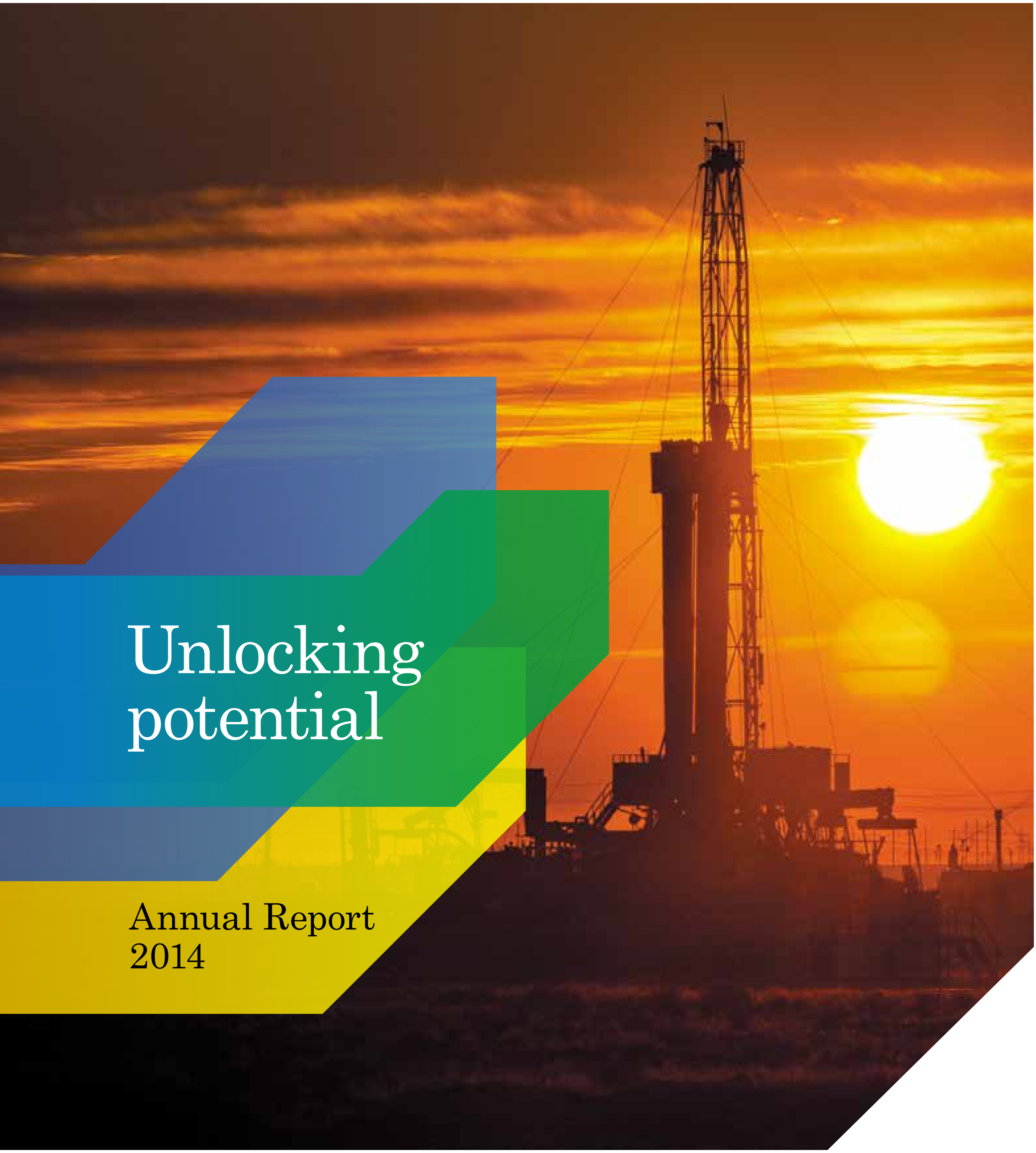
ҚазМұнайГаз
БАРЛАУ ӨНДІРУ АКЦИОНЕРЛІК ҚОҒАМЫ



# Unlocking potential

## Annual Report 2014

# KazMunaiGas Exploration Production JSC is the largest Kazakhstan oil and gas company listed on the Kazakhstan and London Stock Exchanges and one of the top oil producers in Kazakhstan.

KazMunaiGas Exploration Production JSC (KMG EP or 'the Company') was formed in March 2004 through the merger of Ozenmunaigas JSC (OMG) and Embamunaigas JSC (EMG).

Throughout 2014 the Company maintained its position as one of Kazakhstan's top oil producers, delivering a total of 12.3 million tonnes of crude oil (250 kbopd), including production from the Company's stakes in JV Kazgermunai LLP (KGM), CCEL and PetroKazakhstan Inc (PKI). As of year-end 2014, the proven and probable reserves of KMG EP, including its subsidiaries and joint venture interests, stood at 177 million tonnes (1.3 billion barrels), of which OMG, EMG, Kazakh Gas Processing Plant LLP and Ural Oil and Gas LLP (Fedorovskiy block) account for 132 million tonnes (1.0 billion barrels).

The Company's shares are listed on the Kazakhstan Stock Exchange (KASE) and its global depositary receipts (GDRs) are listed on the London Stock Exchange (LSE).

## Unlocking potential through…

# Contents




## Interview with the Chief Executive Officer

2014 was a jubilee year for the KMG EP. In 10 year we created the company and took it to the IPO in London and Kazakhstan. We significantly increased our portfolio of production and exploration assets and created a corporate governance framework in compliance with international standards.


## Corporate Governance

KMG EP was a pioneer among Kazakh companies in applying corporate governance practices in line with international standards. Investor confidence in the Company and its management hinges on the Company's corporate governance.

Unlocking potential through…

# …the efficient management of our core assets

We are continuing to unlock potential across our asset base by maintaining stable production and improving the effectiveness of our production process.

We continue to drive investment across our business to ensure we remain one of the leading oil and gas companies in Kazakhstan.

## By utilising state-of-the-art technologies for oil recovery

The ages of our oil fields vary between 10 and 100 years so it is important that we use the most appropriate methods to improve oil recovery efficiency. During 2014 we began testing a new type of technology – polymer flooding.

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## By modernising and upgrading our assets and operations

We are carrying out a modernisation programme to ensure that production forecasts are more accurately estimated and our production rates are more precisely controlled. We are continually investing to replace obsolete equipment, construct new production facilities and introduce new technologies to ensure we become a more modern and productive organisation and meet the highest standards of compliance with health and safety and environmental protection requirements.

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## By planning our production for 2015

Planned production in 2015 is expected to be around 5.4 million tonnes (109 kbopd) from JCS Ozenmunaigas (OMG) and 2.8 million tonnes from JCS Embamunaigas (EMG). This will be around a 1% increase on our 2014 production output.

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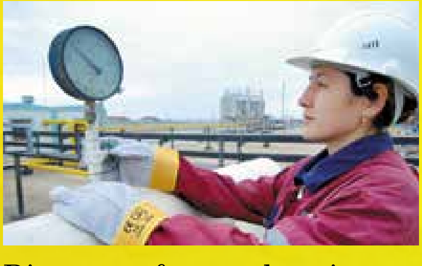
Unlocking potential through…

# …through new discoveries

We are focused on strengthening our leading position through the exploration of the most promising blocks.

Maximising the potential of our oil and gas portfolio also requires the selective acquisition of oil and gas producing assets in Kazakhstan and internationally.



## Discovery of a new deposit

During the year a new oil deposit was discovered at the Rozhkovskoye field. Ural Group Limited (UGL), of which KMG EP acquired a 50% stake in 2011, is exploring the Rozhkovskoye field. The discovery in this deposit confirms the high potential of this asset.

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## Memorandum on cooperation in the field of exploration

In February 2015, KMG EP and the Committee of Geology and Subsoil Use of the Ministry for Investments and Development of the Republic of Kazakhstan signed a Memorandum on Mutual Cooperation in the field of explorations aimed at improving exploration efficiency and conducting geological of hydrocarbon crude in Kazakhstan.

**See page 33**

Unlocking potential through…

# …maintaining social stability

We believe that a consideration of corporate social responsibility is integral to ensuring the protection of the long term interests of all our stakeholders.

Our business operations are often the sole source of both social and economic development in the regions where we operate. We fully acknowledge our responsibilities to maintain social stability in these regions.

## By providing training and development for all staff

The motivation and commitment of our employees is essential in driving our business forward. The recruitment, retention, training and development of motivated and effective staff will be key to our future success. We provide training and skills development of our employees on an annual basis. We also hold extensive corporate training courses, workshops and modular training programmes for our employees to help them understand the company's corporate and strategic development. In 2014, more than 43,000 KMG EP group employees completed in-company training.

**See page 70**

## By ensuring stability of fair wages

In April 2014 a Unified System of Wages for employees working in exploration and production divisions was implemented throughout the NC KMG Group. Specialists from subsidiaries of the group spent 18 months determining the best way to address the issue. The new system of wages is based on a unified rate matrix.

**See page 68**

## Maintaining social stability in the regions

We provide employment to more than 26,000 people in several regions of Kazakhstan. We continue to improve employment conditions by investing in the construction of social facilities alongside our industrial operations. It is important that we maintain social stability in these regions and we have made significant investments in the construction of schools, living quarters, health and sports centres, civic centres and other facilities.

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# About Us

## Mission

KMG EP's mission is to produce hydrocarbons in an efficient and sustainable manner that will maximise benefits for its shareholders, create long-term economic and social value for the regions where it operates, and help each employee realise his or her potential.

## Strategy

Since its flotation on the London and Kazakhstan Stock Exchanges in 2006, KMG EP has followed its shareholder-approved strategy. Having successfully achieved its earlier objectives, KMG EP updated its strategy in 2010 while keeping its core principles unchanged. The aim of KMG EP is to maximise the Company's potential and to continue further development, taking into account current market conditions and the interests of shareholders, and to seek opportunities to increase the Company's resources.

The Company's strategy for its existing fields involves maintaining basic levels of production, cost optimization, improving the efficiency of business and technological processes, and raising the levels of oil recovery. All these measures are aimed at improving production efficiency.

The Company's strategic goals are focused on strengthening the Company's prominent position, and further consolidation of oil and gas assets. In order to achieve these goals the Company plans to search for promising new blocks, explore existing blocks and expand its oil and gas portfolio through the acquisition of producing assets in Kazakhstan and abroad.

## Ownership structure

KMG EP

Producing assets
- JSC Ozenmunaigas 100%
- JSC Embamunaigas 100%

Producing joint ventures and associates
- JV Kazgermunai LLP 50%
- CCEL (JSC Karazhanbasmunai) 50%
- PetroKazakhstan Inc. 33%

Exploration assets
- KMG EP LLP exploration assets (formerly SapaBarlau Service) 100%
- LLP Ural Oil and Gas 50%
- KS EP Investments BV (LLP Karpovskiy Severniy) 51%

## Financial and operational highlights

**2P reserves[1]**
million tonnes
132mt -11.0%

| | |
|---|---|
| 2014 | 132 |
| 2013 | 149 |

**Oil production[2]**
million tonnes per year
12.3mt -0.5%

| | |
|---|---|
| 2014 | 12.3 |
| 2013 | 12.4 |

**Sales[2]**
million tonnes per year
12.2mt -1.2%

| | |
|---|---|
| 2014 | 12.2 |
| 2013 | 12.3 |

**Exports[2]**
million tonnes per year
7.5mt -23.7%

| | |
|---|---|
| 2014 | 7.5 |
| 2013 | 9.8 |

**Revenue[1]**
billion KZT
₸ 846 +3.6%

| | |
|---|---|
| 2014 | 846 |
| 2013 | 817 |

**Net profit**
billion KZT
₸ 47 -66.8%

| | |
|---|---|
| 2014 | 47 |
| 2013 | 142 |

**Capital expenditure[1]**
billion KZT
₸ 128 -11.1%

| | |
|---|---|
| 2014 | 128 |
| 2013 | 144 |

**Net cash[3]**
billion KZT
₸ 727 +18.0%

| | |
|---|---|
| 2014 | 727 |
| 2013 | 616 |

**Brent**
US$/bbl
US$ 99.0 -8.9%

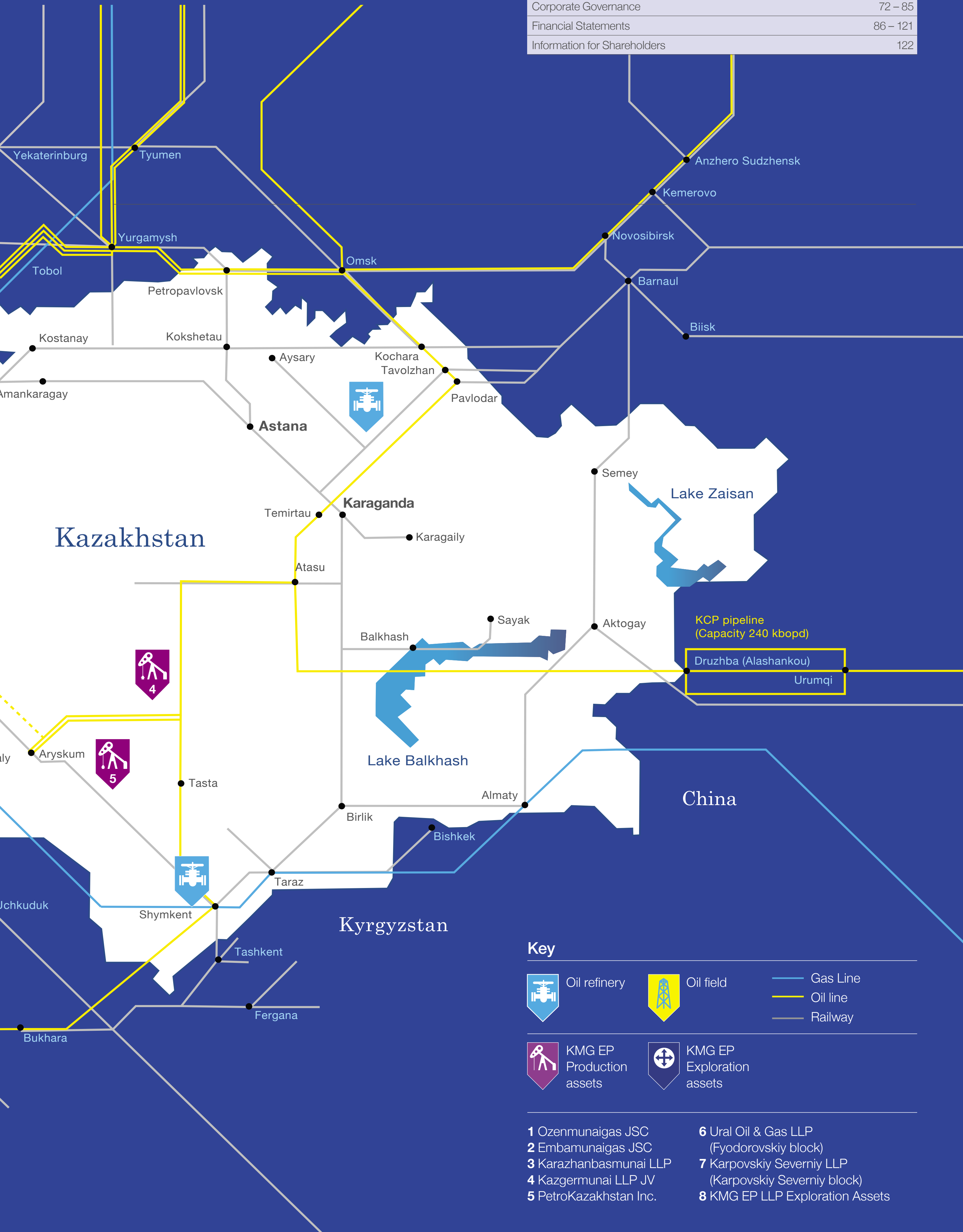
| | |
|---|---|
| 2014 | 99.0 |
| 2013 | 108.7 |

**Dividend per share**
tenge
₸ 440 -78.0%

| | |
|---|---|
| 2014 | 440 |
| 2013 | 1,976 |

[1] Excluding interest in KGM, CCEL and PKI.
[2] Including interest in KGM, CCEL and PKI.
[3] Cash, cash equivalents and other financial assets less borrowings.

# Where we operate



Yekaterinburg
Tyumen
Anzhero Sudzhensk
Kemerovo
Novosibirsk
Yurgamysh
Tobol
Omsk
Barnaul
Petropavlovsk
Biisk
Kostanay
Kokshetau
Aysary
Kochara
Tavolzhan
Amankaragay
Pavlodar
Astana
Semey
Lake Zaisan
Temirtau
Karaganda
Kazakhstan
Karagaily
Atasu
Sayak
Aktogay
KCP pipeline
(Capacity 240 kbopd)
Balkhash
Druzhba (Alashankou)
Urumqi
4
Aryskum
5
Lake Balkhash
Tasta
Almaty
China
Birlik
Bishkek
Taraz
Uchkuduk
Shymkent
Kyrgyzstan
Tashkent
Fergana
Bukhara
Key
Oil refinery
Oil field
Gas Line
Oil line
Railway
KMG EP
Production
assets
KMG EP
Exploration
assets
1 Ozenmunaigas JSC
2 Embamunaigas JSC
3 Karazhanbasmunai LLP
4 Kazgermunai LLP JV
5 PetroKazakhstan Inc.
6 Ural Oil & Gas LLP
(Fyodorovskiy block)
7 Karpovskiy Severniy LLP
(Karpovskiy Severniy block)
8 KMG EP LLP Exploration Assets

# Competitive advantages and industry position

## Competitive advantages and industry position

### The largest oil and gas company in Kazakhstan with shares listed on LSE and KASE

National Company KazMunayGas (NC KMG) is the Company's majority shareholder, holding 57.9% of the common and preferred shares. Under the three share buyback programmes in 2009-2012 the Company repurchased 8.3% of the total common and preferred shares. China Investment Corporation (CIC), the state investment fund of the People's Republic of China, holds roughly 11% of the common shares (10.4% of common and preferred shares), while the remaining shares are held by institutional investors from the UK, continental Europe, the US, Asia, and Kazakhstan.

### Pre-emptive access to Kazakhstan's onshore oil and gas assets

NC KMG has the right to enter into contracts for subsoil use at unlicensed areas without participating in competitive tenders, but on the basis of direct negotiations. NC KMG is entitled to purchase on behalf of the state both subsoil use rights, and the assets associated with these rights, in fields and associated sub-surface resources categorised as being of strategic importance. Operating as a subsidiary of NC KMG, KMG EP may avail itself of these rights should the economic interest be mutual.

The total amount of dividend for 2014

T 30 billion

In 2014 several amendments and additions were made to the law "on sub-surface reserves and sub-surface reserves usage", to establish procedures for the exercise of the government's priority rights through the participation of the sovereign wealth fund or the national company and to create a unified system of oil and gas production in Kazakhstan.

### Corporate governance complies with international standards and protects the rights of minority shareholders

KMG EP has been a pioneer among Kazakh enterprises in its extensive application of corporate governance practice in conformity with international standards. Over the years, this system has been put to the test under various conditions and market circumstances. The Company has invariably received highest praise for the effectiveness of its corporate governance from credit rating agencies, analysts, and from parent company NC KMG and Samruk-Kazyna.

### Successful partnerships and equity stakes in Kazakh oil and gas producers

At present, KMG EP holds 50% stakes in oil and gas production joint ventures Kazgermunai and CCEL (Karazhanbasmunai), as well as a 33% stake in PetroKazakhstan Inc. Each of these companies makes a tangible contribution to the development of Kazakhstan's petroleum sector and participates in the implementation of social programmes in its areas of operation. Relationships with these companies have proven successful and offer a strong foundation for the development of KMG EP.

### Substantial cash balance

KMG EP is financially robust and has sufficient cash for investments and dividend payments. As a result, the Company is in a position to continue searching for acquisition opportunities, either independently or with strategic partners who possess the relevant expertise and technology.

### Well-explored reserves base

The Company's core assets include a well-explored reserves base that is sufficient for long-term production.

## Share listings

During 2014 the maximum and the minimum price per KMG EP GDR on the London Stock Exchange was US$18.4 and US$12.7, respectively. The average price per GDR in 2014 was US$15.6.

During 2014 the maximum and the minimum price per KMG EP common share on the Kazakhstan Stock Exchange was KZT 20,000 and KZT 13,905, respectively. The average price per common share in 2014 was KZT 16,741.

During 2014 the maximum and minimum price of KMG EP preferred shares was KZT 17,101 and KZT 10,101, respectively. The average price per preferred share was KZT 13,353.

The Shareholders' Annual General Meeting approved a 2014 dividend of KZT 440 (for both common and preferred shares), including withholding taxes under Kazakhstan law. The total amount of dividend for 2014 was about 30 billion tenge[4] (approximately US$ 162 million)[5].

In July 2014 KMG EP announced that NC KazMunayGaz (NC KMG), KMG EP's majority shareholder, had made a preliminary approach to the independent directors of KMG EP about a possible offer for the ordinary shares in the Company it did not already own, at a price of US$18.5 per GDR. As of the date of the preliminary announcement the buyout price implied a 15% premium over KMG EP's GDR price.

Since the announcement of NC KMG's preliminary approach, the Independent Directors sought to engage with NC KMG and its advisers to achieve a satisfactory transaction. In December 2014 the Independent Directors of KMG EP indicated to NC KMG that they would recommend an offer of US$ 18.5 per GDR. Given the period of time that had elapsed, the Independent Directors were however discussing with KMG NC the payment and level of a dividend in respect of the year ended 31st December 2014. In January 2015 NC KMG withdrew the proposal.

At the end of 2014 KMG EP's GDRs and share prices fell, mainly due to the decline in crude oil prices. Sell-side analysts noted that "despite the importance of oil prices for KMG EP's performance and share price, the Company remains in a stable and robust financial position".

## Independent observer's assessments

In August 2013, Moody's assigned KMG EP a Baa3 rating with a positive outlook. Its baseline credit assessment of 11 (out of 21) reflects the sizeable scope of the Company's business, which is underpinned by its extensive resources and operational base, low debt, and solid cash flow figures. In 2014 the Company's rating remained unchanged. In March 2015, Moody's withdrew the long-term Baa3 rating with a positive outlook "for its own business reasons".

In 2013, Standard & Poor's assigned KMG EP a BBB- credit rating with a stable outlook. On a positive note, Standard & Poor's noted KMG EP's ability to generate free cash flows while maintaining a low debt load. In addition, Standard & Poor's highlighted "the stable profit margins maintained by KMG EP and its strong position as an oil and gas major controlled by the government via its major shareholder".

In February 2015, following the downgrading of Kazakhstan's sovereign credit rating from BBB+ to BBB, Standard & Poor's lowered the long-term credit rating of KMG EP's majority shareholder, NC KMG, and consequently of KMG EP, from BBB- to BB+, with a negative outlook. The downgrade is based on the fall in oil prices and the impact of the crisis in Russia on other Eurasian Economic Union states. "In line with our methodology we view KMG's role in the country's economy as 'critical', the agency's report says." In our view, if KMG were to default, this would have strong negative implications for the government of Kazakhstan and for other GREs in the country. KMG holds stakes in all of the significant oil operations in Kazakhstan. It is one of the country's largest exporters and taxpayers and has some social mandates, such as supplying the local market with fuel at fairly low prices and investing in socially important projects" – as S&P analysts note.

[4] Calculated based on number of shares outstanding as of April 7, 2015.

[5] Converted at the official National Bank of Kazakhstan rate as of April 7, 2015

# Chairman's Statement

**Christopher Hopkinson,**
First Deputy Chairman of the Management Board of JSC NC KazMunayGas

Chairman of the Board of Directors of KMG EP

"KMG EP aims to make efficient use of its resources and we believe this will allow us to achieve our goals for 2015 and stay resilient to negative external factors"

Last year was one of the most difficult years of the decade for the oil and gas industry. Slumping oil prices in the second half of 2014 impacted oil and gas companies throughout the world, regardless of their size. The market value of some oil and gas companies fell by 40-50% over this period. Kazakhstan's oil and gas industry did not avoid these negative trends, affected not only by falling crude oil prices globally but also by delays in starting oil production at Kashagan, in addition to the suspension of several offshore and onshore exploration projects for an indefinite term.

In spite of these complex market conditions, however, KMG EP achieved the targets set for 2014 and enjoys a sufficient margin of safety to continue working to increase shareholder value, even under conditions of macroeconomic instability. This is due to both the financial robustness of the Company and to its stable levels of production. In line with the business plan for 2015-2019, we intend to maintain production output at our core assets (OMG and EMG) without substantial reduction.

