by OzenMunaiGas JSC.

Tender offer

On December 8, 2017 the Company announced the launch of a conditional tender offer (the “Tender Offer”) to repurchase all of its outstanding GDRs at a price of 14.00 US Dollars per GDR. According to the result on extraordinary general meeting held on January 22, 2018 the Tender Offer became unconditional in all respects. On January 23, 2018 the Company announced the launch of an unconditional offer to repurchase all of its Common Shares (the “Share Offer”) placed on KASE at a price of 84.00 US Dollars per Common Share payable in Tenge. The first settlement of the Tender Offer and the Share offer is scheduled on February 19, 2018 and will require a payment of approximately 1.9 billion US Dollars if both offers are accepted in their entirety.

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, 2018:

Chief Executive Officer	 _____	Iskaziye K. O.
Chief Financial Officer	 _____	Abdulgafarov D. Y.
Financial Director-Financial Controller	 _____	Drader S., CA
Chief Accountant	 _____	Zainelova A. A., CPA

Contact information

The Company's registered office is:

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Fax: +7 (7172) 975 445

www.kmgep.kz

Information for shareholders

Annual General Meeting of Shareholders

The Annual General Meeting of shareholders will be held on 22 May 2018 at 10:00 am at 17, Kabanbai Batyr avenue (location of the Company's executive body), Assembly Hall, 3rd floor, Astana, Kazakhstan.

Website

Information about the Company, including details of its activities, press releases and annual and interim reports, is available on the Company's website at www.kmgep.kz.

Shareholder 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: AO Ediny regulator tsennykh bumag, Satpaeva st. 30A/3, Almaty, 050040, Republic of Kazakhstan. Tel: +7 (727) 272 4760
- Holders of global depositary receipts (GDRs): Deutsche Bank Trust Company Americas, Depositary Receipts Group, 60 Wall Street, New York, NY 10005, USA. Tel: +1 (212) 250 9100, Fax +1 (732) 544 6346, 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 GDRs redeemed for completion of the Company's option programme and being held in trust (as of 31 December 2017, 8,268,058 GDRs), as well as shares bought back in accordance with the Company's own share buyback programme (as of 31 December 2017, 2,527,860 ordinary shares and 2,073,147 preference shares).

(2) As of 31 December 2017, shares of the Company were in circulation on the Kazakhstan Stock Exchange, while the global depositary receipts are listed on the London Stock Exchange. One GDR corresponds to 1/6 of an ordinary share.

Contact information

Company's registered office

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*(queries from institutional
investors)*

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Registrar

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bumag
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Depositary bank

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Reference information

Abbreviation	Explanation
1P reserves	Proved reserves
2P reserves	Proved and probable reserves
3P reserves	Proved, probable and possible reserves
ANPZ	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 operational risks for the benefit of its shareholders.
CIT	Corporate income tax
CIS	Commonwealth of Independent States
CGP	Central gathering plant
CPC	Caspian Pipeline Consortium. The 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 Lents, Ltd	Independent international consultancy specialising in hydrocarbon reserve assessment.
ECD	Export customs duty
EMG	JSC Embamunaigas, one of 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	JSC Karazhanbasmunai
KCP	Kazakhstan-China pipeline
KGM	JV Kazgermunai LLP
KMG RM	JSC KazMunaiGas Refining and Marketing
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; a joint stock company with 90% of its shares held by the Samruk-Kazyna Sovereign Wealth Fund 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	JSC Ozenmunaigas, 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
PNHZ	Pavlodar Petrochemical Plant LLP
Samruk-Kazyna Holding	Kazakhstan Sovereign Wealth Fund managing state assets and shares of national companies.
Standard & Poor's/Fitch Ratings/Moody's	International ratings agencies that award short-term and long-term credit ratings.

Tonne-to-barrel conversion	In the case of KMG EP, 7.36 bbl/tonne; KGM, 7.70 bbl/tonne; KBM (CCEL), 6.68 bbl/tonne; PKI, 7.75 bbl/tonne; other, 7.33 bbl/tonne.
TP	JSC Turgay Petroleum.
UAS	Uzen-Atyrau-Samara, a 1,500km-long oil pipeline across the Atyrau and Mangistau regions to Russia.
UBR	LLP Drilling Well-Servicing Division
UTTiOS	LLP Support Service Vehicles and Well-Servicing Division