The new low level of crude oil prices will however undoubtedly affect the Company's financial position. Taking into account the volatility of oil prices, KMP EP intends to work on a planned reduction in non-production costs; primarily administrative expenses and infrastructure costs. Special attention will also be given to improving management systems and enhancing productivity.

The main focus of the Company's future development is to increase the efficiency of production from mature fields. This requires a series of measures to support production, including the optimisation of production costs, the implementation of energy saving policies, and research into enhancing oil recovery. As for the growth of KMG EP, we expect to achieve this through a gradual increase in the Company's asset portfolio in line with our business transformation process.

KMG EP aims to make efficient use of its resources and we believe this will allow us to achieve our goals for 2015 and stay resilient to negative external factors. We think that KMG EP is well prepared to face new challenges and will be able to maintain its previously leading position.

# About Kazakhstan

Kazakhstan is the ninth largest country in the world. Kazakhstan is one of the most developed countries in the region, with significant foreign investment and steadily increasing GDP per capita.

**Population** 17.4m

Kazakhstan is home to more than 100 ethnic groups

**Area** 2.7m $km^2$

Ninth largest country in the world by land area

**Currency**
₸ tenge
179.12₸/$

The average exchange rate in 2014

**Inflation**
in 2014
7.4%

**Real GDP**
growth in 2014
+4.3%

**Kazakhstan's resources include 99 elements from the periodic table** 99

# Interview with Abat Nurseitov, the Chief Executive Officer

**Abat Nurseitov**
Chief Executive Officer of KMG EP
KazMunaiGas Exploration
Production JSC

### 2014 was a jubilee year for KMG EP. What would you say are the major results of the decade?

We experienced many ups and downs during the first decade after creating the Company and taking it to IPO in London and Kazakhstan. We significantly increased our portfolio of producing and exploration assets and created a corporate governance framework in compliance with international standards, thereby protecting the rights of minority shareholders. KMG EP was one of the first Kazakhstan oil companies to implement corporate management principles that conform to global best practice. The Company was also one of the first in Kazakhstan to implement the practice of signing collective employment contracts with employees.

Over the past ten years we have been one of Kazakhstan's major taxpayers. Between 2004 and 2014 KMG EP paid over 2.7 trillion tenge (approx. US$ 19 billion) to the government and approximately 570 billion tenge (US$ 4.0 billion) in dividends to our shareholders. Approximately 60% of dividends go to the majority shareholder, state-owned NC KMG.

In the ten years since its formation, KMG EP has provided over 47 billion tenge in funding to social projects. This money has been used to build schools, kindergartens, healthcare facilities, playgrounds, sports clubs, cultural and fitness centres, a youth camp in Kendirly on the bank of Caspian Sea, and other socially important facilities.

Each year, the Company faces new challenges. However even in a complex, dynamic environment we aim to keep on meeting our obligations to our shareholders and employees.

"Each year, the Company faces new challenges. However even in a complex, dynamic environment we aim to keep on meeting our obligations to our shareholders and employees"

## Which were the most complex challenges of 2014?

Last year was rich in important events which materially affected the conditions and environment in which the Company operates. In February 2014, the national currency was devalued. We successfully maintained the planned level of capital investments despite the fact that 20-30% of our capital investments are pegged to foreign currencies. Other macroeconomic events included an increase in transportation tariffs and the rate of Export Customs Duty. Payroll costs increased as a result of the devaluation of the tenge and the implementation of a Unified System of Wages throughout the KMG group of companies.

The second half of the year was also marked by the decline of oil prices in international markets. This has become a serious challenge for KMG EP as our oil fields are mostly mature with high production costs. As a result of the fall in oil prices, the Company re-estimated recoverable assets and recognised an impairment loss of 228 billion tenge in the fourth quarter of 2014.

## How did these challenges affect the Company's production and financial results?

Throughout the year, production at our core production assets was stable and was carried out under the approved plan. In 2014 the cumulative oil production of OMG and EMG increased by 1% compared with 2013. The consolidated production volume of KMG EP, including its stakes in joint ventures and affiliated entities, amounted to 12.3 million tonnes of crude oil, nearly equivalent to 2013, production volumes in spite of a natural production decline at PKI and KGM.

Notwithstanding certain difficulties in 2014, we have initiated trial production at the Novobogatinskoye SE field of the Liman Block. The Aksai oil and gas field, part of our KGM joint venture, has been commissioned in the Kyzylorda region.

The discovery of new oil reserves in the Rozhkovskoye field has become a major milestone in our geological prospecting operations. We plan to start production at this field in 2017.

The Company plans to carry out a modernisation programme to ensure that production forecasts are more accurately estimated and production rates more precisely controlled. Through the implementation of this modernisation programme, investors will be better able to measure our successes and KMG EP will become a more modern company, thereby also meeting the highest standards of ergonomic operation in compliance with health and environmental protection requirements.

## Over the past several years KMG EP's social policy has remained one of the Company's priorities. Is this still crucial for management?

A responsible approach to each aspect of activity is the distinctive feature of our Company. We provide jobs to a huge team. More than 26,000 people are employed by our core and joint enterprises in few regions of Kazakhstan. We make every effort to foster a constructive environment for all of our staff and invest significant funds into the local communities where our production assets operate.

## What are the key operating goals for 2015?

Maintaining the stability of production and improving the efficiency of the production process are of course our top priorities. We make significant efforts in this regard, laying the groundwork for the Company's future financial stability. In this respect our Company is also open to cooperation with foreign partners to implement innovative technologies.

KMG EP is carrying out, and will continue to carry out, exploration activities aimed at enhancing its existing assets. We are ready to invest more in geological exploration, in the expectation that promising projects will be identified.

And, of course, ensuring social stability in our companies and the regions where we operate is considered a production task. We intend to continue to work in this direction and apply every possible effort to ensure social stability.

# Overview of the Kazakhstan oil & gas sector

Kazakhstan ranks among the world's top 15 countries by proven oil reserves, accounting for 1.8% of the global total. Oil and gas-rich regions cover 62% of the nation's surface area, comprising 172 oilfields, of which over 80 are in the development phase.

Over the past 20 years Kazakhstan's oil and gas industry has been the main driver of the country's economic growth. Oil production has more than tripled and gas output has risen five-fold while a large-scale system of hydrocarbon transportation has also been constructed. Oil is exported to more than 30 countries worldwide. Processing and petrochemical sectors are also being developed.

The oil and gas industry attracts about two-thirds of foreign investment in the Kazakhstan economy, and accounts for 70% of the country's exports. Kazakhstan's oil and gas sector not only supports the country's social and economic reforms but also ensures that Kazakhstan is one of the few countries with substantial potential for future oil production growth.

In 2014 the country's total crude oil production amounted to 80.8 million tonnes, including 67.9 million tonnes of crude oil and 12.9 million tonnes of condensate, which was 1.2% less than in 2013. In 2014 Kazakhstan's oil production was ranked 17th in the world. Natural gas extraction meanwhile amounted to 42.9 billion cubic metres, 1.6% greater than in 2013. In 2015 Kazakhstan plans to produce more than 80 million tonnes of oil.

Oil and gas-rich regions of Kazakhstan cover

**62%**
**of the nation's surface area**

Three giant fields – Tengiz, Kashagan and Karachaganak – each have reserves exceeding 1 billion tonnes of oil equivalent and rank among the top 60 fields worldwide. Peak production in these fields is still to come, with oil production from the Kashagan field now expected to start in late 2016. JV TengizChevroil LLP (TCO) produced 26.7 million tonnes of crude oil in 2014, and within several years will benefit from increased new capacity at the Tengiz oil field which is currently being developed. Implementation of the Future Growth Project (FGP) and associated Wellhead Pressure Management Project (WPMP) will increase TCO oil production by 12 million tonnes per year to 38 millions tonnes annually. Development concept and investment plans for the Karachaganak field are expected to be completed by 2017.

In 2014, Kazakhstan oil refineries processed 14.9 million tonnes of crude oil, 4% more than in 2013. According to current production plans approved by the Ministry of Energy 14.3 million tonnes of oil will be processed in 2015.

Kazakhstan currently imports some oil products to satisfy the domestic market. However, after the reconstruction and modernisation of the three national oil refineries, planned for completion by 2017, total refining capacity will increase to 18.5 million tonnes of oil per year, and will be able to fully meet the domestic demand for light oil products from domestic sources.

The total volume of crude oil and oil products transported by KazTransOil was 64 million tonnes in 2014. Kazakhstan continues to augment its oil transport potential to ensure future oil exports. During 2014, a major expansion project to increase the export capacity of the Caspian Pipeline Consortium (CPC) within Kazakhstan was progressed. Improved facilities for oil transportation to China were also commissioned.

Other oil and gas industry development plans include a large-scale project for the creation of an international oil consortium named Eurasia. This was presented to foreign investors in October 2013. The project involves exploration for, and the possible production of, oil and gas lying in deep formations in the Caspian Depression, 70% of which are in Kazakhstan and 30% in Russia. The Eurasia project is planned to run for 5 years at an estimated cost of US$ 500 million. Implementation is planned for 2015-2020, and involves extensive geological and geophysical exploration, and the drilling of wells to depths of 14-15 km.

Kazakhstan continues to liberalise legislation in the field of sub-surface management. In 2014 the President of Kazakhstan signed the Law “Concerning the Introduction of Amendments and Additions to some legislative acts of the Republic of Kazakhstan on sub-surface resource management issues”, which substantially simplifies the system governing the issue of sub-surface rights.

Oil production in 2014

80.8

million tonnes

Kazakhstan oil refineries processed

14.9

million tonnes of crude oil in 2014

# Overview of the Kazakhstan oil & gas sector continued

A simplified procedure based on the Australian process for granting sub-surface rights has replaced the system adopted during the Soviet period. Competitive tenders for sub-surface usage rights will now take place by auction. A number of amendments and additions were also made to the Law of Kazakhstan "On subsurface resources and subsurface use". These include the establishment of a procedure for the exercise of the government's priority rights through the participation of the national holding company, or other national companies, and the creation of a unified system of oil and gas production in Kazakhstan.

Considerable changes to the oil and gas market conditions occurred in 2014. Because of the sharp fall in oil prices, the Government of Kazakhstan decided to introduce measures to reduce both production and ancillary costs. The 2015 national budget was initially based on a crude oil price of US$80 per barrel. But in the middle of January 2015, the Ministry of National Economy revised the budget for 2015–2017 and re-based it on a lower Brent price of US$50 per barrel.

On 1 April 2014 the rate of Export Customs Duty (ECD) in Kazakhstan for crude oil was increased from US$60 to US$80 per tonne. Following the significant decline in global oil prices however the ECD rates for crude oil were reduced from US$80 back to US$60 per tonne with effect from March 2015.

Kazakhstan plans to supply Russia with about 2 million tonnes of crude oil 2015. This is according to the terms of an inter-governmental agreement between Russia and Kazakhstan under which the parties agreed on counter-deliveries of crude oil from Kazakhstan to Russia. This is to compensate the Russian Federation for budget losses in respect of oil products delivered from the Russian Federation to the Republic of Kazakhstan in 2012–2013.

Export customs duty rate in 2014

**US$80**

This issue dates back to 9 December 2010 when the governments of Russia and Kazakhstan signed a trade and economic cooperation agreement on the supply of oil and oil products to the Republic of Kazakhstan. Under this agreement oil was delivered from the Russian Federation to Kazakhstan on a duty free basis until 1 January 2014. After this date oil was supplied in the form of swaps.

In December 2013, the governments of Russia and Kazakhstan also signed an agreement for the transit of 7 million tonnes of Russian oil to China through Kazakhstan per annum. This agreement covers only the delivery of oil and oil products between Russia and Kazakhstan and does not affect sub–surface users directly.

**Sources of information: Ministry of Energy of Kazakhstan, Committee on Statistics of the Ministry of National Economy of Kazakhstan, “News-Kazakhstan”, Kazakhstan Today and Kapital.kz news agencies.**

The estimated cost of the ‘Eurasia’ project

**US$500 million**

# Milestones for the year


## Q1

- Deutsche Bank Trust Company Americas was appointed as depository for the Global Depository Receipts (GDR) Program of KMG EP while HSBC Bank of Kazakhstan became the new custodian.

- On 11 February 2014 the National Bank devalued the tenge (KZT) by approximately 20 percent and at the same time established a fluctuation corridor for the national currency which allowed it to trade within a 3KZT band either side of a 185KZT central rate for the US dollar. In September 2014, the National Bank widened the fluctuation corridor to 170-188 KZT per dollar. Since most of the Company's financial instruments were US dollar-denominated, this resulted in an exchange rate gain of US$ 637 million. Devaluation is positive for exporters including KMG EP, because operating costs are denominated predominantly in tenge while revenues (apart from domestic sales) are denominated in US dollars. Part of foreign currency-denominated operating costs include taxes, the calculation methodology of which is linked to the oil price, and to transportation costs, which are denominated in US dollars and roubles. The bulk of capital expenditure on the purchase of pumps, pipes and other equipment in Kazakhstan on the other hand is sourced locally and is denominated in tenge.

- The Board of Directors agreed to implement a Unified System of Wages for employees working in exploration and production (USoW) from 1 April 2014 onwards. This ruling included an overall employee benefits increase of 21 billion tenge (US$ 113 million) in the 2014 budget, including a 10% increase in wages and salaries linked to tenge devaluation.

- During the first three months of 2014 KMG EP, including its interests in Kazgermunai (KGM), CCEL and PetroKazakhstan Inc. (PKI), produced 3,048 thousand tonnes of crude oil (250 kbopd), an increase of 45 thousand tonnes (1%) over the same period in 2013.

- The Company's revenue in the first quarter of 2014 rose 9% to 220.8 billion tenge (US$ 1,301 million) over the same period in 2013. Net income amounted to 123.5 billion tenge (US$ 727 million). Operating costs increased 2% to 43.8 billion tenge (US$ 258 million) compared with the same period for 2013. This rise was largely due to an increase in payroll for employees working in production departments.

# Q2

## Q2

- In the first half of 2014, consolidated production after equity interests in KGM, CCEL, and PKI stood at 6,106 thousand tonnes (250 kbopd), which is 0.2% higher than the same period for 2013.

- According to an independent report from Miller & Lents there were only minor changes in the Company's reserves at the end pf 2013 compared with reserves a year earlier. 1P category oil reserves stood at 122.1 million tonnes (902 million barrels); 2P oil reserves stood at 148.8 million tonnes (1,101 million barrels); and 3P oil reserves amounted to 182.7 million tonnes (1,349 million barrels).

- The assessment of joint venture reserves is made separately by independent auditors. KMG EP's 50% share in both the overall 2P reserves of KGM and of CCEL and its 33% stake in PKI as at the end of 2013 amounted to 51 million tonnes (365 million barrels). As a result, the consolidated 2P reserves of KMG EP, including its stakes in KGM, CCEL, and PKI as of the end of 2013 amounted to 200 million tonnes (1,466 million barrels).

- KMG EP announced a new discovery in the Bashkirian tier of the Carboniferous period sediments in the Rozhkovskoye field (Fedorovskiy block, contract area of LLP Ural Oil and Gas).

The total amount of dividend for 2013

₸ 135 billion

- A Memorandum of Cooperation in the field of environmental protection was signed between the Ministry of the Environment and Water Resources and the Oil and Gas Ministry and NC KMG (as represented by KMG EP and OMG) with regard to the reduction of oil contaminated lands and waste disposal. The Memorandum provides for a range of measures on the removal of oil contaminated soil, and the disposal of waste deposited in 11 OMG sludge storage pits, to be completed by the end of 2021.

- The Shareholders' Annual General Meeting approved a 2013 dividend of 1,976 tenge per share (common and preferred) including withholding taxes under Kazakhstan law. The aggregate dividend for 2013 totalled about 135 billion tenge (approximately US$ 730 million).

- By Decree of the Government dated 18 June 2014, the Karazhanbas oil and gas field was recognised as marginally profitable. The rate of mineral extraction tax (MET) for that field was reduced to 0.5% from the previous 9-10%.

- KMG EP disposed of its interest in the Kazakh Institute of Oil and Gas by selling its shares (154,566 shares or 1.7% of the total outstanding shares) to NC KMG. The transaction was valued at 154.5 million tenge (US$ 0.8 million based on the exchange rate on the day of payment). Selling shares in this project is part of KMG EP's strategy of withdrawal from non-core assets.

- Over the first six months of 2014 the Company made a net profit of 210.3 billion tenge (US$ 1,193 million), compared with 38.8 billion tenge (US$ 257 million) in the same period of 2013. This was largely due to the significant foreign exchange gain before tax as a result of tenge devaluation in February 2014. Revenues amounted to 464.4 billion tenge (US$ 2,635 million), some 21% higher than the same period of 2013. Operating costs amounted to 88.5 billion tenge (US$ 502 million), 7% higher than the same period of 2013, largely due to the increase in payroll for employees working in production departments.

# Milestones for the year continued

Q3

## Q3

- During first nine months of 2014 KMG EP, including its interests in KGM, CCEL and PKI, produced 9,217 tonnes of crude oil (249 kbopd), marginally lower than the same period for 2013.

- In July 2014 NC KMG made a preliminary approach to the Independent Directors of KMG EP about a possible offer for the ordinary shares in the Company it did not already own at a price of US$18.5 per GDR. The offer was withdrawn in January 2015.

- Shane Drader assumed the role of Finance Controller-Finance Director on 14 August 2014 to replace Benjamin Fraser whose contract with KMG EP expired.

- During the first nine months of 2014 the Company's revenue amounted to 690.3 billion tenge (US$ 3,870 million), 14% higher than the same period of 2013. Net profit amounted to 242.0 billion tenge (US$ 1,357 million), 160% higher than the same period for 2013, largely due to the significant exchange gain from tenge devaluation in February 2014. Excluding the exchange gain, net profit before tax was 107.7 billion tenge, an increase of 53% compared with the same period for 2013. Production costs amounted to 144.6 billion tenge (US$ 811 million), 15% higher than the same period of 2013, largely due to the increase in payroll for employees working in production departments.

Over the first nine months of 2014 KMG EP produced

**9,217**

thousand tonnes of crude oil

Q4

## Q4

- The KMG EP Board of Directors approved the 2015 budget based on a Brent price of US$70 per barrel. Planned 2015 production at OMG is 5.4 million tonnes (109 kbopd) while EMG should produce 2.8 million tonnes (57 kbopd). The total planned production output for OMG and EMG in 2015 is 8.2 million tonnes (166 kbopd), 1% higher than in 2014. Capital expenditure of 115 billion tenge (US$621m[6] ) is planned for 2015.

- In 2014 KMG EP, including its interests in KGM, CCEL and PKI, produced 12,328 tonnes of crude oil (250 kbopd) which is 60,000 tonnes (1%) less than in 2013.

- The Aksai oil and gas field in the Kyzylorda region was commissioned. The development licence is owned by KGM based in the Kyzylorda region, a joint venture of KMG EP.

- Following the decision of the EGM of the Company to terminate Daniyar Berlibayev's tenure as Chairman of the Board of Directors of KMG EP, Christopher Simon Hopkinson, First Deputy Chairman of the Management Board of NC KazMunayGas JSC (NC KMG) was appointed as a member of the Board of Directors.

[6] On 30th March, 2015 the Board of Directors approved the revised 2015 budget based on an average Brent oil price of US$50 per barrel. Capital expenditure in 2015 is expected to be 84 billion tenge (US$457m). Amounts shown in US dollars ('US$' or '$') have been translated solely for the convenience of the reader at the average rate of 185 tenge/US dollar.

**Aksai**

oil and gas deposit
in Q4 was commissioned

# Operational activities overview

## Production and sale of oil

The Company's operational activities were characterised by stability and predictability throughout the 2014.

KMG EP, including its interests in JV Kazgermunai (KGM), CCEL (CCEL) and PetroKazakhstan Inc. (PKI), produced 12,328 thousand tonnes of oil (250 kbopd), some 60,000 tonnes or just under 1% less than 2013.

Ozenmunaigas (OMG) produced 5,328 thousand tonnes (107 kbopd), surpassing the 2013 figure by 2%. Embamunaigas (EMG) produced 2,823 thousand tonnes (57 kbopd), slightly less than in 2013. As a result, the aggregate production by OMG and EMG totalled 8,151 thousand tonnes (164 kbopd), a 1% increase on 2013.

In 2014, KMG EP's share of production in CCEL, KGM, and PKI stood at 4,177 thousand tonnes (85 kbopd), a 4% drop on 2013, largely due to a drop in output of 8% by PKI and 3% by KGM as a result of natural decline.

KMG EP's share of sales in CCEL, KGM, and PKI amounted to 4,166 thousand tonnes of crude oil (85 kbopd), including 1,944 thousand tonnes of crude oil (40 kbopd) produced for export, representing 47% of the companies' total sales.

In 2014, the core assets OMG and EMG drilled 297 production and injection wells, some 5% less than 2013. A total of 890 production and injection wells at OMG underwent major workovers, which ensured 417 thousand tonnes of additional production. Oil production in 2014 from new wells at OMG amounted to 374 thousand tonnes compared with 272 thousand tonnes in 2013. In 2014, EMG workovers of 284 wells provided an incremental production increase of 87 thousand tonnes, which is 12 thousand tonnes less than 2013. Oil production in 2014 from new wells at EMG amounted to 73 thousand tonnes compared with 116 thousand tonnes in 2013. A total of 1,174 wells at OMG and EMG underwent major work-overs compared with 1,151 wells in 2013 and 18,757 subsurface work-overs were undertaken. As a result, the Company managed to reduce the share of idle wells in its development well stock at OMG from 8% in 2013 to 7% in 2014.

Taking into consideration that KMG EP's oil fields vary between 10 and 100 years old, the Company uses the most appropriate method to improve oil recovery efficiency. Generally, secondary pressure maintenance methods are used, but more modern technologies are also employed. Since June 2014, for example, at KGM's Nuraly field in the Kyzylorda region a new type of technology, called polymer flooding, is being tested. The same technology has been tested at EMG's Zaburuniye field. Depending on initial results, we plan to use this method at EMG's and Karazhanbasmunai's fields in 2015.

## Production start-up at Aksai field

In December 2014, the Aksai oil and gas field was commissioned in the Kyzylorda region. Its development license is owned by the KMG EP joint venture, KGM. It is expected that commissioning the Aksai field will allow KGM to stabilise oil production at the current level. Extra gas volumes will also provide the stability needed to allow the company to continue to fulfil its obligations to supply Kyzylorda city with gas.

The Aksai structure was discovered in early 1980s, and between 2002 and 2006 the field was in pilot production. After additional exploration between 2007 and 2011 it was discovered that Aksai is in fact a gas field with an oil rim. During the period from 2012 to 2014 the Company carried out works to develop the field infrastructure, including well drilling and the construction of hydrocarbon production facilities, pipelines, and other important facilities.

According to the Miller and Lents report, Aksai 2P oil reserves as at 31 December 2013 stood at 1.5 million tonnes, and gas reserves amounted to 1,626 million cubic metres. Preliminary production targets for the Askai field for 2015 are 114.5 thousand tonnes of oil (2.4 kbopd) and 70 million cubic metres of gas. The oil will be supplied via KGM's current sales routes, while the gas will be supplied to the domestic market at a price set by the government.

Investment in the Aksai field infrastructure development to date is 9.6 billion tenge (approximately US$53 million) and additional investment is expected in well construction.

## Decrease in MET rate for Karazhanbas oil and gas field

In a decree dated 18 June 2014, the Government included the Karazhanbas oil and gas field (in the Tupkaragan district, Mangystau region) in the list of marginal, hydrocarbon, high-viscosity, water-flooded and depleted fields. According to this decree, the Government has reduced the Mineral Extraction Tax (MET) rate for Karazhanbas to 0.5% from the previous level of 9-10%.

Karazhanbasmunai, which is owned equally by KMG EP and CITIC Group, is developing the Karazhanbas field.

## Start-up of trial operations at Liman block

In December 2013, an addendum to the Liman block on the exploration and production contract was executed, together

# Operational activities overview continued

with the transfer of the block to EMG. In 2014, the Company started pilot operations at Novobogat Yugo-Vostochniy Nadkarnizniy in the Liman block, which will last for two years. A decision on commercial production will depend on the outcome of the pilot production results.

### Extension of Subsoil Use Contracts

In March 2015, the Ministry of Energy extended the following four contracts for development of the oil deposits of EMG. These are: the Kenbay field (contract #37) valid until 2041; the SE Novobogatinsk field (contract #61) valid until 2048; the Botakhan, Makat, Dossor, Tanatar, Kamyshitovoye and other fields (22 fields in total – contract #211) valid until 2037; the Prorva, Kulsary, Karaton, Koschagyl and others (13 fields in total – contract #413) valid until 2043. EMG also has 5 contracts to develop oil fields in the Atyrau Province. Contract № 992 Novobogatinsk-West is valid until 2027.

Additionally, the contract for the exploration of hydrocarbons (contract № 468) with Ural Oil and Gas, which has been operating within the Fedorovsky block, has been extended until 2016.

### Production plans

On 8 December 2014 the Board of Directors of KMG EP approved the budget for 2015 which assumed a Brent oil price of US$70 per barrel. But on 30 March the Board of Directors reviewed the 2015 budget again and re-based it on an average Brent oil price of US$ 50 per barrel over the calendar year.

Planned production in 2015 is expected to be 5.4 million tonnes (108 kbopd) from OMG and 2.8 million tonnes (56 kbopd) from EMG. The total planned production volume from OMG and EMG in 2015 is expected to be 8.2 million tonnes (164 kbopd).

The Company's share in the planned production of KGM, CCEL and PKI in 2015 is estimated at 4.0 million tonnes (81 kbopd) or 3% less than 2014 due to a natural decline in production at PKI.

OMG and EMG are expected to deliver 2.3m tonnes (47 kbopd) to the domestic market in 2015 of which 1.9m tonnes (38 kbopd) will be supplied to the Atyrau refinery by OMG and 0.4m tonnes (9 kbopd) will be supplied to the Pavlodar refinery by EMG.

An additional 100,000 tonnes of oil will be processed at the Atyrau refinery for the Company's own use. The Company's share in the planned volume of oil supplied to the domestic market in 2015 from KGM, CCEL and PKI is 1.9 million tonnes (39 kbopd) or approximately 48% of the total sales of these companies. KGM and PKI will supply oil to the Shymkent refinery while CCEL will supply the Aktau bitumen plant.

As the Company has not received an approved schedule for deliveries to Russia for 2015, shipments to Russia are not included in the 2015 budget. Quotas are distributed by the Ministry of Energy, which can make alterations to the planned volumes and routing of distribution of sales as appropriate.

## Capital expenditures

Capital expenditure in 2014 amounted to 128 billion tenge (US$ 715 million), 11% lower than in 2013 as a result of a reduction in expenses for construction and the acquisition of fixed assets, partially offset by an increase in expenses for production drilling.

Capital expenditure in 2015 is expected to be 84 billion tenge (US$ 457[1] million), which is 30 billion tenge (US$ 164m) or 26% less than capital expenditure approved in December 2014 and 34% less than actual capital expenditure in 2014. The lowering of capital expenditure against the earlier approved plan stems from a reduction in the number of exploration wells from 257 to 179 and the postponement of some of the longer-term projects that do not affect production levels.

KMG EP continues to implement the modernisation programme taking place at OMG and EMG. In addition to the US$ 220 million already invested in 2012-2014, around US$ 200 million will be invested from 2015 to 2019 to replace obsolete equipment, build new production facilities and introduce innovative techniques for enhanced oil recovery and well maintenance.

OMG opened a station for the diagnosis and repair of underground operating equipment, and a unit for preparing liquids for capping wells. A new equipment yard was commissioned in the Support Service Vehicles and Well Servicing Division to facilitate the servicing of up to 250 motor vehicles and specialist equipment. At OMG construction of a workshop for the repair of oilfield equipment, together with a service centre for 1,000 motor vehicles is under way. The reconstruction of a water injection system is also being carried out.

[1] Amounts are converted into US$ at a rate of 185 tenge/US$ solely for the convenience of the reader.

### Key performance indicators of JSC Ozenmunaigas (OMG) and JSC Embamunaigas (EMG)
as of the end of 2014

| | OMG | EMG | KMG EP |
|---|---|---|---|
| Number of fields | 2 | 41 | 43 |
| Number of production wells | 3,820 | 2,312 | 6,132 |
| Number of injection wells | 1,262 | 447 | 1,709 |
| Average daily oil rate per well (tonnes/day) | 4.3 | 3.5 | 4.0 |
| 2P oil reserves, million barrels | 590 | 309 | 981[8] |
| Lifting costs, $/bbl | 17.9 | 12.8 | 16.1 |
| 2014 oil production, thousand tonnes per day | 14.6 | 7.7 | 22.3 |
| 2014 oil production, kbopd | 107 | 57 | 164 |

EMG has commissioned an associated gas utilisation plant and a transportation base at the S. Balgimbaev field in the Makat Vostochniy field.

Through the implementation of this modernisation programme our goal is to make KMG EP a more modern company and meet the highest standards of ergonomic operation in compliance with health and environmental protection requirements.

OMG and EMG export their oil production via two primary routes, the Caspian Pipeline Consortium (CPC) and the Uzen-Atyrau-Samara pipeline (UAS). OMG also sells oil to the domestic market.

In 2014, the crude oil export volumes of OMG and EMG stood at 5,571 thousand tonnes (110 kbopd) or 70% of total oil sales. Domestic sales of crude oil amounted to 1,967 thousand tonnes (39 kbopd) or 25% of total crude oil sales. In addition, 447 thousand tonnes (9 kbopd) were supplied to the Russian Federation from September 2014 until the end of the year to fulfill obligations under the counter-oil supply agreement between the Government of Kazakhstan and the Russian Government. Counter-shipment supply volumes shipped to Russia are specified by the Ministry of Energy of Kazakhstan.

Crude oil supplies to the domestic market from 2015 to 2019 are expected to be increased up to 50% of OMG and EMG sales. Further price formation and volumes will be determined in the course of negotiations with NC KMG.

### Key performance indicators for Kazgermunai (KGM)
for 2014

| | |
|---|---|
| Number of fields | 5 |
| Number of production wells | 185 |
| Number of injection wells | 34 |
| Lifting costs, $/bbl | 2.9 |
| 2P oil reserves, million barrels | 190 |
| 2014 oil production, kbopd | 63 |

### Key performance indicators for CCEL (CCEL)
for 2014

| | |
|---|---|
| Number of fields | 1 |
| Number of production wells | 2,643 |
| Number of injection wells | 775 |
| Lifting costs, $/bbl | 20.9 |
| 2P oil reserves, million barrels | 345 |
| 2014 oil production, kbopd | 39 |

### Key performance indicators for PetroKazakhstan Inc. (PKI)
for 2014

| | |
|---|---|
| Number of fields | 12 |
| Number of production wells | 1064 |
| Number of injection wells | 365 |
| Lifting costs, $/bbl | 7.2 |
| 2P oil reserves, million barrels | 165 |
| 2014 oil production, kbopd | 104 |

[2] Including the 81m bbl reserves of UOG (Rozhkovskoe) and 1m bbl at Kazakh Gas Processing Plant LLP.

# Operational activities overview continued

## Reserves

The independent consultants Miller and Lents (MLL) carried out reserves audit of OMG, EMG, Kazakh Gas Refinery LLP and Ural Oil and Gas (UOG, where KMG EP holds a 50% stake) fields as at year end 2014.

According to the MLL report there were the following changes in liquid hydrocarbon reserves as at the end of 2014 compared with the reserves as at the end of 2013:

Proven oil reserves (1P) decreased by 16% or 19 million tonnes to 103 million tonnes (763 million barrels) as at 31 December 2014 comparet with 31 December 2013. Proven plus probable (2P) reserves decreased by 11% or 16 million tonnes to 132 million tonnes (981 million barrels). Proven, probable plus possible (3P) reserves declined by 10% or 18 million tonnes to 164 million tonnes (1,215 million barrels).

The decrease of reserves in the above mentioned categories is mainly due to economic factors, primarily the fall in the price of oil and in gas products. A positive factor that partially balances out the depletion of reserves is tenge devaluation. The fall in oil prices has had the greatest impact on the OMG field (where 2P reserves are down by 19.6% or 19.5 million tonnes). At EMG the increase in liquid 2P reserves by 4.5% or 1.8 million tonnes is due to improved actual production figures in comparison to MLL projected forecasts from last year, which has improved forecast levels for the future. At the UOG (Rozhkovskoe field) 2P reserves increased by 16.4% or 1.3 million tonnes due to the discovery of a new deposit in the Bashkirian tier in 2014.

**The results of the reserves audit**
as at December 31, 2014

| | million tonnes | | | million barrels | | |
|---|---|---|---|---|---|---|
| | 1P | 2P | 3P | 1P | 2P | 3P |
| Reserves as at 31.12.2013 | 122 | 149 | 183 | 902 | 1,101 | 1,349 |
| Production | 8.2 | 8.2 | 8.2 | 61 | 61 | 61 |
| Reserves replacement | -10.9 | -8.9 | -10.1 | -78 | -59 | -73 |
| **Reserves as at 31.12.2014** | **103** | **132** | **164** | **763** | **981** | **1,215** |

The assessment of the joint ventures' reserves is made separately by independent auditors[3]. KMG EP's share in the overall 2P reserves of KGM (50% stake), CCEL (50% stake) and PKI (33% stake) as at the end of 2014 amounted to a total of 45 million tonnes (322 million barrels), which is 12% or 6 million tonnes less than in 2013. Therefore, the consolidated 2P reserves of KMG EP, including its stakes in KGM, CCEL, and PKI as at the end of 2014, amounted to 177 million tonnes (1,303 million barrels) which is 11% or 23 million tonnes less than 2013.

**Consolidated 2P reserves**
as at December 31, 2014

| | million tonnes | million barrels |
|---|---|---|
| KMG EP | 132 | 981 |
| KGM 50%, CCEL 50%, PKI 33% | 45 | 322 |
| **Consolidated reserves** | **177** | **1,303** |

[3] The evaluation of the reserves of KGM and CCEL was conducted by Miller and Lents as of 31 December, 2014 and 31 October, 2014 respectively. The evaluation of the PKI reserves was conducted by Ryder Scott Company as of 31 December, 2014.

## Exploration

Under its existing strategy, KMG EP intends to expand its operating footprint and replace its reserves. To achieve this goal, specialists within the Company are investigating all promising petroleum provinces in Kazakhstan and pursuing relevant research in this area.

The full range of required research is being carried out on select promising areas to detect accumulations of hydrocarbons. The intensity of exploration depends on the presumed potential of a particular block.

Having analysed historical and newly received geological and geophysical evidence, the Company's management has arrived at the conclusion that several blocks in the current exploration portfolio are less promising while some other blocks, particularly those located on the northern edge of the Pre-Caspian Basin in the West Kazakhstan region, appear more promising. KMG EP continues to find ways of expanding its exploration portfolio and is willing to invest additional funds into promising new exploration projects.

The baseline scope of work on the existing portfolio of exploration assets is in accordance with the approved business plan for 2015-2019, which envisages a minimal volume of exploration. However the Company is ready to increase its investments in this direction if promising exploration projects are identified.

### Discovery of a new deposit

The discovery of a new oil deposit at the Rozhkovskoye field was an important event for KMG EP in 2014. Ural Group Limited (UGL) is exploring the Rozhkovskoye field, and holds a 100% stake in Ural Oil and Gas (UOG) which owns the exploration licence for the Fyodorovskiy block in the Zelenovsk district of Western Kazakhstan. It lies 70 km east of the city of Uralsk. In 2011, KMG EP acquired a 50% stake in the Ural Group Limited (UGL) from Exploration Venture Limited (EVL).

Previous exploration at the Rozhkovskoye field targeted hydrocarbons in the Bobrikovskiy and Tournaisian horizons. According to technical audits carried out in accordance with international standards, KMG EP's 2P liquid hydrocarbon reserves at the Rozhkovskoye field increased from 5.4 million tonnes in 2012 to 7.9 million tonnes in 2013. Oil was also found in the Bashkirian tier sediments. In particular, during drill stem testing of the U-24 well that was drilled in 2013 in the north-east wing of the field, free-flowing light dry crude and gas with maximum flow rates of 1.9 kboe/day and 6 million cubic feet/day respectively were discovered, with a 24/64" (9.5 mm) choke.

Positive test results from the new Bashkirian deposit increase the prospects that the estimated reserves of the Rozhkovskoye field will be increased. Further exploration will determine the size of the increase. The discovery of the Bashkirian deposit on the Fyodorovskiy block confirms the high potential of this asset. The Company plans to bring this field into production in 2017.

### Memorandum on cooperation in the field of exploration

In February 2015, KMG EP and the Committee of Geology and Subsoil Use of the Ministry for Investments and Development of the Republic of Kazakhstan signed a Memorandum on Mutual Cooperation in the field of explorations aimed at improving exploration efficiency and conducting geological studies of hydrocarbon crude in Kazakhstan.

Under the Memorandum, KMG EP will proceed with the geological studies of promising areas in Kazakh sedimentary basins to explore potential oil and gas fields and increase hydrocarbon reserves. The parties have agreed to share all available data on mineral resources and geological and technological data, and to proceed with mutually agreed exploration efforts, using the latest geological exploration technologies.

# Operating and financial review

The following document is intended to assist the understanding and assessment of trends and significant changes in the Company's results and financial condition.

This review is based on the audited consolidated financial statements of the Company and should be read in conjunction with those statements and the accompanying notes.

All financial data and discussions thereof are based on the audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). According to the Company's accounting policy, interestsin joint ventures and associates are accounted for using equity method, and thus are not consolidated line by line ("equity-accounted entities").

## Overview

KazMunaiGas Exploration Production ("the Company" or "KMG EP") is engaged in the exploration, development, production, processing, and export of hydrocarbons, and the acquisition of oil and gas assets. The Company has publicly listed Global Depositary Receipts ("GDR") and shares traded on the London Stock Exchange ("LSE") and Kazakhstan Stock Exchange ("KASE"). Its majority shareholder is JSC National Company KazMunayGas ("NC KMG"), the wholly state-owned joint stock company, which represents the State's interests in the Kazakh oil and gas industry. The Company's core oil and gas assets are located in the Pre-Caspian, Mangistau and Southern Turgai basins.

The following table represents the Company's principal oil and gas interests as of December 31, 2014:

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

## Key performance indicators on December 31, 2013:

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| 3,111 | 3,111 | 3,161 | -2% | Total production (ktonnes)* | 12,328 | 12,388 | 0% |
| (194,958) | 31,692 | 48,668 | -501% | Net Income/(loss) (KZT million) | 47,038 | 141,829 | -67% |
| (2.86) | 0.46 | 0.71 | -503% | Basic and diluted EPS (KZT thousand) | 0.69 | 2.08 | -67% |
| 17,541 | 66,888 | 82,484 | -79% | EBITDA (KZT million)** | 281,917 | 308,947 | -9% |
| -9% | 15% | 27% | -133% | Operating margin (%)*** | 17% | 23% | -26% |
| (81,309) | 55,986 | 69,925 | -216% | Operating cash flow before working capital adjustments (KZT million) | 147,942 | 184,520 | -20% |
| -13% | 2% | 4% | -425% | ROE (%) | 3% | 11% | -73% |

* Including proportionate share of equity-accounted entities.
** EBITDA is calculated by adding back the share of income in equity-accounted entities, finance income and non-cash expenses such as depreciation and amortization to the Company's operating profit.
*** Operating profit does not include share in results of equity accounted entities, CIT expenses, finance charges, impairment charges and other non-operating charges.

## Business environment

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

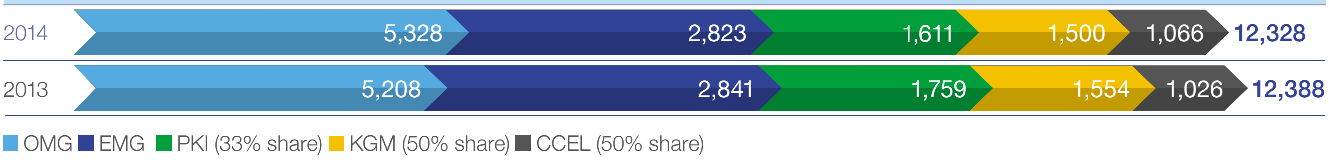
The National Bank of Kazakhstan ("NBK") made a decision to abandon its support of the tenge, reducing foreign exchange interventions and efforts to control the rate of the Tenge, effective from February 11, 2014. To prevent destabilization of the financial markets and the economy as a whole, NBK established a Tenge/dollar fluctuation band at 185 Tenge per US dollar, plus or minus 3 Tenge, in February 2014.
In September 2014 NBK expanded the Tenge/dollar fluctuation band to 185 Tenge per US dollar, plus 3 Tenge or minus 15 Tenge.

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| 76.58 | 101.93 | 109.27 | -30% | Average Brent (DTD) (US$ / bbl) | 98.95 | 108.66 | -9% |
| 1.5% | 1.1% | 1.5% | 0% | Kazakhstan inflation (%) | 7.4% | 4.8% | 54% |
| 181.39 | 182.52 | 153.80 | 18% | Average Tenge/US$ exchange rate | 179.12 | 152.14 | 18% |
| 182.35 | 181.90 | 153.61 | 19% | Tenge/US$ exchange rate at the reporting date | 182.35 | 153.61 | 19% |

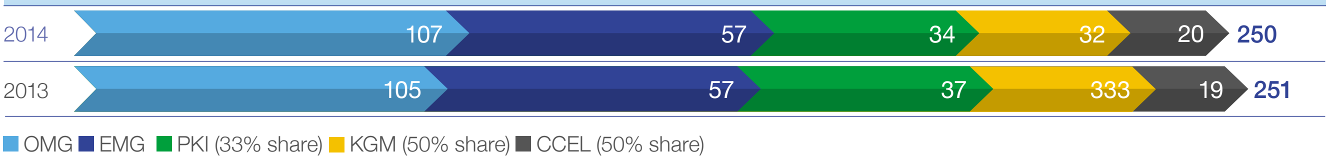
# Operating and financial review continued

## Production activity

### Crude oil production for the period
ktonnes




### Average daily production
kBOPD




The Company's total crude oil production in 2014, including the share of production from its joint ventures and associated company, amounted to 12,328 ktonnes or 250 kbopd. OMG and EMG produced 164 kbopd with a further 34 kbopd from PKI, 32 kbopd from KGM and 20 kbopd from CCEL.

Compared to 2013, OMG production increased by 120 ktonnes due to the increase in drilling activity and decrease in idle well park. Compared to 2013, EMG production decreased by 1% or 18 ktonnes.

The share in PKI production declined by 148 ktonnes in 2014, compared to 2013, due to the natural decline at some of the PKI mature fields. Share in KGM's production decreased by 54 ktonnes in 2014, compared with 2013, due to the natural depletion of the KGM fields. Share in CCEL production increased by 40 ktonnes in 2014, compared with 2013, mainly due to an increase in well park. Total share in the production volume of PKI, KGM and CCEL in 2014 was 4,177 ktonnes.

| Wells as of reporting date* | Number of wells Drilled in 2014* | Number of wells Drilled in 2014* | | Well workovers 2014 | Well workovers 2013 | Change | Well servicings 2014 | Well servicings 2013 | Change |
|---|---|---|---|---|---|---|---|---|---|
| 5,082 | 227 | 226 | OMG | 890 | 853 | 4% | 15,034 | 14,962 | 0% |
| 2,759 | 70 | 85 | EMG | 284 | 298 | -5% | 3,723 | 3,663 | 2% |
| 1,788 | 114 | 127 | PKI (100%)** | 400 | 512 | -22% | 1,012 | 1,397 | -28% |
| 220 | 28 | 28 | KGM (100%)** | 44 | 45 | -2% | 88 | 63 | 40% |
| 3,503 | 179 | 154 | CCEL (100%)** | 255 | 243 | 5% | 3,577 | 3,150 | 14% |

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

Oil production in the reporting period from the new wells at OMG amounted to 374 ktonnes compared to 272 ktonnes in 2013. OMG workovers of 890 wells provided an incremental production of 417 ktonnes, while 853 well workovers in 2013 provided incremental production of 400 ktonnes.

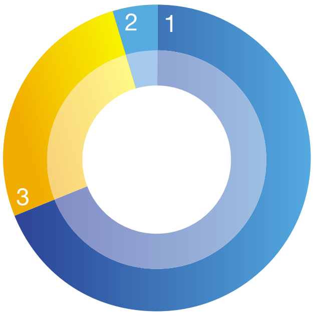
Oil production for 2014 from the new wells at EMG amounted to 73 ktonnes compared to 116 ktonnes in 2013. EMG performed 284 well workovers which provided an incremental production of 87 ktonnes, while 298 well workovers provided 99 ktonnes in 2013.

## Capital expenditure overview

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

**Capital expenditures of OMG, EMG, CA, and other subsidiaries**

₸128,234 mln




| | |
|---|---|
| 1 OMG | 88,502 mln |
| 2 EMG | 33,730 mln |
| 3 Head office & other subsidiaries | 6,002 mln |
| Total | 128,234 mln |

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

In 2014 the Company's capital expenditures, amounted to KZT128.2 billion, KZT15.7 billion less than in 2013. 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 expenditures.

OMG capital expenditures for 2014 amounted to KZT88.5 billion, which is KZT4.3 billion less than in 2013, mainly due to lower fixed asset purchases, which were partially offset by an increase in production drilling and a higher level of construction and modernisation of production facilities in 2014.

EMG capital expenditure in 2014 amounted to KZT33.7 billion, which is KZT3.1 billion less than in 2013, mainly due to a higher level of construction and modernisation of production facilities in 2013.

Head office and other subsidiaries' capital expenditure in 2014 amounted to KZT6.0 billion, KZT8.2 billion less than in 2013, mainly due to increased construction and exploration drilling works performed by Head office in 2013.

# Operating and financial review continued

## Capital expenditure of equity-accounted entities

PKI capital expenditures in 2014 amounted to KZT43.2 billion (KMG EP 33% share: KZT14.3 billion), which is 27% less than in 2013, mainly due to decrease in construction works and production drilling in the current period.

KGM capital expenditures for the period were KZT18.1 billion (KMG EP 50% share: KZT9.1 billion), which is KZT3.1 billion more than in 2013, mainly due to costs relating to the Aksai field development, the higher purchase of fixed assets and the modernization of general purpose facilities in 2014.

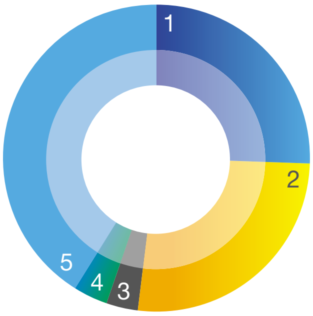
CCEL capital expenditures in 2014 were KZT17.9 billion (KMG EP 50% share: KZT9.0 billion), which is 4% more than in 2013, primarily due to an increase in the number of drilled wells from 154 to 179.

UOG capital expenditures amounted to KZT2.3 billion (KMG EP 50% share: KZT1.2 billion), which is 83% less than in 2013, mainly due to a higher level of exploration activity in the prior period as the Fedorovskiy block first stage exploration program on the Rozhkovskiy field is currently being finalised.

KS capital expenditures amounted to KZT2.5 billion (KMG EP 51% share: KZT 1.3 billion), which is 34% less than in 2013, mainly due to a higher level of exploration drilling in 2013.

* Capital expenditure amounts for 2015 presented herein represent currently expected amounts based on the management's estimates as of date of issuance of this report. Amounts do not represent any formal commitments and are subject to changes in any direction.

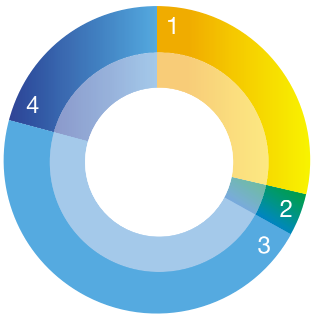
**Capital expenditures of equity-accounted entities** ₸34,729 mln




| | |
|---|---|
| 1 CCEL (50%) | 8,961 mln |
| 2 KGM (50%) | 9,082 mln |
| 3 OUG (50%) | 1,155 mln |
| 4 KS (50%) | 1,268 mln |
| 5 PKI (33%) | 14,263 mln |
| Total | 34,729 mln |

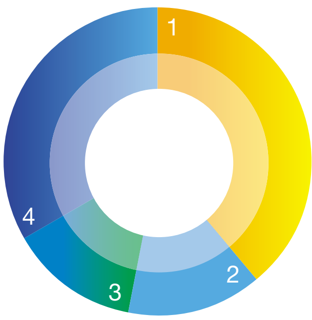
Below are current 2015 capital expenditure expectations for consolidated and equity accounted entities:

**Current 2015 capital expenditure expectations for OMG, EMG and other subsidiaries** ₸84,182 mln




| | |
|---|---|
| 1 Constructions works | 24,164 mln |
| 2 Exploration | 3,786 mln |
| 3 Production drilling | 38,715 mln |
| 4 Other capital expenditure | 17,517 mln |
| Total | 84,182 mln* |

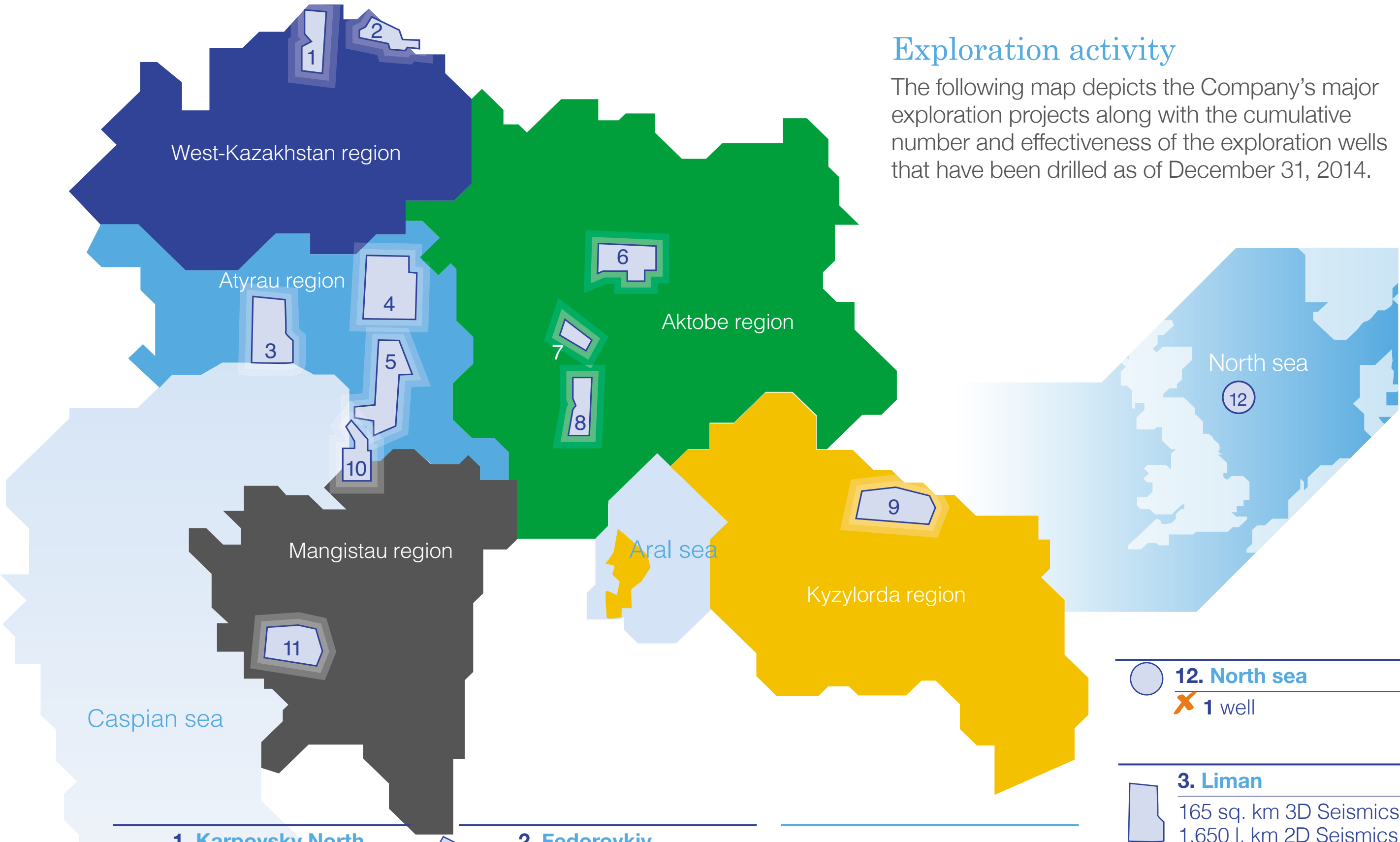
**Current 2015 capital expenditure expectations for equity-accounted entities** (proportional share) ₸45,547 mln




| | |
|---|---|
| 1 Construction works | 17,725 mln |
| 2 Production drillinng | 6,176 mln |
| 3 Other capital expenditure | 6,468 mln |
| 4 Exploration | 15,178 mln |
| Total | 45,547 mln |

## Exploration activity

The following map depicts the Company's major exploration projects along with the cumulative number and effectiveness of the exploration wells that have been drilled as of December 31, 2014.




**12. North sea**
- ✗ **1** well

**1. Karpovsky North**
730 sq. km 3D Seismics
- ✗ **1** well
- ● **1** well

**2. Fedorovkiy**

After acquisition:
1,014 sq. km 3D Seismics
- ✓ **5** wells
- ◆ **1** well

Before acquisition:
1,396 l. km 2D Seismics
- ✓ **2** wells
- ✗ **2** wells

**3. Liman**
165 sq. km 3D Seismics
1,650 l. km 2D Seismics
- ✓ **8** wells
- ✗ **1** well
- ◆ **1** well

**4. Taisoigan (Bazhir field only)**
86 sq. km 3D Seismics
150 l. km 2D Seismics
- ✓ **1** well
- ✗ **2** wells

**5. R-9**
984 sq. km 3D Seismics
3,620 l. km 2D Seismics
- ✗ **12** wells

**6. Temir**
200 sq. km 3D Seismics
975 l. km 2D Seismics

**7. Zharkamys Eastern-1**
200 sq. km 3D Seismics
610 l. km 2D Seismics
- ✗ **2** wells

**8. Teresken**
Exploration contract returned to the state on May 12, 2014
900 l. km 2D Seismics

**9. PKI explorations blocks**
1 552 sq. km 3D Seismics
3,900 l. km 2D Seismics
- ✓ **61** wells
- ✗ **14** wells
- ◆ **9** wells
- ● **1** well

**10. Karaton-Sarkamys**
160 sq. km 3D Seismics
- ✗ **2** wells
- ● **1** well

**11. Uzen-Karamandybas**
1,500 l. km 2D Seismics
- ✗ **2** wells

**Legend**

Exploration projects; ✓ Well with inflow; ✗ Dry wells; ◆ Wells in testing; ● Wells in drilling

# Operating and financial review continued

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

| Block (interest) | Prospect | Well | Status as of reporting date |
|---|---|---|---|
| Liman (100%) | Novobogat SE | G-8 | The well has been drilled to a depth of 1265m. Testing completed – with inflow. |
| | | | Trial production of Novobogat Southeast is being conducted. Due to a sufficiency of geological information, Liman Block is to be transferred to the development stage for reporting purposes disregarding the legal status of the field as an exploration contract. |
| Temir (100%) | Prospect I | | As of the reporting date, the interpretation of the results from the 3D seismic works for 200 sq. km was finalised. As a result a number of objects were selected in the subsalt complex. The Company is considering engaging a potential partner to conduct joint exploration. |
| Zharkamys Eastern (100%) | Tuskum | | The Company is in the process of returning the contract area to the State due to low prospects. |
| Uzen-Karamandybas (100%) | NW Tenge | NW-1 | Dry well, liquidated. |
| Taisoigan (100%) | Bazhir East | G-3 | Dry well, liquidated. |
| | Uaz | U-2 | Testing completed – with inflow. |
| Teresken (100%) | | | The Company concluded the process of returning the contract area to the State on May 12, 2014. |
| R-9 (100%) | | | Return of the contract area to the State is being considered by the Company. |
| Karaton Sarkamys (100%) | | NSV-1 | Well drilling was started. Current depth – 500m. |
| Karpovskiy Severniy (KS-51%) | Melovoya | SK-1 | Dry well, liquidated. |
| | Orlovskaya Central | SK-2 | Planned to deepen the well to 5,750m. Current depth – 5,460m. |
| | | | 3D seismic field works on the block with the area of 732 sq. km. have been completed. Processing and interpretation of 3D seismic filed works were completed, in process of analysing results. |

| Block (interest) | Prospect | Well | Status as of reporting date |
|---|---|---|---|
| Fedorovskiy block (UOG-50%) | Rozhkovskiy | U-24 | Testing completed – with inflow of gas and condensate.<br><br>The exploration license for the Fedorovskiy block expired on May 11, 2014. The Company received preliminary permission from the Ministry of Energy for further extension of the Fedorovskiy block exploration period from May 2014 to May 2016. The Company also expects to conclude the Rozhkovskiy field production contract in 1Q 2015.<br><br>On May 13, 2014 the Company announced a new discovery in the Bashkirian tier sediments of the Carboniferous period in the Rozhkovskiy field while carrying out tests in reservoirs of the Bashkirian period at the U-24. Previous exploration on this part of the field targeted hydrocarbons in the Bobrikovskiy and Tournaisian horizons. |
| White Bear block (35%) | | | The Company is in process of returning the contract to the State. |
| Doszhan-Zhamansu (24.75% through PKI) | South Doszhan, South-Eastern Doszhan | | During the reporting period 8 exploration and 3 appraisal wells were drilled at the Doszhan field. One exploration well was drilled at Zhamansu field. 100 sq km of 3D seismic works were conducted. 6 wells are with inflow, 2 wells are in testing, 1 well is in drilling, 3 wells are dry. |
| Karaganda (PKI-33%) | Karabulak, Buharsai | | 2 exploration and 5 appraisal wells were drilled. Inflow was obtained from 6 wells, 1 well is dry. |
| Karavanchi (PKI – 33%) | Karavanchi | | During the reporting period 2 wells were drilled: inflow was obtained from 1 well and 1 well is dry. |

# Operating and financial review continued

## Results of operations

The following section is based on the audited consolidated financial statements of the Company. 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 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (KZT million, unless otherwise stated) | | | | | (KZT million, unless otherwise stated) | | |
| **155,496** | **225,829** | **210,406** | **-26%** | **Revenue** | **845,770** | **816,712** | **4%** |
| (67,280) | (56,136) | (35,869) | 88% | Production expenses | (211,900) | (162,035) | 31% |
| (27,136) | (26,012) | (22,484) | 21% | SG&A | (102,568) | (92,360) | 11% |
| (58,402) | (91,632) | (83,174) | -30% | Taxes other than on income | (328,211) | (311,688) | 5% |
| (1,329) | (412) | (2,655) | -50% | Exploration expenses | (2,127) | (13,125) | -84% |
| (15,219) | (17,163) | (10,178) | 50% | DD&A | (59,485) | (47,144) | 26% |
| **(13,870)** | **34,474** | **56,046** | **-125%** | **Operating profit / (loss)** | **141,479** | **190,360** | **-26%** |
| 11,466 | 10,373 | 11,542 | -1% | Share of results of associate and JVs | 60,191 | 50,866 | 18% |
| (2,153) | (1,260) | (1,635) | 32% | Loss on disposal of fixed assets | (4,221) | (4,475) | -6% |
| (228,252) | (983) | (1,537) | 100% | Impairment of PP&E | (256,683) | (60,099) | 327% |
| (1,535) | 4,159 | 2,320 | -166% | Finance income / (costs), net | 11,810 | 12,492 | -5% |
| 1,273 | (5,711) | (206) | -718% | Foreign exchange gain / (loss), net | 108,997 | 11,216 | 872% |
| 38,113 | (9,360) | (17,862) | -313% | Income tax (expense) / benefit | (14,535) | (58,531) | -75% |
| **(194,958)** | **31,692** | **48,668** | **-501%** | **Net income / (loss)** | **47,038** | **141,829** | **-67%** |
| (5.3) | 12.9 | 25.6 | -121% | Profit / (loss) from operations (US$ per bbl sold*) | 13.7 | 21.7 | -37% |
| (74.8) | 11,.9 | 22.3 | -435% | Net Income / (loss) (US$ per bbl sold*) | 4.5 | 16.1 | -72% |

* Converted at 7.23 barrels per tonne of crude oil

The significant decrease in net income for 2014 is mainly due to the impairment of PPE related to OMG, which was partially offset by the Tenge devaluation that took place during the period leading to large foreign exchange gain recognition. The net loss for 4Q 2014 is mainly due to the recognition of PPE impairment and the drop in average Brent prices from US$101.9 per barrel in 3Q 2014 to US$76.6 per barrel in 4Q 2014, including an average Brent price of US$62.5 per barrel in December 2014. The significant income tax benefit in 4Q 2014 is related to the impairment deferred tax benefit of KZT47 billion.

## Revenue

The following table shows sales volumes and realized prices resulting from OMG and EMG operations:

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| | | | | **Export sales of crude oil** | | | |
| | | | | ***UAS pipeline*** | | | |
| 76,491 | 114,522 | 118,104 | -35% | Net sales (KZT million) | 449,931 | 476,606 | -6% |
| 779 | 879 | 985 | -21% | Volume (ktonnes) | 3,580 | 4,061 | -12% |
| 98,191 | 130,287 | 119,903 | -18% | Average price (KZT/tonne) | 125,679 | 117,362 | 7% |
| 74.87 | 98.73 | 107.83 | -31% | Average price (US$/bbl*) | 97.05 | 106.70 | -9% |
| | | | | ***CPC pipeline*** | | | |
| 38,263 | 75,994 | 67,828 | -44% | Net sales (KZT million) | 257,009 | 235,737 | 9% |
| 390 | 585 | 550 | -29% | Volume (ktonnes) | 1,991 | 1,956 | 2% |
| 98,110 | 129,904 | 123,324 | -20% | Average price (KZT/tonne) | 129,085 | 120,520 | 7% |
| 74.81 | 98.44 | 110.91 | -33% | Average price (US$/bbl*) | 99.68 | 109.57 | -9% |
| 114,754 | 190,516 | 185,932 | -38% | Total sales of crude oil-exported (KZT million) | 706,940 | 712,343 | -1% |
| 1,169 | 1,464 | 1,535 | -24% | Total crude oil-exported (ktonnes) | 5,571 | 6,017 | -7% |
| | | | | **Domestic sales of crude oil and oil products** | | | |
| 20,008 | 24,357 | 17,420 | 15% | Net domestic sales (KZT million) | 94,656 | 79,563 | 19% |
| 421 | 504 | 432 | -3% | Volume (ktonnes) | 1,967 | 1,967 | 0% |
| 47,525 | 48,327 | 40,324 | 18% | Average price (KZT/tonne) | 48,122 | 40,449 | 19% |
| 36.24 | 36.62 | 36.26 | 0% | Average price (US$/bbl*) | 37.16 | 36.77 | 1% |
| | | | | **Shipments of crude oil to Russia** | | | |
| 14,645 | 2,731 | – | 100% | Net sales (KZT million) | 17,376 | – | 100% |
| 397 | 50 | – | 100% | Volume (ktonnes) | 447 | – | 100% |
| 36,889 | 54,620 | – | 100% | Average price (KZT/tonne) | 38,871 | – | 100% |
| 28.13 | 41.39 | – | 100% | Average price (US$/bbl*) | 30.02 | – | 100% |
| | | | | **Total sales** | | | |
| 149,407 | 217,604 | 203,352 | -27% | Total net sales of crude oil (KZT million) | 818,972 | 791,906 | 3% |
| 1,987 | 2,018 | 1,967 | 1% | Total volume (ktonnes) | 7,985 | 7,984 | 0% |
| 75,192 | 107,832 | 103,382 | -27% | Average price (KZT/tonne) | 102,564 | 99,187 | 3% |
| 57.34 | 81.71 | 92.97 | -38% | Average price (US$/bbl*) | 79.20 | 90.17 | -12% |
| 6,089 | 8,225 | 7,054 | -14% | Other sales (KZT million) | 26,798 | 24,806 | 8% |
| **155,496** | **225,829** | **210,406** | **-26%** | **Total revenue (KZT million)** | **845,770** | **816,712** | **4%** |

* Converted at 7.23 barrels per tonne of crude oil.

# Operating and financial review continued

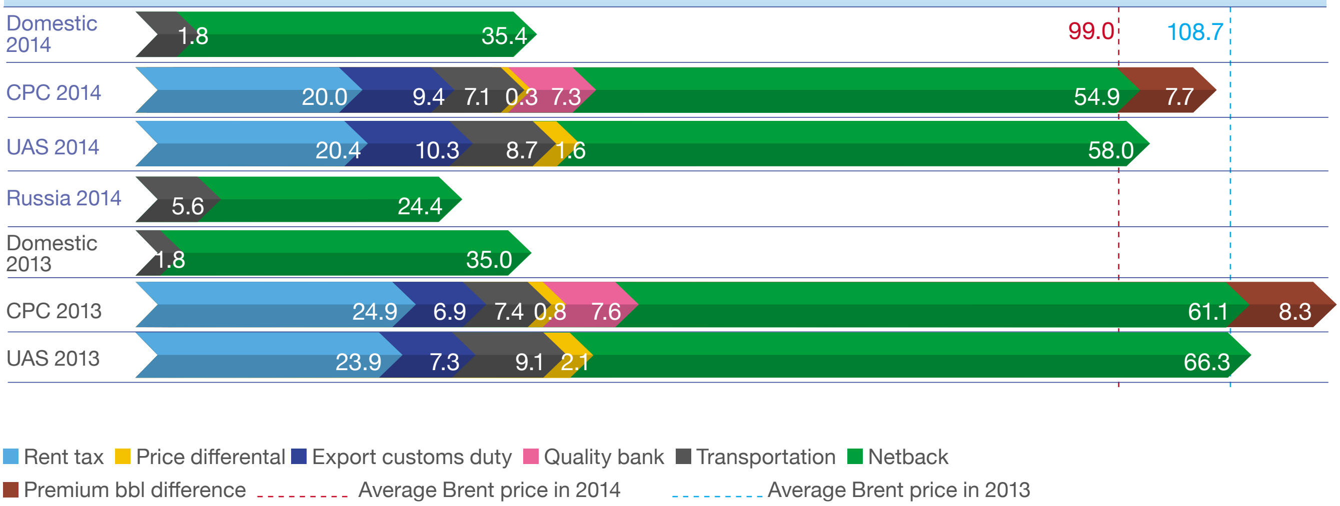
OMG and EMG export crude oil using two principal routes: via the pipeline owned by Caspian Pipeline Consortium ("CPC") and via the Uzen-Atyrau-Samara pipeline ("UAS") owned by KazTransOil JSC (in Kazakhstan). OMG also delivers its crude oil to the domestic market, and made oil counter deliveries to Russian Federation in 3Q 2014 and 4Q 2014 as part of the intergovernmental agreement.

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

In 2014 the Company shipped 447 thousand tonnes of crude oil to the Russian Federation to fulfill its obligations under the counter-oil supply agreement between the Government of Kazakhstan and the Russian Government. Thus, UAS shipments decreased in the reporting period with a slight increase of CPC route shipments. Sales volumes shipped to the Russian Federation are determined by the ME of Kazakhstan on a monthly basis and currently the Company has not received an approved schedule for deliveries to Russian Federation for 2015.

The following chart shows the OMG and EMG realised prices adjusted for crude oil transportation, rent tax, export customs duty and other expenses based on the shipment route (netback analysis):

**Netback analysis**
(US$bbl*)




* Converted at actual barrels per tonne of crude oil.

Netback for 2014 decreased compared to 2013, primarily due to a drop in average Brent price from US$108.7 per barrel in 2013 to US$99 per barrel in 2014, as well as an increase in export customs duty (from US$40 to US$60 per tonne in April 2013 and from US$60 to US$80 per tonne effective from April 2014), partially offset by a drop in rent tax rate from lower Brent prices and lower price differentials.

Domestic market netback increased in 2014 due to the growth of average sales prices in Tenge terms, which was partially offset by Tenge devaluation during 2014.

Sale prices of crude oil shipments to Russia are based on the intergovernmental agreement between the Government of Kazakhstan and the Russian Government.

## Production expenses

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

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (KZT million, unless otherwise stated) | | | | | (KZT million, unless otherwise stated) | | |
| 37,111 | 36,925 | 21,150 | 75% | Employee benefits | 130,367 | 92,318 | 41% |
| 10,070 | 6,331 | 7,097 | 42% | Repairs and maintenance | 26,781 | 22,619 | 18% |
| 6,087 | 5,280 | 4,795 | 27% | Materials and supplies | 20,050 | 16,920 | 18% |
| 4,425 | 4,098 | 4,023 | 10% | Energy | 16,706 | 15,908 | 5% |
| 1,553 | 1,498 | 1,458 | 7% | Transportation service | 5,875 | 5,633 | 4% |
| 492 | 267 | 272 | 81% | Processing expenses | 1,205 | 1,099 | 10% |
| 1,888 | (832) | (3,917) | -148% | Change in crude oil balance | 1,373 | 727 | 89% |
| 3,206 | – | – | 100% | Change in estimate of environmental remediation obligation | 1,110 | – | 100% |
| 2,448 | 2,569 | 991 | 147% | Other | 8,433 | 6,811 | 24% |
| **67,280** | **56,136** | **35,869** | **88%** | **Total production expenses** | **211,900** | **162,035** | **31%** |
| **25.8** | **21.1** | **16.4** | **57%** | **Total production expenses (US$ per bbl sold*)** | **20.5** | **18.5** | **11%** |

* Converted at 7.23 barrels per tonne of crude oil.

Production expenses in 2014 increased by KZT49.9 billion or 31% compared to 2013, primarily due to increased employee benefits, repair and maintenance, materials and supplies and changes in estimates of environmental remediation obligations.

Employee benefit expenses increased by 41% compared to 2013, mainly due to a 7% indexation increase in basic salaries for production personnel from January 1, 2014 according to the terms of the collective agreement; introduction of a Unified System of Wages; an additional 10% increase in wages, and an increase in production bonuses from 25% to 33% for supporting production personnel.

Repair and maintenance expenses increased by 18% compared to 2013, mainly due to the increase in the usage of flow deflection technologies, equipment maintenance and other types of well operations to increase oil recovery. Additionally, in 4Q 2014 Company expensed KZT1.5 billion worth of environmental remediation costs.

The 18% increase in expenses for materials and supplies is mainly related to the increase in the cost of raw materials, uniform clothes expenses and an increase in fuel expenses in 2014 compared to 2013.

In 2Q 2014 the Company changed its estimate for the environmental remediation provision, which relates to certain soil contamination and oil waste disposal, in accordance with a memorandum of cooperation ("MOC") signed by the Parent Company (comprising the Company and JSC OMG) with the Ministry of the Environment and Water Resources and Ministry of Oil and Gas in June 2014, and recognised a reversal of the related provision for the amount of KZT2.1 billion. In 4Q 2014 the Company has once again reconsidered this environmental provision and accrued additional provision in the amount of KZT3.2 billion.

## Lifting Costs

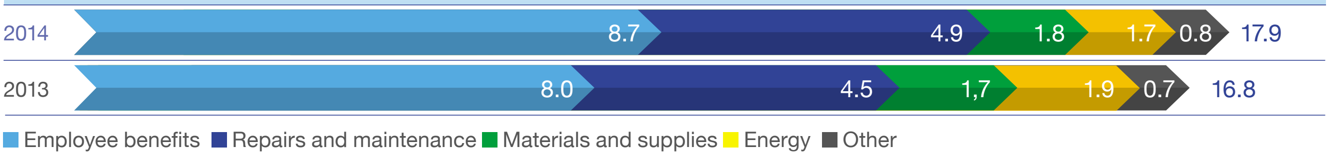
As per the Company's internal methodology, lifting cost per barrel is calculated as production costs of OMG and EMG subsidiaries, including materials and supplies, production payroll, repairs and maintenance, and other production expenses except for the DD&A, taxes and contractual social obligations divided by total crude oil produced.

Lifting expenses in US$ per bbl have been affected by the Tenge devaluation that took place in 2014 as most of the OMG and EMG production expenses are denominated in Tenge.

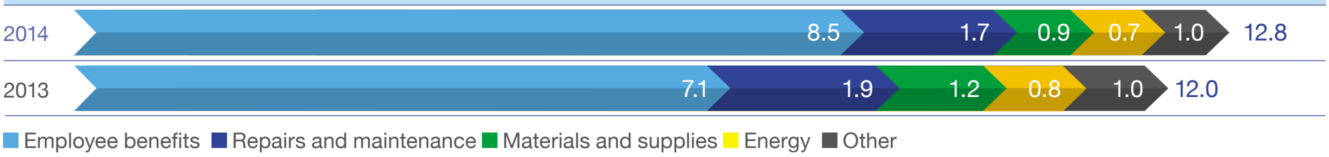
# Operating and financial review continued

The following chart depicts the production lifting costs of OMG and EMG in US$/bbl*:

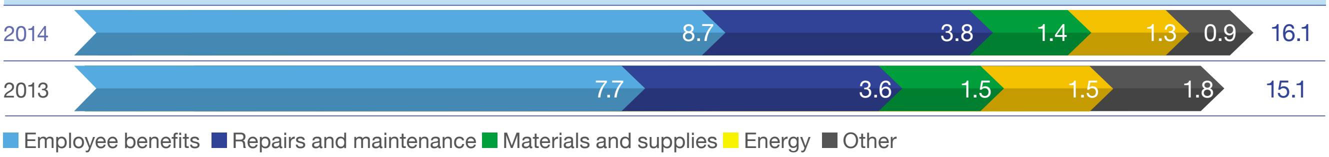
**Lifting cost of OMG**
(US$ per bbl*)




**Lifting cost of EMG**
(US$ per bbl*)




**Total lifting costs**
(US$ per bbl*)




* Converted at 7.36 barrels per tonne of crude oil

## Selling, general and administrative expenses

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

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (KZT million, unless otherwise stated) | | | | | (KZT million, unless otherwise stated) | | |
| 16,163 | 18,643 | 15,917 | 2% | Transportation expenses | 68,687 | 61,810 | 11% |
| 4,865 | 4,368 | 3,784 | 29% | Employee benefits | 16,758 | 12,986 | 29% |
| 1,113 | 1,112 | 737 | 51% | Management fees and commissions | 4,451 | 3,750 | 19% |
| 962 | 265 | (307) | -413% | Fines and penalties | 3,592 | 5,191 | -31% |
| 855 | 282 | 369 | 132% | Consulting and audit services | 2,188 | 1,354 | 62% |
| 392 | 237 | 442 | -11% | Repairs and maintenance | 1,023 | 1,093 | -6% |
| 497 | 158 | 389 | 28% | Sponsorship | 933 | 1,681 | -44% |
| 2,289 | 947 | 1,153 | 99% | Other | 4,936 | 4,495 | 10% |
| **27,136** | **26,012** | **22,484** | **21%** | **Total SG&A expenses** | **102,568** | **92,360** | **11%** |
| **10.4** | **9.8** | **10.3** | **1%** | **Total SG&A expenses (US$ per bbl sold*)** | **9.9** | **10.5** | **-6%** |

* Converted at 7.23 barrels per tonne of crude oil.

Selling, general and administrative (SG&A) expenses in 2014 amounted to KZT102.6 billion which is 11% higher than in 2013. The increase is mainly due to the rise in transportation expenses, employee benefits and consulting and audit services.

The growth in transportation expenses resulted mainly from higher transportation costs for the CPC route due to an increase in volume and the average Tenge/US dollar exchange rate as the CPC tariff is partially US dollar denominated. Additionally, the growth in transportation expenses resulted from higher transportation costs for the UAS route due to a higher average tariff for the Russian and Kazakhstan territory. Effective from January 1, 2014 KTO increased its domestic transportation tariffs by 50%. Starting from April 1, 2014 KTO export route tariffs have increased by an average of 20%.

Employee benefit expenses in 2014 increased by 29% compared to 2013, primarily due to the 7% indexation in basic salaries from January 1, 2014, the introduction of a Unified System of Wages and an additional 10% indexation of wages for administrative personnel of production subsidiaries.

Consulting and audit service expenses increased in 2014 by 62% or KZT0.8 billion compared to 2013, mainly due to consulting services acquired related to the assessment of the Company's current exploration asset portfolio and the additional technical audit of reserves conducted in 2014.

Fines and penalties in 2014 are primarily related to the accrual of a KZT1.9 billion environmental fine as a result of the 2010-2011 ecological audit. During 2013 the Company recognised an environmental fine amounting to KZT3.9 billion according to a notification from the Tax Department of Mangistau Region. In 2014 OMG accrued environmental fines in the amount of KZT0.4 billion and EMG accrued tax fines in the amount of KZT0.2 billion. Additionally, in 2014 the Company accrued new tax provisions in the amount of KZT0.5 billion related to the preliminary results of the 2009-2012 comprehensive tax audit.

# Operating and financial review continued

### Taxes other than on income

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

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (KZT million, unless otherwise stated) | | | | | (KZT million, unless otherwise stated) | | |
| 19,960 | 43,263 | 44,224 | -55% | Rent tax | 151,861 | 165,307 | -8% |
| 16,858 | 24,508 | 22,417 | -25% | MET | 89,840 | 84,433 | 6% |
| 16,993 | 21,465 | 14,177 | 20% | Export customs duty | 74,227 | 48,981 | 52% |
| 1,739 | 1,644 | 1,557 | 12% | Property tax | 6,204 | 5,473 | 13% |
| 278 | 224 | 103 | 170% | Environmental tax | 1,312 | 4,893 | -73% |
| 2,574 | 528 | 696 | 270% | Other taxes | 4,767 | 2,601 | 83% |
| **58,402** | **91,632** | **83,174** | **-30%** | **Total taxes other than on income** | **328,211** | **311,688** | **5%** |
| **22.4** | **34.4** | **38.0** | **-41%** | **Total taxes other than on income (US$ per bbl sold*)** | **31.7** | **35.5** | **-11%** |

* Converted at 7.23 barrels per tonne of crude oil.

Taxes other than on income in 2014 increased by KZT16.5 billion or 5% compared to 2013, mainly due to the increase in mineral extraction tax and export customs duty, which was partially offset by the decrease in rent tax and environmental tax.

Rent tax decreased due to the drop in average Brent prices drop during 4Q 2014 that also resulted in the reduction of the tax rate from 21% to 16% in 4Q 2014 and a 7% decrease in export volumes. This impact was partially offset by an increase in the average Tenge/US dollar exchange rate.

The increase of MET in 2014 compared to 2013 resulted from an increase in the average Tenge/US dollar exchange rate which was partially offset by the decrease in export volumes.

Export customs duty expenses increased in 2014 compared to 2013 due to the rise of export customs duty from US$40 to US$60 per to nne in April 2013 and from US$60 to US$80 per tonne effective from April 2014. The impact was further intensified by an increase in the average Tenge/US dollar exchange rate and partially offset by a decrease in export volumes.

The environmental tax decrease is due to the accrual of KZT4 billion arising from the ecological audit at OMG in 2013.

### Impairment of property, plant and equipment

Based on the indicators observed, Management performs an assessment of the recoverable value of the Company's assets. As a result of this assessment in 1Q 2014 the Company has recognised a KZT27 billion impairment charge and related deferred tax benefit of KZT5 billion in regards to OMG assets. This impairment charge related primarily to increases in employee benefit costs and an increase in export customs duty from US$60 to US$80 per tonne, effective from April 2014.

In 4Q 2014, declining crude oil prices indicated that the Company's cash generating units may be impaired. Therefore, the Management of the Company has carried out a formal assessment of the recoverable amount of its assets, including subsidiaries, joint ventures and associates. An additional impairment loss of KZT228 billion and related deferred tax benefit of KZT47 billion was recognised in relation to OMG assets, reducing the carrying value of OMG PPE to nil at December 31, 2014.

## Income Tax Expense

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (KZT million, unless otherwise stated) | | | | | (KZT million, unless otherwise stated) | | |
| (233,071) | 41,052 | 66,530 | -450% | Profit/(loss) before tax | 61,573 | 200,360 | -69% |
| (16,285) | 31,662 | 56,525 | -129% | Profit/(loss) before tax (with adjustments**) | 258,065 | 209,593 | 23% |
| (38,113) | 9,360 | 17,862 | -313% | Income tax | 14,535 | 58,531 | -75% |
| 9,158 | 9,360 | 17,862 | -49% | Income tax (with adjustments**) | 66,917 | 69,073 | -3% |
| -14.6 | 3.5 | 8.2 | -278% | Income tax, US$ per bbl* sold | 1.4 | 6.7 | -79% |
| 16% | 23% | 27% | -41% | Effective tax rate | 24% | 29% | -17% |
| -56% | 30% | 32% | -275% | Effective tax rate (with adjustments**) | 26% | 38% | -32% |

* Converted at 7.23 barrels per tonne of crude oil.

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

The main reason for the lower 2014 income tax compared to 2013 is the lower taxable profit from the impairment of PPE (related deferred tax benefit) as well as the lower effective tax rate, which was partially offset by the tenge devaluation resulting in significant foreign exchange gain recognised during 2014. The significant income tax benefit in 4Q 2014 is related to the impairment deferred tax benefit of KZT47 billion.

The lower effective tax rate in 2014 compared to 2013 is explained by a revaluation of the deferred EPT tax rate in 2014, recognition of non-deductible environmental fines and penalties in 2013, as well as deferred tax benefits recognised in 2014 in respect of asset retirement obligations and environmental provisions for KZT6.7 billion.

# Operating and financial review continued

## Overview of JV's and associate's operations

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

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (KZT million, unless otherwise stated) | | | | | (KZT million, unless otherwise stated) | | |
| 11,133 | 7,044 | 6,580 | 69% | Share in income from KGM | 41,672 | 28,399 | 47% |
| 604 | 3,563 | 4,754 | -87% | Share in income from PKI | 21,735 | 22,126 | -2% |
| (261) | (204) | 1,078 | -124% | Share in (loss)/income from UOG | (722) | 3,167 | -123% |
| (10) | (30) | (870) | -99% | Share in loss from KS | (2,494) | (2,826) | -12% |
| **11,466** | **10,373** | **11,542** | **-1%** | **Share in Income in associate and JV's** | **60,191** | **50,866** | **18%** |

### KGM

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

KGM oil production in 2014 was 3,000 ktonnes (50% share is 1,500 ktonnes), which is 107 ktonnes or 3% lower than in 2013.

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

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (US$ thousand, unless otherwise stated) | | | | | (US$ thousand, unless otherwise stated) | | |
| 274,215 | 343,915 | 634,403 | -57% | Revenue | 1,399,617 | 2,447,741 | -43% |
| (114,903) | (158,908) | (381,851) | -70% | Operating expenses | (635,662) | (1,485,796) | -57% |
| (51) | 531 | 778 | -107% | Finance income/(cost), net | 2,174 | (99) | 100% |
| (7,354) | (20,170) | 5,074 | -245% | Foreign exchange gain/(loss), net | 29,084 | (1,113) | 100% |
| (18,571) | (80,137) | (76,861) | -76% | Income tax expense | (289,423) | (355,438) | -19% |
| 133,336 | 85,231 | 181,543 | -27% | Net income | 505,790 | 605,295 | -16% |
| 783 | 713 | 799 | -2% | Crude oil production, ktonnes | 3,000 | 3,107 | -3% |

The decrease in 2014 revenue mainly resulted from lower export volumes in comparison to 2013 with corresponding volumes reallocated to the domestic market, as well as a decrease in the average export price in comparison with 2013.

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

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (thousand tonnes) | | | | | (thousand tonnes) | | |
| 596 | 442 | – | 100% | Domestic market | 1,943 | – | 100% |
| 184 | 257 | 701 | -74% | Export via KCP | 942 | 2,684 | -65% |
| – | 2 | 95 | -100% | Export via Aktau | 132 | 412 | -68% |
| **780** | **701** | **796** | **-2%** | **Total crude oil sales, ktonnes** | **3,017** | **3,096** | **-3%** |

A decrease in export sales volumes from the reallocation to the domestic route has also resulted in a decrease in operating expenses, particularly rent tax (by US$402.3 million), MET (by US$201.4 million) and transportation expenses (by US$131 million).

Export customs duty expenses decreased by US$86.3 million due to a lower average export price and decreased export sales, which were partially offset by an increase in the ECD tariff from US$40 to US$60 per tonne in April 2013 and from US$60 to US$80 per tonne effective from April 2014.

Fines and penalties decreased by US$53 million in 2014 compared with 2013, due to the large fines resulting from the complex tax audit for 2009 – 2012 being accrued in 2013.

The large foreign exchange gain in 2014 resulted from the Tenge devaluation in February 2014, as KGM's reporting currency is US dollars while the majority of its liabilities are Tenge denominated.

Operating expenses on per barrel sold basis are as follows:

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| | | (US$ per bbl sold*) | | | | (US$ per bbl sold*) | |
| 2.2 | 9.6 | 22.9 | -90% | Rent tax | 7.4 | 24.1 | -69% |
| 3.4 | 4.0 | 10.1 | -66% | Transportation expenses | 5.1 | 10.5 | -51% |
| 2.2 | 4.3 | 12.3 | -82% | Mineral extraction tax | 3.9 | 12.2 | -68% |
| 2.3 | 3.8 | 7.8 | -71% | Export customs duty | 3.4 | 6.9 | -51% |
| 3.6 | 3.5 | 2.1 | 71% | DD&A | 3.3 | 2.3 | 43% |
| 1.5 | 1.3 | 1.6 | -6% | Employee benefits | 1.3 | 1.3 | 0% |
| 1.7 | 1.2 | 1.5 | 13% | Repairs and maintenance | 1.1 | 1.0 | 10% |
| 0.8 | 0.7 | 0.5 | 60% | Materials and supplies | 0.6 | 0.6 | 0% |
| – | 0.2 | 2.2 | -100% | Fines and penalties | – | 2.2 | -100% |
| 1.4 | 0.8 | 0.5 | 180% | Other | 1.2 | 1.1 | 9% |
| **19.1** | **29.4** | **61.5** | **-69%** | **Total operating expenses** | **27.3** | **62.2** | **-56%** |

* Converted at 7.7 barrels per tonne of crude oil.

Share in KGM income, reflected in the audited consolidated financial statements of the Company, represents a proportionate share of the results of KGM for 2014, adjusted for the impact of amortisation of the fair valuation of the licenses, partially offset by a related deferred tax benefit, of KZT 3.6 billion (KZT 17.6 billion in 2013).

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

## PKI

For the purposes of this report joint operations of PKI have been proportionally consolidated.

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

During 2014 PKI produced 4,883 ktonnes (33% share: 1,611 ktonnes) which is 8% less than in 2013. The decline in production was due to a reserve depletion of some of PKI's mature fields. PKI's key financial and operational indicators (100%) are shown on the following page:

# Operating and financial review continued

PKI's key financial and operational indicators:

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (US$ thousand, unless otherwise stated) | | | | | (US$ thousand, unless otherwise stated) | | |
| 490,941 | 606,564 | 955,384 | -49% | Revenue | 2,468,829 | 3,724,706 | -34% |
| (326,057) | (357,995) | (695,277) | -53% | Operating expenses | (1,472,762) | (2,590,525) | -43% |
| (5,045) | (7,415) | (7,841) | -36% | Finance cost, net | (25,420) | (25,121) | 1% |
| (72,886) | (160,809) | (133,539) | -45% | Income tax expense | (454,061) | (573,461) | -21% |
| 86,953 | 80,345 | 118,727 | -27% | Net income | 516,586 | 535,599 | -4% |
| **1,219** | **1,208** | **1,354** | **-10%** | **Crude oil production, ktonnes** | **4,883** | **5,330** | **-8%** |

The decrease in revenue in 2014 in comparison with 2013 took place mainly due to a reduction in production, the reallocation of export volumes to the domestic market and the decrease in average Brent price.

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

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| | | | (ktonnes) | | | | (ktonnes) |
| 813 | 736 | 232 | 250% | Domestic sales | 2,867 | 1,070 | 168% |
| 244 | 224 | 505 | -52% | Export via KCP (PKKR 100%) | 1,089 | 1,867 | -42% |
| 92 | 128 | 350 | -74% | Export via KCP (KGM 50%) | 471 | 1,342 | -65% |
| 38 | 47 | 119 | -68% | Export via KCP (TP 50%) | 171 | 453 | -62% |
| 38 | 35 | 44 | -14% | Export via KCP (Kolzhan 100% & PKVI 75%) | 152 | 171 | -11% |
| – | 1 | 48 | -100% | Export Aktau (KGM 50%) | 66 | 206 | -68% |
| 11 | 6 | 30 | -63% | Export Uzbekistan (TP 50%) | 47 | 143 | -67% |
| **1,236** | **1,177** | **1,328** | **-7%** | **Total crude oil sales, ktonnes** | **4,863** | **5,252** | **-7%** |

Operating expenses decreased mainly due to lower export sales that resulted in lower rent tax (by US$443.2 million), MET (by US$186.4 million) and transportation expenses (by US$110 million). Export customs duty expenses decreased by US$76.7 million due to lower export sales, which were partially offset by an increase in the ECD tariff from US$40 to US$60 per tonne in April 2013 and from US$60 to US$80 per tonne effective from April 2014.

Fines and penalties decreased by US$303.9 million in 2014 compared with 2013, due to the significant fines accrued as a result of an environmental audit in the prior period. During 2014 PKI appealed the results of the environmental audit and reversed emission fees and fines for US$26 million.

Operating expenses on per barrel sold basis are as follows:

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| | | (US$ per bbl sold*) | | | | (US$ per bbl sold*) | |
| 4.7 | 8.3 | 18.9 | -75% | Rent tax | 8.5 | 18.7 | -55% |
| 9.7 | 9.4 | 2.5 | 288% | DD&A | 9.0 | 8.3 | 8% |
| 4.6 | 5.1 | 5.6 | -18% | Transportation expenses | 5.0 | 7.3 | -32% |
| 2.7 | 4.1 | 8.0 | -66% | Mineral extraction tax | 4.0 | 8.3 | -52% |
| 3.4 | 3.9 | 6.2 | -45% | Export customs duty | 3.7 | 5.3 | -30% |
| 3.6 | 3.2 | 0.9 | 300% | Repairs and maintenance | 3.1 | 2.6 | 19% |
| 2.1 | 2.1 | 2.2 | -5% | Employee benefits | 2.2 | 2.2 | 0% |
| 1.7 | 1.4 | 1.4 | 21% | Materials and supplies | 1.4 | 1.2 | 17% |
| (3.7) | 0.6 | 19.1 | -119% | Fines and penalties to budget | (0.7) | 6.8 | -110% |
| 5.2 | 1.2 | 2.8 | 86% | Other | 2.9 | 2.8 | 4% |
| **34.0** | **39.3** | **67.6** | **-50%** | **Total operating expenses** | **39.1** | **63.5** | **-38%** |

* Converted at 7.75 barrels per tonne of crude oil.

The share of PKI income reflected in the Company's audited consolidated financial statements represents a proportionate share of the results of PKI in 2014 adjusted for the impact of amortisation of the fair valuation of the licences for the amount of KZT5.7 billion (KZT4.8 billion in 2013). On top of those adjustments the Management of the Company has performed an assessment of the recoverable value of investments in PKI based on the indicators of decreasing export and domestic crude oil prices. As a result, the Company has recognised a KZT 3.1 billion impairment charge of PKI's investments in JSC Turgai Petroleum.

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

## CCEL

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

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

As of December 31, 2014 the Company had KZT18.3 billion (US$101 million) as a receivable from CCEL. The Company has accrued KZT 3 billion (US$16.9 million) of interest income in 2014, relating to the US$26.87 million annual priority return from CCEL.

In 2014 CCEL produced around 2,132 ktonnes (50% share: 1,066 ktonnes) of crude oil, which is 4% higher than production in 2013.

# Operating and financial review continued

CCEL's key financial and operational indicators:

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (US$ thousand, unless otherwise stated) | | | | | (US$ thousand, unless otherwise stated) | | |
| 226,302 | 287,746 | 369,369 | -39% | Revenue | 1,172,474 | 1,440,449 | -19% |
| (195,795) | (239,235) | (303,810) | -36% | Operating expenses | (903,682) | (1,170,366) | -23% |
| (6,637) | (6,682) | (6,082) | 9% | Finance cost, net | (26,550) | (22,845) | 16% |
| (8,803) | (25,676) | (19,036) | -54% | Income tax expense | (69,054) | (56,634) | 22% |
| 15,067 | 16,153 | 40,441 | -63% | Net income | 173,188 | 190,604 | -9% |
| 539 | 542 | 524 | 3% | Crude oil production, ktonnes | 2,132 | 2,052 | 4% |

The decrease in revenue in 2014 is mainly a result of a reallocation of export volumes to the domestic market and shipments to Russia as well as a decrease in export sale prices.

CCEL crude oil sales split by routes:

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| (ktonnes) | | | | | (ktonnes) | | |
| 221 | 263 | 175 | 26% | Export via Novorossiysk | 872 | 1,008 | -13% |
| 165 | 57 | – | 100% | Export via Ust-Luga | 438 | – | 100% |
| – | – | 147 | -100% | Export via Primorsk | 186 | 658 | -72% |
| – | – | 135 | -100% | Export via Batumi | – | 135 | -100% |
| 127 | 129 | 75 | 69% | Domestic market | 485 | 274 | 77% |
| 45 | 79 | – | 100% | Shipments of crude oil to Russia | 124 | – | 100% |
| **558** | **528** | **532** | **5%** | **Total crude oil sales, ktonnes** | **2,105** | **2,075** | **1%** |

Total operating expenses in 2014 decreased by 23% compared to 2013 mainly due to the decrease in MET, rent tax and DD&A which was partially offset by an increase in employee benefits, repairs and maintenance and export customs duty.

MET for 2014 was recalculated and adjusted in June, since on June 18, 2014 Karazhanbas oilfield obtained the MET preference rate by Government regulation, effective from January 1, 2014. Rent tax has also decreased in 2014 compared to 2013 mainly as a result of decreased export sales and the decrease in average Brent price.

Employee benefit expenses increased due to the adjustment of salaries to a Unified System of Wages, annual 7% indexation of salaries and an additional 10% increase in wages.

Export customs duty expenses increased due to the increase in the rate from US$40 to US$60 per tonne in April 2013 and from US$60 to US$80 per tonne effective from April 2014, partially offset by a decrease in export sales volume in 2014 compared to 2013.

Repairs and maintenance increased mainly due to the increase in tariffs of the service companies.

Operating expenses on per barrel sold basis are as follows:

| 4Q 2014 | 3Q 2014 | 4Q 2013 | Change | | 2014 | 2013 | Change |
|---|---|---|---|---|---|---|---|
| | (US$ per bbl sold*) | | | | | (US$ per bbl sold*) | |
| 9.2 | 14.0 | 21.7 | -58% | Rent tax | 15.2 | 22.2 | -32% |
| 0.7 | 12.0 | 2.1 | -67% | DD&A | 8.7 | 11.4 | -24% |
| 13.3 | 12.4 | 12.8 | 4% | Employee benefits | 11.3 | 10.2 | 11% |
| 8.9 | 7.8 | 7.4 | 20% | Export customs duty | 8.1 | 6.8 | 19% |
| 7.1 | 6.1 | 9.3 | -24% | Trantsportation expenses | 7.1 | 8.4 | -15% |
| 4.5 | 4.2 | 5.3 | -15% | Energy | 4.6 | 5.0 | -8% |
| 4.7 | 5.0 | 3.4 | 38% | Repairs and maintenance | 4.7 | 3.3 | 42% |
| 0.9 | 1.0 | 1.3 | -31% | Materials and supplies | 0.9 | 1.2 | -25% |
| 0.4 | 0.5 | 12.5 | -97% | Mineral extraction tax | 0.5 | 9.8 | -95% |
| **2.8** | **4.3** | **9.6** | **-71%** | **Other** | **3.1** | **6.1** | **-49%** |
| **52.5** | **67.3** | **85.4** | **-39%** | **Total operating expenses** | **64.2** | **84.4** | **-24%** |

* Converted at 6.68 barrels per tonne of crude oil.

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

# Operating and financial review continued

## Lifting cost and netback analysis of JV's and associated company

**Lifting costs of producing JV's and associate is represented as follows:**

| | KGM | PKI | CCEL |
|---|---|---|---|
| | (US$ thousand, unless otherwise stated) | | |
| Employee benefits | 20,320 | 51,522 | 140,709 |
| Materials | 13,394 | 50,101 | 13,029 |
| Repair and maintenance | 16,669 | 83,522 | 65,614 |
| Energy | 11,204 | 32,439 | 65,262 |
| Other | 5,804 | 54,915 | 12,728 |
| **Total lifting expenses (US$ thousand)** | **67,391** | **272,499** | **297,342** |
| **Production (ktonnes)** | **3,000** | **4,883** | **2,132** |
| **Lifting cost US$ per bbl*** | **2.9** | **7.2** | **20.9** |

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

**Netback of export sales at major producing JV's and associate is represented as follows:**

| | KGM | PKI | CCEL |
|---|---|---|---|
| | (US$ per bbl sold*, unless otherwise stated) | | |
| Benchmark end-market quote (Brent) | 99.0 | 99.0 | 99.0 |
| Price differential and premium of bbl difference, net | (4.9) | (6.8) | (4.6) |
| **Average realised price** | **94.1** | **92.2** | **94.4** |
| Rent tax | (20.9) | (20.6) | (19.7) |
| Export customs duty | (9.5) | (9.0) | (10.6) |
| Transportation expenses | (9.4) | (7.8) | (9.1) |
| **Netback price** | **54.3** | **54.8** | **55.0** |

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

**Netback of domestic sales at major producing JV's and associate is represented as follows:**

| | KGM | PKI | CCEL |
|---|---|---|---|
| | (US$ per bbl sold*, unless otherwise stated) | | |
| **Realised price** | **39.7** | **46.0** | **46.4** |
| Transportation expenses | (2.4) | (1.6) | (0.9) |
| **Netback price** | **37.3** | **44.4** | **45.5** |

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

**CCEL netback of counter crude oil shipments to the Russian Federation is represented as follows:**

| | CCEL |
|---|---|
| | (US$ per bbl sold*, unless otherwise stated) |
| **Realised price** | **42.3** |
| Transportation expenses | (7.7) |
| **Netback price** | **34.6** |

* Tonne / bbl conversion factor for shipments to Russia 7.23 is used

## Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a key and integral part of the activities of the Company. From inception, the Company has allocated billions of Tenge for the construction of residential housing, health and sports centers, kindergartens, health camps, and contributed to the reconstruction of schools and hospitals in the Atyrau and Mangistau regions, as well as sponsoring the relocation of towns from some of the depleted EMG oil fields. The CSR strategy of the Company remains the same: to develop the regions in which it operates.

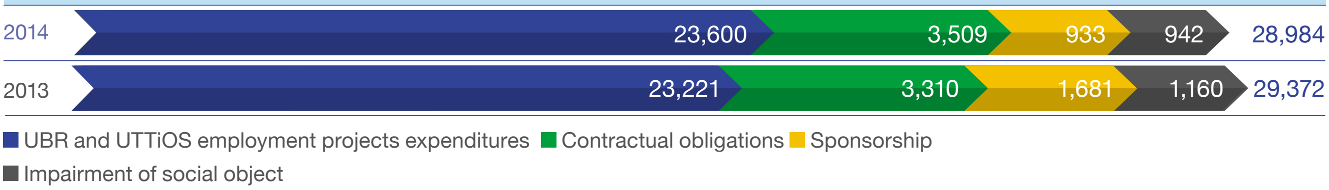
In 2012 two service units – UBR and UTTiOS were created to employ approximately 2,000 people in the Mangistau region. In 2014 the Company incurred KZT 22.2 billion of operating expenses at UBR and UTTiOS, including KZT 17.1 billion of employee benefit expenses and KZT 5.1 billion for materials, supplies and other expenses.

The Company has invested around KZT 1.4 billion for the enlargement and construction of worker accommodation and production facilities, as well as the purchase of equipment, to support the operations at UBR and UTTiOS. Expenses for the financing of UTTiOS were partially offset by the income from third parties in 2014, which totalled KZT 6.3 billion (KZT 3.1 billion in 2013).

In 2014 the Company spent KZT0.9 billion on sponsorship and supporting charities. The majority of this was used to finance social funds and support sports organisations.

Obligations from exploration and production licences are arising from contracts for subsoil use and include payments to the social programs fund, the environmental fund and the commitment to train personnel. In 2014 the social expenses of the Company related to the execution of contractual obligations amounted to KZT 3.5 billion, including the social programs and environmental fund that amounted to KZT 2.2 billion as well as the training of local specialists which amounted to KZT 1.3 billion.

**Social evxpenditures**
(million KZT)




## Liquidity and capital resources

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

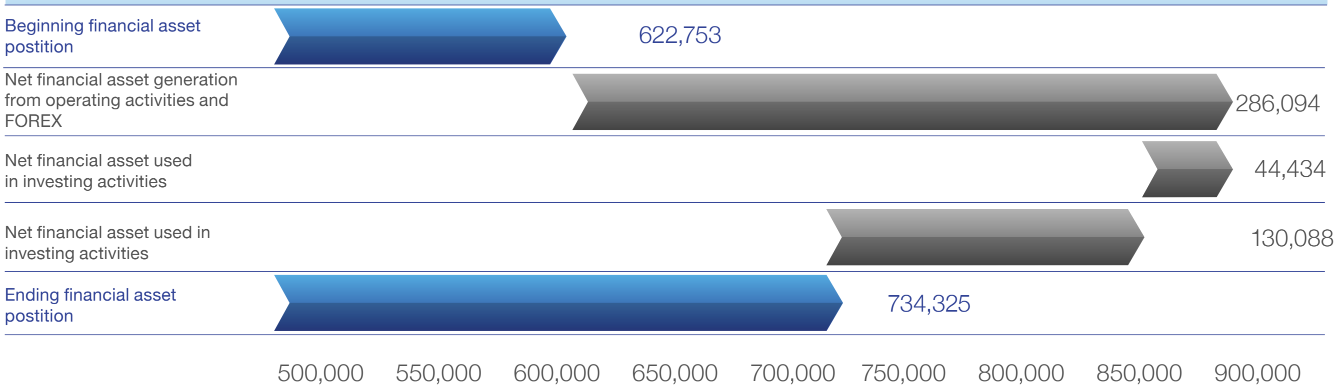
During 2014 net financial assets generated from operating activities amounted to KZT 286.1 billion or KZT 181.1 billion more than in 2013. The increase is primarily attributable to tenge devaluation in 1Q 2014 which led to the recognition of a significant foreign exchange gain as well as higher realised sales price in KZT per tonne terms. Another reason for the greater operating cash flows was the KZT 96.7 billion decrease in the Company's trade receivables balance during 2014 (the increase of trade receivables balance was KZT 51.9 billion in 2013).

Net financial asset outflow from investing activity in 2014 was KZT 44.4 billion versus an outflow of KZT 77.6 billion in 2013. Decrease in net outflows resulted from higher dividends received from JV's and associates (KZT 9.8 billion), lower amount of purchases of PPE in 2014 compared to 2013 (KZT 8.2 billion), lower purchases of intangible assets (KZT 6.6 billion) and lower loans provided to JV's (KZT 7.4 billion).

Net financial asset outflow from financing activities in 2014 was KZT 130.1 billion (outflow of KZT 111.1 billion in 2013). The increase in outflows is mainly associated with greater dividend payments made in 2014 compared to 2013 (KZT 19 billion).

# Operating and financial review continued

**The movement of financial assets for 2014**
in million tenge




## Net cash position

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

| | As at December 31, 2014 | As at December 31, 2013 | Change |
|---|---|---|---|
| | (KZT million, unless otherwise stated) | | % |
| Current portion | 3,000 | 2,503 | 20% |
| Non-current portion | 4,218 | 4,291 | -2% |
| **Total borrowings** | **7,218** | **6,794** | **6%** |
| | | | |
| Cash and cash equivalents | 180,245 | 119,036 | 51% |
| Other current financial assets | 535,513 | 482,006 | 11% |
| Non-current financial assets | 18,567 | 21,711 | -14% |
| **Total financial assets** | **734,325** | **622,753** | **18%** |
| **Foreign currency denominated cash and financial assets, %** | **94%** | **82%** | |
| **Net cash** | **727,107** | **615,959** | **18%** |

## Forward-looking Statements

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology including, but not limited to, the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "target", "will", or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts.

They include, but are not limited to, statements regarding the Company's intentions, beliefs and statements of current expectations concerning, amongst other things, the Company's results of operations, financial condition, liquidity, prospects, growth, potential acquisitions, strategies and the industries in which the Company operates.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that may or may not occur. Forward-looking statements are not guarantees of future performance and the actual results of the Company's operations, financial condition and liquidity and the development of the country and the industries in which the Company operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this document.

The Company does not intend, and does not assume any obligation, to update or revise any forward-looking statements or industry information set out in this document, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved.

# Risk factors

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

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

The Company exercises risk management in accordance with the approved Risk Management Policy, which is aimed at ensuring the strategic and operational business continuity of the Company.

Some details on risks can be found in the Company's Prospectus for common shares and GDR issues, while an analysis of key financial risks can be found in the annual audited financial statements (see pages 86-121).

An additional list of principal risks is presented below. Please note that this list is not exhaustive.

## Political risks

The ability of the leadership of the country to change foreign or domestic policy may significantly affect the investment attractiveness of the country in general and the Company in particular.

The likelihood of changes to legislation, including tax legislation, aimed at maximising budget revenues from raw materials industries.

In the process of reforming public authorities, the abolition or creation of new ministries and agencies regulating the Company's operations may take place. This may lead to a lack of, or delay in, approval of regulations affecting the Company.

The Government of Kazakhstan may substantially cut the export quota or change the volume of domestic supplies which may have a significant impact on the Company's financial performance.

The Government of Kazakhstan may oblige the Company to supply oil towards its own oil delivery obligations at below-export prices according to inter-governmental agreements.

Supplies to the domestic market are currently carried out at below-export prices. The Government may initiate a revision of prices for domestic supplies, and despite negotiations with the Company, may fix domestic prices at a level below those that are economically viable for the Company.

The likelihood of the Government of Kazakhstan limiting the Company's ability to manage its cash, including the diversification of its deposit and cash portfolio. The state, through its representatives Samruk-Kazyna and NC KMG, may have an impact on KMG EP for its own interests, which may conflict with the interests of KMG EP's shareholders.

## Economic risks

The Company supplies crude oil to the domestic market and for export. The key factor which could have a negative impact on both domestic and export supplies is a fall in oil prices, which are volatile due to a number of factors. These include: changes in the balance between supply and demand; the impact caused by key oil-producing countries and their policies; and the political environment in key regions of energy resource production. The fall in global oil prices may significantly affect the financial performance of the Company. Low oil prices lasting for an extended period of time, in either domestic or foreign markets, will have a negative impact on the Company's financial performances especially in cases where the price is below cost: US$35/barrel (46,400 tenge/tonne) for OMG and EMG for 2014.

Current legislation in the area of procurement of goods and services does not allow for an increase in the efficiency of logistics.

Lack of a competitive environment among suppliers and contractors reduces the quality of work and services provided to the Company.

Adverse movements in the financial system of Kazakhstan may worsen the conditions for the allocation of free cash funds (for details see below).

## Regional risks

The Company's main operational activities take place in several regions of Kazakhstan.

The main production units of the Company operate in regions characterised by severe climatic conditions. Some regions have a shortage of highly skilled professionals in the field of oil production and gas processing. These regions also have high social and economic risks which have a substantial impact on the Company's operations.

For assets in the Mangystau Region, the risk of social conflicts and strikes is relatively high, as has been demonstrated several times, and has had a significant impact on the Company's operations and the performance of its obligations under subsoil usage contracts.

The Company has consistently sought to promote and maintain social stability in its regions of operation, and interacts with local governments and communities to resolve current social issues.

The Company strives to ensure that its social programmes are carefully targeted and address the needs of society. However, the increase in non-commercial costs associated with the minimisation of the risk of strikes and social strain could have a negative impact on the financial performance of the Company.

Climatic conditions in these regions are quite varied, and their geographical remoteness requires a particular emphasis on transport and the supply of electricity to ensure continuous operations.

In order to minimise the possible consequences of the risks associated with climatic events in the regions where it has a presence, including the threat posed by natural disasters, the Company pays special attention to business continuity and industrial safety measures.

## Partner risks

The Company cooperates with and engages both foreign and local companies in various areas of its business. The Company may have little or no impact on the way its partners conduct business or operate, although this may affect the operating and financial performance of the Company. Therefore, the Company pays particular attention to the selection of appropriate partners and develops long-term partnerships for mutual benefit.

There is a probability of change in the terms and timing of payment for the supply of crude oil by purchasers belonging to the NC KMG group of companies. Changes in payment terms may be associated with an unforeseen worsening of a partner's financial situation and/or other internal and external factors affecting the NC KMG group. Changes in payment terms can affect the Company's working capital.

## Financial risks

The Company is exposed to various financial risks, among which are currency risks, inflation risks, risks of changes in interest rates on cash, credit and tax risks. The probability of their occurrence and degree of impact on the financial results of the Company are continually evaluated and taken into account when drawing up development plans.

### Inflation risks

The Company conducts its principal operations in the Republic of Kazakhstan and uses Kazakhstan tenge as the base currency for accounts. Costs associated with the payment of wages, energy costs, and the cost of logistics services are sensitive to the tenge inflation rate.

### Interest rate exposures

The Company's operations are exposed to interest rate changes, which may adversely affect the value of temporarily free fund assets and, accordingly, the Company's financial results.

### Currency risks

A considerable part of the Company's revenues are denominated in US dollars (USD) or are linked to USD. Part of the Company's expenses are denominated in foreign currencies, or otherwise significantly dependent on the fluctuations of foreign currencies (mainly the USD and, to a lesser extent the euro and the ruble) against the Kazakhstan tenge (KZT). Currently, approximately half of the Company's operating costs are denominated in KZT. A rise in the value of the US dollar would make oil exports more profitable.

In the case of a negative impact of changes in interest rates and exchange rates the Company will use trade finance instruments (letters of credit, guarantees) to allow the Company to reduce the dependence of its activities on base interest rates.

The following indicators of the Company's financial statements are most susceptible to changes as a result of the influence of financial risk:
- net income;
- revenues;
- costs; and
- receivables.

### Credit risks

There are credit risks involved in operations associated with the movement of material and cash flows for counterparties, starting with financial institutions serving the financial flows of the Company, and finishing with the end buyers of products and contractors providing various services to the Company. An efficient centralised cash management system has been implemented by the Company Treasury.

**Financial risks, their probability and nature of changes in the statements**

| Risk | Risk probability | Nature of changes in the statements |
|---|---|---|
| Falling bank deposit rates | Average | Decrease in profits due to falling revenues from the placement of temporarily free funds |
| Foreign exchange risk (the risk of devaluation of the exchange rate of the KZT against the euro and USD) | High | Increased cost of purchased equipment – increased depreciation |
| Inflation risks | Average | Increase in accounts receivable, increase in costs of outputs |
| Credit risks | Average | Problem with receivables. Reduction of profit. |

# Risk factors continued

## Tax risks

The tax system of the Republic of Kazakhstan is characterised by low levels of law enforcement practice in respect of recently adopted regulations. It is also characterised by the risk of additional taxation, fines and penalties based on a broad interpretation of the legislation. These factors complicate the planning of the Company's tax overheads. The Company's management takes steps to minimise the risk, based on participation in work to improve the quality of both the Tax Code and by suggesting amendments to the Tax Code. In addition, the Company continues to defend its interests in the courts.

## Change in customs regulations and duties

As the Company carries out foreign trade activities, factors such as changes to customs regulations, the volatility of export customs duty (ECD) rates, and lack of a transparent formula for calculating the ECD, could adversely affect the Company's financial results.

At the same time, the Company continuously monitors and takes into account changes to the current legislation of the Republic of Kazakhstan which allows it to minimise risks associated with these changes.

## Exploration

The key strategic goal of the Company is to increase reserves. The main risks associated with exploration activities are unconfirmed planned resource levels and increases in the costs of current exploration projects. To reduce these risks comprehensive analyses of geological and geophysical studies are carried out. In addition to traditional seismic surveys these include geochemical studies, electrical exploration, and special methods for seismic and graphic data processing.

## Production

One of the Company's most important tasks is to maintain an optimal level of production in its own fields, most of which are at the later stages of operation. To this end, the Company uses modern methods and technologies to control key business production processes.

The key factors that may affect the efficiency of the Company's production are:

- Status of wells;
- Technical integrity of equipment;
- Continuity of power supply;
- Weather conditions;
- Timeliness of procurement and supply of equipment;
- Quality of delivered equipment;
- Increased costs of services, materials and fixed assets outstripping productivity growth;
- Limited control of operating and capital costs;
- Timeliness and quality of service provided by contractors;
- Safety of operating personnel;
- Environmental security;
- Effectiveness of planning;
- Compliance with state regulators.

Reduced production efficiency and an unplanned, significant decline in production rates could have a material impact on operational results and the value of the Company's assets and reserves.

Production activity is also subject to the risk of failure or breakdown of primary equipment. To reduce this risk the Company carries out a set of preventive measures and a programme of modernisation and repair of equipment. The main production equipment is insured against loss from fire, explosion, and natural and other hazards, and the Company also insures against the risk of a well blowout.

## Health, safety and environment

The Company's production activities involve a wide range of risks to workers' health and the environment. These risks include unsafe practices, industrial accidents, environmental damage and pollution, and natural disasters. The consequences of these risks can be very severe, including fatal accidents, air pollution, soil and water pollution, fire, and suspension or termination of production. Depending on the cause of these events, the consequences could adversely affect the reputation and both the financial and operating performance of the Company.

The Company undertakes various measures to prevent the occurrence of such threats, including the control of occupational health and safety, and hazard identification and training. The Company's current labour protection systems and health, safety and environment policies have been introduced and function in accordance with ISO 14001 and OHSAS 18001. Every year the Company insures against occupational safety and environmental risks associated with its activities and projects. In addition, there is always the risk of ambiguity surrounding the interpretation of environmental laws and regulations that may not always work in the Company's favour, and which could lead to potential claims and penalties. See page 68-71 for additional information on the Company's health, safety and environment policies.

## Information technology

The Company is subject to information technology risks in connection with the implementation, adaptation and use of high-tech equipment and software, and the secure storage of sensitive business data. In order to effectively mitigate these risks, the Company analyses the technologies it uses annually. When selecting and purchasing new software and equipment the Company gives preference to the most adaptable and recommended technology to provide a reliable control of and access to business data.

## Strategic and investment risks

The main factors affecting the Company's investment activities are:

- A limit on the number of new onshore assets in Kazakhstan available for purchase;
- Increased competition from large international oil companies for access to oil and gas assets.

Furthermore, since KMG EP is the largest oil and gas company within the portfolio of the Government of Kazakhstan, the state, through Samruk Kazyna and NC KMG, may direct KMG EP to act in the interests of the state as a whole. These interests may run contrary to those of KMG EP's shareholders. All of these factors, both separately and in concert, could lead to an underestimation or overestimation of the attractiveness of KMG EP's projects as well as inefficient investment decisions and, consequently, to a reduction in inventory levels and a decrease in the value of the Company.

## Corporate governance risks

### Reducing organisational capacity

One of the major factors affecting the efficient operation of the Company is a reduction in organisational capacity. Highly qualified personnel are necessary to maintain competitive advantage and ensure that the Company's strategic goals can be met. Each year, the Company faces the challenge of attracting and retaining staff with appropriate qualifications, primarily due to a shortage of appropriately qualified professionals in some regions.

To reduce this risk, the Company has developed a series of measures aimed at increasing loyalty, motivation and the professional skills of its staff. In addition, considerable attention is paid to improving the leadership skills of management and the development of a personnel reserve.

### Fraud and corruption

Resource allocation that does not comply with the best interests of the Company, causing damage to the Company for personal gain, or any other evidence of corruption is totally unacceptable to the Company, regardless of the size of the financial damage.

The Company takes all possible steps to prevent illegal activities that could cause it reputational damage.

The Company is subject to the Kazakh Law on Combating Corruption, which came into force in July 2011, as well as the UK Bribery Act 2010, and sets up its own internal policies and procedures in strict accordance with these laws.

The Company provides the means for employees, business partners and third-party contractors engaged by the Company to report any potential or threattened violations of anti-corruption legislation by any Company employee or other associated person. Information on this whistle-blowing policy can be found on the Company website.

All employees have been informed of the anti-corruption policies and policy on proactive information and are obliged to sign their confirmation of understanding of the requirements of anti-corruption legislation and the Company's internal documents on combating corruption. In addition, key employees of the Company and the subsidiaries of the Company have been trained in compliance with anti-corruption laws and internal company policies.

The Company also strives to ensure compliance with the anti-corruption laws of third parties engaged by the company. To this end, in all contracts concluded by the Company with third parties, an appropriate clause is provided, which requires workers of an third party companies to comply with anti-corruption legislation and to inform the Company of any suspected breach, as well as 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 rules.

# Social policy


KMG EP provides jobs for more than 26,000 people through its parent company and joint enterprises in several regions of Kazakhstan. The Company continues to improve employment conditions for its oil workers by financing the construction of social facilities alongside industrial projects.

In spite of the current tough economic climate due to the slump in oil prices, the Company intends to maintain social payments and the permanent component of employees' wages at the current level. All obligations under collective agreements which are valid until 2017 will continue to be met, including bonus payments, medical insurance for employees and members of their families, and recreation camps for employees' children. Indexation of wages against inflation is also provided for under the terms of the collective agreements.

KMG EP has made significant investments in the construction of schools, kindergartens, health and sports centres, civic centres and other facilities. In Zhanaozen, a public medical centre consisting of out-patient and in-patient hospital facilities is under construction. During the last few years KMG EP has also financed repairs on key roads including the Uzen–Kyzylsai, Akkistau–S. Balgimbayev, and Karaton–TerenUzek highways.

Besides the implementation of social projects, KMG EP provided aid in 2014 to various Kazakhstan associations and social funds that provide custodial care for handicapped children, children suffering severe illnesses, and orphans.

## Social responsibility

KMG EP's subsidiaries are sometimes the sole source of social and economic development in the regions where they operate. The Company fully acknowledges its responsibility to maintain social stability and to guarantee adequate standards of living for people in its operating regions. In this regard KMG EP bears the additional costs of maintaining the existing headcount regardless of current operational needs and pays for health insurance and the cost of training under the collective agreement terms.

More than

**26,000 people**

work at the enterprises of KMG EP


The Company plans to allocate 904.5 million tenge (US$4.9 million) and 345.7 million tenge (US$1.9 million) in 2015 for the implementation of social projects in the Mangistau and Atyrau regions, respectively.

**Expenses for social projects**
billion tenge


## Our people

Since its formation KMG EP has provided training and skills development for its employees on an annual basis, with a particular focus on on-site production staff. In addition, KMG EP holds extensive corporate training courses, workshops, and modular training programmes for its employees to promote uniform corporate policies and strategic priorities.

In 2014, over 31% of KMG EP Group's workshops and trainings were organised internally, with employees from all subsidiaries and joint ventures taking part. In 2014, more than 43,000[1] KMG EP Group employees completed in-company training courses, workshops and modular programmes.

KMG EP also provides training for new employees and interns. More than 750 vocational college and university students complete internships with various units of KMG EP and its subsidiaries each year. In addition, the Company and its subsidiaries also covered vocational college and university tuition fees for 915 Kazakhstan students in 2014.

[1] This is the total number of training events completed, so if an employee had attended 3 sessions, the number reflected would be 3.

# Social policy continued

## Unified System of Wages

In April 2014 a Unified System of Wages (USoW) for employees working in exploration and production divisions was implemented throughout the NC KMG Group.

The previous system of wages had become outdated. Specialists from subsidiaries of the group spent 18 months determining the best way to address the issue of wage inconsistency. The new Unified System of Wages is based on a unified rate matrix which ensures that the wages of employees performing the same task in different NC KMG companies will vary only due to working patterns and actual output – with base tariffs remaining consistent across the Group.

The Board of Directors of KMG EP resolved to implement the Unified System of Wages and to increase the 2014 salary budget by 21 billion tenge (US$113 million), including an increase of 10% in connection with devaluation of the tenge in February 2014.

## Professional Skill Competition

In August 2014 the seventh professional skill competition "Uzdik Maman" (Best Professional) was held among the employees of KMG EP's subsidiaries and joint ventures at the Zhaikmunaigas Oil and Gas Production Department of Embamunaigas (EMG) in the Atyrau region. Fifty-three employees from Ozenmunaigas (OMG), EMG, Karazhanbasmunai (KBM), and JV Kazgermunai (KGM) took part in the competition. These finalists previously qualified through internal competitions held by the subsidiaries and joint ventures. The competition encompassed ten occupations: oil and gas production operator, well survey operator, oil treatment operator (loading operator), reservoir pressure maintenance operator, well servicing operator (gang), oilfield equipment repairman, gas and arc welder, lathe operator, electrician (gang), and chemical laboratory assistant, and consisted of both theoretical and practical sections. In assessing the results, the committee paid special attention to compliance with health and safety rules, quality and speed, as well as the level of theoretical knowledge.

Winners in each category were awarded "Uzdik Maman" medals. Contestants placed first, second, and third were awarded gift vouchers and will receive 30%, 20%, and 10% bonuses respectively on top of their basic salary for a year.

## KMG EP youth movement

Young Professionals' Council operate both in KMG EP's head office and its subsidiaries. The Young Professionals' Council at OMG and Karazhanbasmunai have been actively operating since 2012, and similar counsels were established at EMG and KGM in spring 2014.

The KMG EP group youth movement sets itself several goals:

- To promote the introduction of innovative solutions and projects aimed at improving the efficiency of KMG EP's production and administrative processes, use of resources, and cost savings;

- To facilitate the education and professional development of young employees and promote collaboration between the Young Professionals' Council from different group companies;
- To facilitate the spiritual development and health of young professionals, and to enhance solidarity among the staff of KMG EP group companies through social, cultural, and sports events.

On the initiative of the head office Young Professionals' Council, various workshops where top managers and frontline workers share their experience and knowledge are held out of hours and are open to all Company employees. Young Professionals Council organise charity events, participate in campaigns aimed at developing public services and amenities, and hold sporting events and meetings with interesting people directly at the production sites.

On 11-13 June 2014 the second KMG EP Young Professionals Meeting was held in Almaty. It was attended by around 70 representatives from ten KMG EP subsidiaries from Astana and the Mangistau, Atyrau and Kyzylorda regions. Over the course of three days young professionals presented their projects designed to improve the Company's production activities and cost efficiency. They also took part in a team-building exercise titled "The Role of the Leader in a Team".

Forty four experts also presented their projects in the following sectors: Geology and Geophysics; Reservoir Management; Methods and Technology of Oil and Gas Production; Technologies of Periodic Well Servicing; Work-over and Drilling; Use of Chemicals; Power Engineering and Automation of Oil Production and Reservoir Pressure Maintenance as well as Health, Safety and Environment and Economics and Finances.

The main requirements of the projects were their relevance to specific features of production, as well as the demand for and applicability of the suggested solutions to particular production and administrative processes.

At the end of the Meeting several of the best projects were selected for introduction into production activities. One of the winners of the previous project competition, Aidyn Kozhash, also presented the initial results of the application of his innovations in production.

### Annual Spartakiad

In September 2014 the III Spartakiad of the work collectives of KMG EP's subsidiaries and joint ventures was held in Kyzylorda, hosted at the site of KGM. Teams from EMG, OMG, KBM, KGM and the Department of Utility Vehicles and Well Servicing, as well as teams from the Head Office of KMG EP, the Engineering Centre, Ural Oil & Gas, Karpovskiy Severniy, Exploration Assets, and Zhanaozen subsidiaries and affiliates, took part in the sports competition.

For five days, over 300 oilfield workers from the Atyrau, Mangistau and Kyzylorda regions, Astana and Uralsk competed in sports including volleyball, basketball, indoor soccer, ping-pong, swimming, track and field, chess and also Kazakh kuresi, and Toguz Kumalak. Overall victory was won by the host team, KGM, while the team from OMG was the runner-up and EMG was placed third.

Every year more than

**750 students**

undergo their internships at KMG EP's enterprises

# Social policy continued

## Health, Safety and Environment

For KMG EP, the implementation of leadership strategy presumes not simply achieving high production and financial results. The achievement of new production horizons and targets requires raising the quality of environmental management in the area of work environment safety. The Board of Directors of KMG EP carefully monitors the work of management in raising safety levels and constant lowering of the rates of accidents, injury at the workplace and professional illnesses.

### Occupational Health and Safety

Occupational safety is a top priority for KMG EP's management. In the last three years the Company has implemented large-scale works aimed at maintaining workers' safety and working conditions, including the construction of service and utility complexes, canteens, administrative complexes, and operator's shacks for the Group units. Available motor vehicles and special equipment were updated during 2012-2014, and all are now fitted with GPS tracking systems. In future all special equipment and automotive transportation supplied to KMG EP should be fitted with GPS tracking systems.

Management also pays great attention to the quality of working clothes, safety shoes, and personal protective equipment procured for employees.

**Health and safety expenses**
in 2014 in billion tenge

| | OMG | EMG | Total |
|---|---|---|---|
| Occupational safety, industrial and fire safety | 0.7 | 0.6 | 1.3 |
| Procurement of personal protective equipment | 1.9 | 0.6 | 2.5 |
| **Total amount:** | **2.6** | **1.2** | **3.8** |

KMG EP works hard to reduce the risks inherent in the production of oil and to minimise potential dangers to the life and health of its staff. In 2014, five accidents occured at OMG and EMG facilities, resulting in an injury frequency ratio of 0.32. Four of these accidents took place at OMG, resulting in seven injuries, including one fatality. Three employees were subsequently classified as disabled for one year, the rest have returned to work. One accident occurred at EMG, resulting in only one minor injury. The employee concerned returned to work ten days after the accident.

Analysis of accidents shows that the main cause was deviation from standard safety procedures. After each accident, a special committee is created to investigate the causes and define corrective and preventative measures.

Employees are trained annually to comply with the requirements of occupational safety. Occupational safety guidelines are developed for all production floors and safety instructions for each type of process are also available. We have also developed pocket-size safety reminders for each employee.

The dissemination of information on safety measures by a wide variety of posters and visual materials plays an extremely important role in the system of workplace safety. Among the main tools are educational videos on safe work methods and work practices.

In accordance with the requirements of the uniform occupational safety management system KMG EP has established a five-stage system of health, occupational safety and environmental control. Permanent committees comprising directors of the divisions and leading Company experts have been created at each subsidiary and related entity. The purpose of these committees is to enhance the safety of occupational and production processes, to prevent safety violations, and to implement adjustments to production processes, working conditions, and working areas and floors based on changes to safety regulations.

Throughout the year all production and structural subdivisions carry out safety inspections, develop measures to correct identified faults and violations, and take disciplinary action against those responsible in the event of any safety violations. Managers control the implementation of safety measures.

The costs of safety and health in 2014:

₸3.8 billion

All the departments of operational business units summarise their health and safety performance on a monthly basis, and the operational business units themselves do this on a quarterly basis. Subsidiaries also hold respective meetings every six months and at year-end.

Two fuel filling stations were commissioned in 2014 at OMG. This project helped keep special vehicles within the fields which reduced the density of traffic between the town and the fields, and reduced the frequency of fuel filling, and improve the quality of services.

To prevent fire risks, and to respond in a timely manner to fires, two fire stations were commissioned at OMG in 2014. One of those stations was built at Field Office No.2, and another one was built at the Oil Treatment and Production Service Department. To prevent occupational accidents, the current organisational structure needs to be modified to strengthen control over compliance with health and safety requirements, and organisational measures need to be taken to improve working conditions.

To achieve those targets, and to improve the current health, safety, and environment, a number of actions have been planned, like the Employee Safety Culture Improvement Programme that stipulates introduction of risk assessment, analysis of the safe working practices, behaviour-based care, and contractor management. This programme will help mitigate operational risks consistently through constant improvement of the safety management system, and through a better safety culture that is based on leadership and the personal commitment of managers, and on the capability to foresee and prevent risks and accidents. Consultants and experts with high skills and international background are going to be hired to implement this programme.

The introduction of automated information management system for health, safety, and environment, introduction of a common system would reduce labour costs for data gathering and processing, would make sure that monitoring of investigations and controls are in place, would make sure that immediate and regular reporting are automated, and would provide a strong analytical potential to review available data while maintaining control over input data to prevent errors.

The system comprises several modules. The following modules are expected to be implemented first:

- Accident control;
- Audits and checks;
- Monthly reporting;
- Personal protective equipment;
- Training management.

## Environmental Protection

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

Every year, the Company allocates substantial funds towards environmental protection. In 2014, 5.3 billion tenge (US$29.4 million) was spent on environmental protection programmes.

Environmental control is a key consideration for OMG and EMG in their efforts to prevent environmental damage from their production operations. Environmental control is organised under the Environmental Monitoring Programme and adheres to the environmental laws and regulatory and procedural guidelines that regulate this type of environmental activity.

The programme defines the procedures and methods for monitoring environmental components such as air quality, effluent run-off, ground water, soil, vegetation, and fauna. It also lays down the framework for monitoring radiation levels as well as testing air, water and soil samples, conducting lab tests, carrying out internal audit, and drafting the required documents, maps, texts, and worksheets based on the completed work.

Company experts control these tests and conduct regular site visits.

On 5 June 2014, the Ministry of the Environment and Water Resources, the Ministry of Oil and Gas, and KazMunayGas (represented by KMG EP and OMG) signed the Memorandum of Cooperation in the area of environmental protection, as pertains to the prevention, reduction and elimination of oil contaminated grounds and waste disposal.

**Expenses for environmental protection**
billion tenge

| | 2013 | 2014 |
|---|---|---|
| OMG | 1.5 | 3.4 |
| EMG | 0.8 | 1.9 |
| **KazMunaiGas Exploration Production JSC** | **2.3** | **5.3** |

# Social policy continued

The Memorandum specifies a plan of action related to the elimination of oil-contaminated ground and the disposal of 11 OMG sludge tanks. This is to be implemented by the end of 2021. During the course of 2014 the evaluation of contaminated ground processing technologies was completed and the pilot testing of selected technologies was begun.

In 2014, 470,000 tonnes of the more than 2.4 million tonnes of waste stored on the territory of OMG's deposits were eliminated. This included the disposal of 52,000 tonnes of oil-contaminated ground using an energy accumulating additive based on humate-containing compound materials. This disposal technology was developed by the Bekturov Institute of Chemical Sciences, and allows the neutralised ground to be used as road construction material.

A further 270,000 tonnes from the total site waste of EMG of over 280,000 tonnes were also disposed of.

To avoid the possible risk of incurring penalty measures works are being carried out since the start of the current year to catalogue and list the remaining contaminated areas within the operational footprints of the OMG and EMG fields. In accordance with the findings, clean-up works will be carried out to de-contaminate the oil-impregnated soil using biological methods.

KMG EP continues to review advanced world-class waste disposal technologies. In 2014 the pilot testing of hydro-dynamic purification efficiency was completed and yielded positive results. This technology ensures environmental safety with minimal impact on the environment.

## Radioactive Tubing Cleaning

In the process of oil production, including production at the Uzen deposit, radioactive salts and metals are deposited on the surfaces of tubing and other equipment. Until recently, this equipment was stored at OMG's temporary waste landfill site. But the Company has been carrying out pilot testing of various purification technologies, and over the course of 2014, a specialised contracting organisation cleaned 1,000 tonnes of radiation-polluted tubing and equipment at OMG. After cleaning, the tubing and equipment were returned to OMG for reuse while trace amounts of waste radioactive salts and grits formed after cleaning have been transferred by the contracting agency to specialised long-term storage facilities. The Company plans to continue cleaning radiation-polluted tubes and equipment at OMG to mitigate the impact on the environment.

## Caspian Water Area Protection

In order to prevent pollution of the Caspian Sea, the Company uses stepped steel structures with a special filling material that reinforces the coastline against landslides. These are the so called 'Reno mattresses'. At the Teren-Uzek and Zapadnaya Prorva deposits of NGDU Zhylyoimunaigas, 5.44 km of a protective dam has been reinforced.

In 2013, the Kazakh Institute of Oil and Gas developed a project to build the 3.162 km Zapadnaya Prorva protective dam for Zhylyoimunaigas, also using Reno mattresses. The construction of this project will be completed in 2015.

In addition, waterlogged wells used by Zhylyoimunaigas in the Tazhigali field, which belongs to EMG, are also being continuously monitored.

## Gas Utilisation

Associated gas produced by OMG is fully utilised by the Kazakh Gas Processing Plant.

EMG is implementing a number of associated gas utilisation programmes which are intended to gradually lead to full 100% utilisation, which will rule out associated gas flaring. Once implemented, the proposed programmes would address numerous environmental issues. These include the reduction of atmospheric emissions, soil and water body pollution, and greenhouse gas release.

At present two such projects have been implemented at the oilfields operated by Zhaikmunaigas in the Isataiskiy District and in the Makat Vostochniy Oilfield operated by Dossormunaigas in the Makatskiy District. These projects include the construction of associated gas treatment plants which send the treated gas to power the company's own utilities and operations while excess gas is sold to local consumers in the Isataiskiy, Makatskiy and Kyzyl-Kuginsky districts.

At Prorva Oilfields a special treatment plant to remove sulphur from associated gas with an annual capacity of 150 mmcm is being designed. Purified gas will be transferred to the Central Asia-Center main gas pipeline through the Borankol gas-processing plant owned by KazMunaiTeniz. This project will be completed in 2016.

## Environmental Audits

In 2014, the Company was served several notices after environmental law compliance inspections raised compliance issues.

*Environmental audit of OMG for 2012-2013.* On 24 January 2014, OMG was served a notice from the Department of Ecology in the Mangistau region concerning a 212.6 billion tenge administrative fine for the storage of oil-contaminated soil in 11 sludge tanks without the required environmental permission. The total amount was determined on the basis of an audit covering the period from 2012 to 2013.

But the wastes stored in the aforementioned facilities were formed historically and on 21 February, 2014 the Specialist Administrative Court of Aktau fully accepted an appeal by OMG to reverse the penalty application. According to current Kazakhstan environmental law such environmental permits is only required for newly formed and stored wastes.

On 19 February 2014 the Department of Ecology in the Mangistau region also made a 327.9 billion tenge claim against OMG as compensation for environmental damage. OMG appealed against the inspection results and associated claim at the Specialized Inter-district Economic Court of the Mangistau region. This Court declared the audit results illegal and fully repealed the claim of environmental damage in a resolution made on 6 March 2014. On 22 April 2014, the appellate division of the Mangistau Regional Court also dismissed the subsequent appeal of the Department of Ecology in the Mangistau region against the resolution.

According to the Decree of the appellate division of the Mangistau Regional Court dated June 6 2014 however the Resolution of the Specialized Interdistrict Economic Court of the Mangistau region dated March 6, 2014 and the Decree of the appellate division of the Mangistau Regional Court dated April 22, 2014 were upheld.

The Department of Ecology may however lodge a supervisory appeal to the Supreme Court, although as of end December 2014 no provision for this had accrued or was registered in the consolidated financial statements.

*Gas flaring at EMG.* In January 2014 the Company received a notice from the Department of Ecology of the Atyrau region demanding 37.2 billion tenge compensation for environmental damage from atmospheric emissions in excess of permitted norms from flares and other sources of contamination without environmental permissions. As a result of an appeal against this notice at the General Prosecutor's Office and the Specialized Interdistrict Economic Court of the Atyrau region, the amount of damages was reduced from 37.2 billion tenge (US$202 million) to 2.0 billion tenge (US$11 million). This amount was paid out in June 2014.

# Corporate governance

# Board of Directors


## 1 Daniyar Berlibayev

Chairman of the Board of Directors of KMG EP*

Deputy Chairman of the Management Board of JSC NC KazMunayGas in charge of corporate headquarters.

Daniyar Berlibayev was appointed to the Company's Board of Directors on 9 July 2013, and was elected Chairman of the KMG EP Board of Directors on 10 July 2013. He graduated from Al-Farabi Kazakh State University. He is the holder of "Kurmet" and "Parasat" medals.

Daniyar has held various management positions in the Kazakhstan oil and gas industry, including at JSC Intergas Central Asia, JSC KazTransGaz, National Maritime Shipping Company KazMorTransFlot JSC, and KazMunayGas – refining and marketing JSC. He is also the Chairman of the Board of Directors of Rompetrol Company (Romania), and Supervisory Board Member at JSC KazRosGas. He is a member of the Nominations Committee.

## 2 Abat Nurseitov

Chief Executive Officer, Chairman of the Management Board of KMG EP

Abat Nurseitov was appointed Deputy General Director for Operations in January 2012. He joined the Company in October 2006.

Abat graduated from the Lenin Kazakh Polytechnic Institute. He has been working in the oil and gas industry since 1986, having progressed from being a field operator for oil and gas production to head of Zhetybaineft. He has held various management positions at KazNIPIneft, CJSC Turgai-Petroleum and the Kazakhstan affiliate of Lukoil Overseas Service. He has been awarded medals as part of the commemoration of 100 and 110 years of Kazakhstan oil production. He is a member of the Strategic Planning Committee.

## 3 Timur Bimagambetov

Managing Director (Production Assets) of NC KazMunayGas JSC

Timur Bimagambetor graduated from the Kazakh Polytechnic Institute in 1978.
In recent years, he has held such management positions as Vice Chairman of the Management Board for Production and Technical Development, Managing Director of the Production Assets Department of NC KazMunayGas JSC, and General Director of Kurmangazy Petroleum LLP and N Operating Company LLP.

Timur was elected to the Board of Directors of KMG EP on 29 May 2012. He is a member of the Strategic Planning Committee.

## 4 Yerzhan Zhangaulov

Managing Director (Legal) of NC KazMunayGas JSC

Yerzhan Zhangaulov previously worked as the Head of Legal Services, Executive Director for Legal Matters, and adviser to the Vice President of JSC NC KazMunayGas. He led the Legal Department of JSC NC Oil and Gas Transportation, headed the legal section within the General Services Department of Kazakhstan's Presidential Administration, served as a consultant with the Legislation, Defence and Law Enforcement Department at the Front Office of Prime Minister of the Republic of Kazakhstan, and as assistant to Kazakhstan's Justice Minister. He graduated from the Karaganda State Institute's Faculty of Law in 1992.

## 5 Asiya Syrgabekova

Managing Director (Investment and Risk Management) of NC KazMunayGas JSC

Since November, 2013, Asiya Syrgabekova has been working as the Managing Director for Investment and Risk Management of NC KazMunayGas JSC. She was elected to the Board of Directors at KMG EP on 26 March 2010. Since 2003, she has been First Deputy Chairman of Halyk Bank, and between 2004 and 2006 she was Chairman of the Management Board of Halyk Bank. Between 1998 and 2003, Asiya worked in national oil and gas companies, where she held various executive positions in KazakhOil, KaztransGas, and KazMunayGas. She graduated from the Kazakhstan State University's Faculty of Economics in 1982. In 1987, she graduated with a PhD in Economics from the Moscow Financial Institute.

## 6 Philip Dayer

Independent Non-Executive Director of KMG EP

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

Currently, he holds independent directorships with a number of companies, and is Senior Independent Director of AVEVA Group. He is also an independent director of VTB Capital and Severstal public company. Philip joined the KMG EP Board of Directors in May 2010. He is chairman of the Audit Committee and a member of the Remuneration, Nominations and Strategy Committees.

## 7 Edward Walshe

Independent Non-Executive Director of KMG EP

Edward Walshe has over 35 years of experience in the oil and gas sector. He has worked in various roles with British Petroleum and British Gas, where he ran overseas exploration and productions operations in Nigeria, Abu Dhabi, Central Asia, and South-East Asia. He has a PhD in Solid State Chemistry from the University of Dublin. Edward was elected to the Board of Directors on 28 August 2006. He chairs the Strategic Planning and Nominations Committees and is a member of the Audit and Remuneration Committees.

## 8 Alastair Ferguson

Independent Non-Executive Director of KMG EP

Alastair Ferguson has 34 years of experience in the oil and gas sector, predominantly in BP. Since 2003 he has been living in Moscow. Between 2003 and 2011 he was employed at TNK-BP as the Executive Vice-President for Gas Business Development. Later he developed his own consultancy to advise clients on the Russian and Ukrainian energy sectors. He is an independent director of JKX Oil & Gas and is a Senior Advisor to XENON Capital Partners. On 1 January 2015, he was appointed Chairman of the Board of Directors at Zoltav Resources. He has been a member of the KMG EP Board of Directors since October 2013. He chairs the Remuneration Committee and is a member of the Audit and Strategic Planning Committees.

## * Christopher Hopkinson

* As of January 2015 Christopher Hopkinson – First Deputy Chairman of the Management Board of JSC NC "KazMunayGas" – has been appointed as the new Chair of the Board of Directors

Christopher Hopkinson is a graduate of St Andrews University, Scotland. Before he joined NC KMG, he had been CEO at International Petroleum; General Director at Imperial Energy, and Senior Vice President North Africa at BG Group. He held various posts at Shell and TNK BP.

# Corporate governance

KMG EP was a pioneer among Kazakh companies in applying corporate governance practices in line with international standards. Investor confidence in the Company and its management hinges on the Company's corporate governance.

KMG EP has developed and put in place an effective system to manage relations between the Board of Directors, the Management Board and the shareholders. This system ensures that the Company continuously looks for the best investment opportunities while at the same time considering the interests of all shareholders.

Regulation of its relationship with the principal shareholder is a vital component of the Company's corporate governance. An agreement is in place between KMG EP and its parent company NC KazMunayGas (NC KMG) that provides for business independence while at the same time requiring KMG EP to act in the best interests of all its shareholders. The Company's Board includes three independent directors. They play a major role in ensuring that the Company complies with its corporate governance commitments. The independent directors at KMG EP use their experience to balance the influence of the principal shareholders and to closely supervise management decisions. Thus, the influence of the independent directors is bolstered by a legislated provision requiring the presence of a significant number of independent directors at the meetings of the Board of Directors in order to form a quorum; their membership and chairmanship on Board committees, and the exclusive vote of the independent directors on the issues related to the authorisation of interested-party transactions. This allocation of functions provides a more balanced and effective decision-making process in line with best practices.

## Board of directors of KMG EP

The governing body of the company is the Board of Directors and the executive body is the Management Board. The Chief Executive Officer chairs the Management Board and also sits on the Board of Directors and is the sole representative of the executive body on the Board of Directors. Four more directors, including Board Chairman Daniyar Berlibayev, are representatives of JSC NC KazMunayGas. The Board of Directors also includes three independent directors, making eight directors in total.

## Corporate Governance Code compliance

This section of the Annual Report has been prepared in compliance with the requirements of the FSA's (Financial Services Authority) Disclosure and Transparency Rules (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, in accordance with DTR 7.2 the Company is required to disclose in its Annual Report whether or not it complies with the Corporate Governance Code of the Republic of Kazakhstan, disclose actual principles of corporate governance, which are applied in addition to the practices to be observed in accordance with applicable laws of the Republic of Kazakhstan.

Following the adoption of the UK Corporate Governance Code in May 2010 by the Financial Reporting Council, the UK independent corporate governance improvement organisation, in 2012 the Company updated its Corporate Governance Code to comply with the UK Corporate Governance Code, except for separate provisions. Specific information on where the Company's current governance practices differ from those set out in the UK Code is given below.

The directors recognise the importance of corporate governance and support the development of corporate governance 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.

## Kazakhstan Corporate Governance Code and the Company's Corporate Governance Code

Corporate governance best practice in Kazakhstan is set out in the Kazakhstan Corporate Governance Code. This Code is based on the best international practice in the area of corporate governance and Recommendations on the Application of Corporate Governance by Kazakhstan Joint Stock Companies, approved by the Securities Market Expert Council of the National Bank of the Republic of Kazakhstan in September 2002. The Code was approved by the Financial Institutions' Association of Kazakhstan in March 2005, and by the Board of Issuers in February 2005.

The Company has adopted the Kazakhstan Corporate Governance Code as its own Code. In 2012 the Corporate Governance Code was amended in order to comply with the UK Corporate Governance Code adopted in 2010 (except for some provisions as set out below). The amendments adopted by the Company impose additional obligations on KMG EP in respect of corporate governance in addition to those provided by the Kazakhstan Corporate Governance Code. The Company believes that these additional amendments will significantly improve the corporate governance practices applied by the Company. KMG EP also takes into consideration other provisions of the UK Corporate Governance Code and will seek to improve its corporate governance standards in the future.

Additional provisions of the Company's Corporate Governance Code in addition to the requirements of the legislation of the Republic of Kazakhstan (the Kazakhstan Corporate Governance Code) are as follows:

- Additional principles of the corporate governance were introduced:
- The principle of independent activities of the Company
- The principle of responsibility.
- Some of the corporate governance principles were supplemented by various provisions, such as:
- Social policy principles;
- Provisions regarding relationships with the shareholders of the Company;
- Division of responsibilities between the Chairman of the Board of Directors and the General Director;
- Provisions describing the role of the Chairman of the Board of Directors;
- Requirement of a minimum number of independent directors;
- Additional provisions governing the criteria for establishing the independence of independent directors;
- Provisions on access to information and professional development for directors of the Company;
- Provisions governing the principles of directors' remuneration;
- Provisions concerning the treatment of inside information;
- Provisions for the responsibilities of the Board of Directors to ensure effective risk management system;
- Provisions for the evaluation of the performance of the Chairman and members of the Board of Directors;
- Provisions for the appointment/re-appointment of members of the Board of Directors.

A current version of the Company's Corporate Governance Code is available on KMG EP website.

During 2014 the Company complied with the provisions of Kazakhstan Corporate Governance Code in all significant aspects.

During 2014 the Company complied with the provisions of its Corporate Governance Code in all significant aspects, save for the following:

- According to the Corporate Governance Code of the Company, directors should meet without the participation of the Chairman of the Board of the Directors at least once a year to evaluate the performance of the Chairman of the Board of the Directors, and in other cases, if required.

The Board has decided not to conduct an assessment of activity of the Board in 2014 with the assistance of an external consultant, as assessment was performed for 2013 activities. The Board has decided to postpone the internal evaluation of its activities in 2014 in connection with the recent election of Chairman of the Board.

- The Corporate Governance Code of the Company provides an obligation for the Board of Directors (together with the Audit Committee) to carry out an evaluation of the effectiveness of the risk management system at least once a year.

The Board of Directors does not have a separate risk committee, and the role described above has been allocated to the Audit Committee of the Board of Directors according to the provisions of the committee. More detailed information about the Audit Committee is provided on page 84 of this report. In 2014 the evaluation of the effectiveness of the risk management system was carried out by Ernst & Young. Following this evaluation, the Company has come up with and approved an action plan for 2014-2015 to further develop the risk management system.

# Corporate governance continued

## Differences between the Company's Code on corporate governance and the provisions of the UK Corporate Governance Code

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

- According to the provisions of the UK Corporate Governance Code the chairman should on appointment meet the independence criteria set out therein.

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

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

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

- The UK Corporate Governance Code also states that the Board of Directors shall appoint one of the independent non-executive directors to be a senior independent non-executive director.

The Company's Corporate Governance Code does not provide for the appointment of a senior independent director by the Board of Directors, taking the current shareholder structure into account. The requirement for a senior independent director will be re-evaluated periodically.

- The UK Corporate Governance Code states that non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves with the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

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

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

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

## Directors' responsibility statement

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

According to the UKLA Disclosure and Transparency Rules each member of the Board of Directors (see page 76-77), on the basis of the available information, confirms that:

- The financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) give a true and fair account 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 results of the Company's financial and economic activities, the financial position of the Company, its joint obligations with its subsidiaries, and a description of the most important risks and uncertainties which the Company faces.

## Structure of the Board of Directors

As of 31 December 2014 the Board of Directors consisted of eight members, including:

| Name | Position |
|---|---|
| Daniyar Berlibayev | Chairman of the Board of Directors |
| Abat Nurseitov | Member of the Board of Directors (General Director) |
| Yerzhan Zhangaulov | Member of the Board of Directors |
| Asiya Syrgabekova | Member of the Board of Directors |
| Timur Bimagambetov | Member of the Board of Directors |
| Philip Dayer | Independent Director |
| Edward Walshe | Independent Director |
| Alastair Ferguson | Independent Director |

On 14 April 2014, by the decision of the general meeting of shareholders, the members of the current Board of Directors were elected for the term of office from 14 April 2014 to 13 April 2015.

On the basis of the results of the Extraordinary General Meeting of Shareholders held on 13 January 2015, the following resolutions were made:

- The appointment of the member of the Board of Directors, Daniyar Berlibayev, was terminated;
- Christopher Simon Hopkinson was appointed as a member of the Board of Directors for the standard term of office.

On 20 January 2015, Christopher Simon Hopkinson was elected as the Chairman of the Board of Directors of the Company, and as a member of the Nominations Committee on the basis of a resolution of the Board of Directors.

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

## Structure of the Management Board

In 2014, the Management Board of the Company consisted of senior executives, including the General Director and his deputies.

The members of the Management Board as of 31 December 2014 are listed below:

| Name | Position |
|---|---|
| Abat Nurseitov | General Director and Chairman of the Management Board |
| Kairbek Yeleusinov | Deputy General Director for Production |
| Malik Saulebay | Head of Staff |
| Dastan Abdulgafarov | Managing Director for Business Development |
| Botagoz Ashirbekova | Managing HR Director |
| Shane Drader | Financial Director – Financial Controller |

# Corporate governance continued

During the course of 2014, the Board of Directors adopted the following decisions on the composition of the Management Board:

1. On 18 March 2014, Dastan Abdulgafarov, Managing Director for Business Development, was appointed as a member of the Management Board of the Company.
2. On 16 September 2014, the appointment of Paul Benjamin Fraser, member of the Management Board was terminated, and Shane Andrew Drader was appointed as a member of the Management Board.

From 12 January 2015, on the basis of a resolution of the Board of Directors, the composition of the Management Board was altered as follows:

1. The number of members of the Company's Management Board was changed to 7 people.
2. Aziz Ilyeuov, Managing Director for Business Development, was appointed as a member of the Management Board for the standard term of office.

Dastan Abdulgafarov, who had previously held the position of managing Director for Business Development, was appointed Deputy General Director for Economics and Finance.

## Responsibility of the Board of Directors and the Management Board

The division of responsibilities between the Board of Directors, the Management Board and General Director of the Company is allocated in accordance with the Sections 12 and 13 of the Charter of the Company. The authorities and responsibilities of the Board of Directors and the Management Board are regulated by the Board of Directors' Regulation and the Management Board Regulation respectively.

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

The Management Board is responsible for developing an action plan to implement these functions and for the daily operational activities of the Company. The Management Board reports to the Board of Directors on its progress towards achieving the objectives of the Company.
The Board of Directors meets on a regular basis and as necessary.

During 2014, the Board of Directors held 50 meetings, including seven meetings in person and 43 meetings by correspondence.

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

- Approval of the Company's budgets and business plans
- Issues related to exploration
- Health, safety and environment issues
- Issues related to amendments to subsoil use contracts
- Issues related to the reorganisation of foreign subsidiaries
- Relationship with affiliates, including subsidiaries of NC KMG
- 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 on page 98 and in the Operating and Financial Review on page 34)
- Issues related to the operations of the legal entities holding 10% or more of the Company's shares;
- Procedure for returning contract areas;
- Introduction of the Unified System of Wages for the Company's employees;
- Election of members of 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 2013;
- Introducing proposals on the amount of dividends to be paid for 2013;
- Producing the Report of the Board of Directors and Management Board for 2013;
- Assessing and reporting on the Board of Directors' performance in 2013;
- Review of plans and reports of the internal audit department, and the status of implementation of the internal audit department's recommendations;
- Consideration of the EVA KPI calculation method suggested by the Sovereign Wealth Fund Samruk-Kazyna.

In 2014, the Board of Directors approved the following documents:

- Insurance Policy of the Company and its subsidiaries and related entities;
- Revised Information Disclosure Policy;
- Provision on the role of the Corporate Secretary and the job description of the Compliance Officer.

In 2014, the Board of Directors established the Independent Committee for issues related to the acquisition, redemption, and delisting of shares and other securities listed in Kazakhstan and on foreign stock exchanges, the underlying asset of which are Company's shares. The independent directors of the Company, Philip Dayer, Edward Walshe and Alastair Ferguson, became members of the Independent Committee. The Independent Committee's terms of reference were approved by the Board of Directors.

### Presence of members of the Board of Directors and members of the committees at meetings of the Board of Directors and committees in 2014

| | BoD | Audit Committee | Nominations Committee | Remuneration Committee | Strategic Planning Committee |
|---|---|---|---|---|---|
| Number of meetings held in 2014 | 50 | 13 | 5 | 5 | 1 |
| Daniyar Berlibayev | 50 | – | – | – | – |
| Abat Nurseitov | 50 | – | – | – | 1 |
| Yerzhan Zhangaulov | 50 | – | – | – | – |
| Asiya Syrgabekova | 50 | – | – | – | – |
| Timur Bimagambetov | 48 | – | – | – | 1 |
| Alastair Ferguson | 50 | 13 | 5 | 5 | 1 |
| Philip Dayer | 50 | 13 | 5 | 5 | 1 |
| Edward Walshe | 50 | 13 | 5 | 5 | 1 |

The Management Board is an executive authority and regulates the Company's current activities. In 2014, 40 meetings of the Management Board were held on a regular basis and as necessary.

In 2014, the Management Board approved a number of projects to acquire new oil and gas assets. Moreover, several related-party transactions were concluded in order to engage subsidiaries and affiliates for exploration or combined exploration and production under KMG EP's contracts as operators.

The Management Board makes decisions on other issues of the Company's operations that are not required to be solely addressed by a General Meeting of Shareholders, the Board of Directors or other officials of the Company.

## Audit Committee

### Members of the Audit Committee

In 2014 this committee was composed of only independent directors, namely; Philip Dayer (Chairman of the committee), Edward Walshe, and Alastair Ferguson. Appointments to the Audit Committee are made for a period of up to three years, and can be extended by the Board of Directors for not 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, 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 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 reports.

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

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

### Activities of the Audit Committee in 2014

During 2014, the Audit Committee held 13 meetings. The Chairman of the Audit Committee makes decisions about the frequency and timing of the meetings. The number of meetings is determined in accordance with the duties of the Committee. At least four meetings per year must be held to coincide with key dates in the cycle for the preparation of financial reporting and audit of the Company (including the preparation of the internal and external auditor's plans, and the preparation of the interim financial statements, preliminary announcements and the annual report).

In 2014, the Audit Committee reviewed the following issues:
- Financial statements
  - Review of issues on preparation of financial statements in compliance with IFRS;
  - Approval of quarterly and annual financial statements to be disclosed to the Kazakhstan Stock Exchange and London Stock Exchange;
  - Approval of press releases in relation to financial statements and operating and financial reviews;

# Corporate governance continued

- Internal audit;
  - Review and approval of internal audit department operational plan;
  - Internal audit team's staff issues;
  - Assessment of the effectiveness of internal audit;
  - Recommendations on external auditor appointment;
  - Monitoring of risk management and internal audit systems;
  - Forecasts of Company cash flows;
  - Treasury Policy compliance;
  - Compliance.

## Remuneration Committee

### Members of the Remuneration Committee

In 2014 this committee was composed of only independent directors: Alastair Ferguson (Chairman of the committee), Philip Dayer, and Edward Walshe. Terms of office of the members of the Committee coincide with their terms of office as members of the Board of Directors.

### Responsibilities and duties of the Remuneration Committee

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

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

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

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

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

### Activities of the Remuneration Committee in 2014

In 2014 the Remuneration Committee held five meetings. The Committee holds meetings as required, but not less than once every six months. Meetings may be convened by the Committee Chairman, any other member of the Committee or by a decision of the Board of Directors.

In 2014 the Remuneration Committee reviewed the following issues:

- Determining the amount of salaries and conditions of remuneration and bonuses of the members of the Management Board, employees of the internal audit department, and the Corporate Secretary
- Issues related to the Option plan.

The total remuneration for the independent directors for the year to 31 December 2014 is listed in the table below:

| Name | Annual remuneration US$ 000 | Physical attendance US$ 000 | Phone-video conference participation US$ 000 | Meetings of independent directors US$ 000 | Committee chairmanship US$ 000 | Total for 2014 (excluding taxes) US$ 000 | Total for 2014 (including taxes) KZT 000 |
|---|---|---|---|---|---|---|---|
| Alastair Ferguson | 150 | 70 | 0 | 20 | 15 | 255 | 51,700 |
| Edward Walshe | 150 | 70 | 0 | 20 | 15 | 255 | 51,700 |
| Philip Dayer | 150 | 70 | 0 | 20 | 25 | 265 | 53,728 |
| **Total** | **450** | **210** | **0** | **60** | **55** | **775** | **157,128** |

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

The total amount of remuneration for the members of the Management Board for 2014 is 337,348 thousand tenge.

## Nominations Committee

In 2014 the members of the Nominations Committee were Daniyar Berlibayev, Edward Walshe (acting Chairman of the Committee), Philip Dayer and Alastair Ferguson.

The main purpose of the Committee is to increase the efficiency and quality of work of the Board of Directors in the selection of candidates to fill positions in the Company, to undertake succession planning, and to define criteria for the selection of candidates for the Board of Directors, General Director, Management Board, and Company Secretary positions.

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

### Activities of the Nominations Committee in 2014

During 2014 the Nominations Committee held five meetings where the following issues were discussed:

- Recommendation to the Board of Directors on the membership of the Board Committees;
- Recommendation on the election of a member of the Management Board;
- Recommendation on the appointment of the Company Secretary.

## Strategic Planning Committee

In 2014 the members of the Strategic Planning Committee were: Edward Walshe (Chairman of the committee), Timur Bimagambetov, Abat Nurseitov, Philip Dayer, and Alastair Ferguson. The main purpose of the Committee is to develop and provide recommendations to the Board of Directors on determining the Company's priorities and its development strategy.

### Activities of the Strategic Planning Committee in 2014

In 2014 the Strategic Planning Committee held one meeting where the following issues were discussed:

- Strategy of KazMunaiGas Exploration Production JSC in respect of maintenance of a positive balance of income and expenditure over the next ten years;
- Transformation programme, a key driver to raise the value of the Sovereign Wealth Fund Samruk-Kazyna.

## Major Shareholders and/or GDR holders

In accordance with the laws of the Republic of Kazakhstan, listed below are the holders of Company securities, who own shares as at 31 December, 2014, the number of which must be reported. This requirement does not apply to GDR holders, however, the Company considers it necessary to specify that, on 30 September 2009, the State Investment Fund of the People's Republic of China Investment Corporation (CIC) announced the acquisition of GDRs covering approximately 11% of the shares of the Company.

## 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 insurance covering accidents during travel and to reimbursement for costs incurred during business travel in accordance with the Company's internal regulations.

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

## Internal control and risk management

The Company operates an internal control and risk management system. The system is designed to identify, evaluate and manage significant risks to ensure the Company can achieve its business goals while maintaining and increasing its shareholder value.

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

| Shareholder | Ordinary shares | Preferred shares | Total number of shares placed |
|---|---|---|---|
| Amount 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% |

# Corporate governance continued

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

In 2014 the Company's risk management system was assessed by the external auditor, EY. On the basis of this assessment, the Company developed and approved plans to further develop the risk management system in 2014-2015.

Key elements of the Company's internal control system include the following:

- The Company's internal documents, including financial, operational, and administrative policies, treasury policy, and others;
- Continuous monitoring of the operating and financial performance and activities to ensure compliance with the Company's safety requirements.

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

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

## Risk Management Committee

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

The main purposes of the Committee are the prompt consideration of risk management issues within the Company, preparation of recommendations to the Management Board on risk management, 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 60-63. Information about financial risks can be found in the Notes to the Consolidated Financial Statements, starting on page 104-106.

## Information on taxation in the UK

The overview given below is based on UK law and HM Revenue & Customs practices in force as at the date of this document, both of which are subject to change, possibly with retrospective effect. Except where otherwise stated, the overview discusses only certain UK tax consequences for absolute beneficial owners of shares or GDRs who are (1) considered to be UK residents for tax purposes; (2) considered to be residents for tax purposes in no other jurisdiction; and (3) are not in possession of a permanent establishment in the Republic of Kazakhstan to which the holding of shares or GDRs is related ("the UK Holders").

In addition, this overview (1) addresses only the tax consequences for the UK Holders who own shares and GDRs as capital assets and it does not address the tax consequences that may apply to certain other categories of the UK Holders, e.g. dealers; (2) assumes that the UK Holders do not, directly or indirectly, control 10% or more of the voting shares of the Company; (3) assumes that a holder of the GDRs is beneficially entitled to the underlying shares and to the dividends on those shares; and (4) does not address the tax consequences for the UK Holders that are insurance companies, investment companies 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 Holder. Accordingly, investors should satisfy themselves 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

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

### Taxation of dividends

A UK Holder receiving a dividend on shares or GDRs may be subject to UK income tax or corporation tax, as the case may be, on the gross amount of any dividend paid 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 and is entitled to a non-refundable tax credit equal to one ninth of the amount of the dividend received. A UK Holder who is an individual resident but not domiciled in the UK and who is entitled and prefers to be taxed in the UK on the remittance basis 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, and will also be entitled to a non-refundable tax credit equal to one ninth of the amount of dividend received.

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

### Taxation of disposals or deemed disposals

The disposal by a UK Holder of interests in the 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 the shares or GDRs. A UK Holder who is an individual resident but not domiciled in the UK and who is entitled and prefers to be taxed in the UK on the remittance basis 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 the GDRs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to UK capital gains tax liability.

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

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

### Effect of Kazakhstan withholding taxes

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

### 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 the UK ad valorem stamp duty, it may also be necessary to pay interest and penalties associated therewith.

As the 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

# Independent Auditor's Report

To the shareholders and management of KazMunaiGas Exploration Production Joint Stock Company

We have audited the accompanying consolidated financial statements of KazMunaiGas Exploration Production Joint Stock Company and its subsidiaries ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KazMunaiGas Exploration Production Joint Stock Company and its subsidiaries as of 31 December 2014, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

**Jim Ducker**
Audit Partner

**Adil Syzdykov**
Auditor

Auditor Qualification Certificate No. МФ-0000172 dated 24 December 2013

**Evgeny Zhemaletdinov**
Auditor, General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

*24 February 2015*

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# Consolidated Statement of Financial Position

*in million Tenge*

| | Notes | As at December 31, 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 156,436 | 350,675 |
| Intangible assets | 6 | 10,855 | 12,064 |
| Investments in joint ventures | 8 | 95,177 | 88,967 |
| Investments in associate | 9 | 116,054 | 107,095 |
| Receivable from a jointly controlled entity | 8 | 13,808 | 13,222 |
| Loans receivable from joint ventures | 8 | 25,738 | 18,402 |
| Other financial assets | 7 | 18,567 | 21,711 |
| Deferred tax asset | 20 | 84,067 | 34,356 |
| **VAT recoverable** | 24 | 42,300 | – |
| **Other assets** | | **15,472** | **19,542** |
| **Total non-current assets** | | **578,474** | **666,034** |
| **Current assets** | | | |
| Inventories | 10 | 26,357 | 27,422 |
| Income taxes prepaid | | 23,916 | 43,684 |
| Taxes prepaid and VAT recoverable | 24 | 37,831 | 72,169 |
| Mineral extraction and rent tax prepaid | | 2,581 | 1,967 |
| Prepaid expenses | | 30,011 | 22,067 |
| Trade and other receivables | 7 | 56,570 | 153,219 |
| Receivable from a jointly controlled entity | 8 | 4,658 | 3,969 |
| Loans receivable from joint ventures | 8 | 7,692 | 3,933 |
| Other financial assets | 7 | 535,513 | 482,006 |
| **Cash and cash equivalents** | 7 | 180,245 | 119,036 |
| **Total current assets** | | **905,374** | **929,472** |
| **Total assets** | | **1,483,848** | **1,595,506** |
| **EQUITY** | | | |
| Share capital | 11 | 163,004 | 162,969 |
| Other capital reserves | | 2,355 | 2,482 |
| Retained earnings | | 1,098,170 | 1,185,815 |
| **Other components of equity** | | **75,587** | **22,509** |
| **Total equity** | | **1,339,116** | **1,373,775** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | 4,218 | 4,291 |
| Deferred tax liability | 20 | 569 | 881 |
| **Provisions** | 13 | **34,929** | **34,203** |
| **Total non-current liabilities** | | **39,716** | **39,375** |
| **Current liabilities** | | | |
| Borrowings | | 3,000 | 2,503 |
| Provisions | 13 | 8,287 | 20,067 |
| Income taxes payable | | 15 | 29,341 |
| **Mineral extraction tax and rent tax payable** | | **34,200** | **61,956** |
| **Trade and other payables** | | **59,514** | **68,489** |
| **Total current liabilities** | | **105,016** | **182,356** |
| **Total liabilities** | | **144,732** | **221,731** |
| **Total liabilities and equity** | | **1,483,848** | **1,595,506** |

The notes on pages 94 to 121 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

*in million Tenge*

| | Notes | For the year ended December 31, 2014 | 2013 |
|---|---|---|---|
| Revenue | 14 | 845,770 | 816,712 |
| Share of results of associate and joint ventures | 8, 9 | 60,191 | 50,866 |
| **Finance income** | 19 | **20,762** | **20,577** |
| **Total revenue and other income** | | **926,723** | **888,155** |
| Production expenses | 15 | (211,900) | (162,035) |
| Selling, general and administrative expenses | 16 | (102,568) | (92,360) |
| Exploration expenses | | (2,127) | (13,125) |
| Depreciation, depletion and amortization | 5, 6 | (59,485) | (47,144) |
| Taxes other than on income | 17 | (328,211) | (311,688) |
| Impairment of property, plant and equipment | 18 | (256,683) | (60,099) |
| Loss on disposal of property, plant and equipment | | (4,221) | (4,475) |
| Finance costs | 19 | (8,952) | (8,085) |
| **Foreign exchange gain, net** | 2 | **108,997** | **11,216** |
| **Profit before tax** | | **61,573** | **200,360** |
| Income tax expense | 20 | (14,535) | (58,531) |
| **Profit for the year** | | **47,038** | **141,829** |
| Foreign currency translation difference | 2 | **53,078** | **4,500** |
| **Other comprehensive income for the period to be reclassified to profit and loss in subsequent periods** | | **53,078** | **4,500** |
| **Total comprehensive income for the year, net of tax** | | **100,116** | **146,329** |
| EARNINGS PER SHARE – Tenge thousands | | | |
| Basic and diluted | 12 | 0.69 | 2.08 |

The notes on pages 94 to 121 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

*in million Tenge*

| | Notes | For the year ended December 31, 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 61,573 | 200,360 |
| Adjustments to add / (deduct) non-cash items | | | |
| Depreciation, depletion and amortization | 5, 6 | 59,485 | 47,144 |
| Share of results of associate and joint ventures | 8, 9 | (60,191) | (50,866) |
| Loss on disposal of property, plant and equipment (PPE) | | 4,221 | 4,475 |
| Impairment of PPE | 18 | 256,683 | 60,099 |
| Dry well expense on exploration and evaluation assets | 6 | 1,263 | 10,971 |
| Recognition of share-based payments | | – | 145 |
| Forfeiture of share-based payments | | (127) | (137) |
| Unrealised foreign exchange gain on non-operating activities | | (76,188) | (5,533) |
| Other non-cash income and expense | | 247 | 7,898 |
| Add finance costs | 19 | 8,952 | 8,085 |
| Deduct finance income | 19 | (20,762) | (20,577) |
| Working capital adjustments | | | |
| Change in other assets | | 2,129 | 376 |
| Change in inventories | | 1,021 | (549) |
| Change in taxes prepaid and VAT recoverable | | (12,299) | (16,436) |
| Change in prepaid expenses | | (7,947) | (6,525) |
| Change in trade and other receivables | | 96,684 | (51,906) |
| Change in trade and other payables | | (8,629) | (20,371) |
| Change in mineral extraction and rent tax payable and prepaid | | (26,570) | 11,128 |
| Change in provisions | | 4,073 | (1,805) |
| Income tax paid | | (87,214) | (77,544) |
| **Net cash generated from operating activities** | | **196,404** | **98,432** |
| **Cash flows from investing activities** | | | |
| Purchases of PPE | | (132,186) | (140,402) |
| Proceeds from sale of PPE | | 224 | 582 |
| Purchases of intangible assets | | (2,042) | (8,628) |
| Loans provided to the joint ventures | 8 | (3,895) | (11,252) |
| Dividends received from joint ventures and associate, net of withholding tax | 8, 9 | 73,945 | 64,138 |
| Interest received from investment in Debt Instruments of NC KMG | 7 | – | 4,734 |
| Proceeds from repayment of investment in Debt Instruments of NC KMG | 7 | – | 135,243 |
| Proceeds from withdrawal/(Purchase of) financial assets held to maturity | | 23,617 | (78,520) |
| Proceeds from sale of other financial assets | | 155 | – |
| Repayments of loans receivable from related parties | | 4,866 | 4,088 |
| Interest received | | 14,654 | 7,130 |
| **Net cash used in investing activities** | | **(20,662)** | **(22,887)** |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | (1,093) | (1,079) |
| Dividends paid to Company's shareholders | 3, 11 | (128,995) | (109,979) |
| **Net cash used in financing activities** | | **(130,088)** | **(111,058)** |
| Net change in cash and cash equivalents | | 45,654 | (35,513) |
| Cash and cash equivalents at the beginning of the year | 7 | 119,036 | 154,705 |
| Net foreign exchange difference on cash and cash equivalents | | 15,555 | (156) |
| **Cash and cash equivalents at the end of the year** | 7 | **180,245** | **119,036** |

The notes on pages 94 to 121 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

*in million Tenge*

| | Share capital | Treasury stock | Other capital reserves | Retained earnings | Foreign currency translation reserve | Total Equity |
|---|---|---|---|---|---|---|
| **As at December 31, 2012** | **263,095** | **(100,143)** | **2,474** | **1,154,335** | **18,009** | **1,337,770** |
| Profit for the year | – | – | – | 141,829 | – | 141,829 |
| Other comprehensive income | – | – | – | – | 4,500 | 4,500 |
| **Total comprehensive income** | **–** | **–** | **–** | **141,829** | **4,500** | **146,329** |
| Recognition of share-based payments (Note 11) | – | – | 145 | – | – | 145 |
| Forfeiture of share-based payments (Note 11) | – | – | (137) | – | – | (137) |
| Exercise of employee options (Note 11) | – | 17 | – | – | – | 17 |
| Dividends (Note 11) | – | – | – | (110,349) | – | (110,349) |
| **As at December 31, 2013** | **263,095** | **(100,126)** | **2,482** | **1,185,815** | **22,509** | **1,373,775** |
| Profit for the year | – | – | – | 47,038 | – | 47,038 |
| Other comprehensive income | – | – | – | – | 53,078 | 53,078 |
| **Total comprehensive income** | **–** | **–** | **–** | **47,038** | **53,078** | **100,116** |
| Forfeiture of share-based payments (Note 11) | – | – | (127) | – | – | (127) |
| Exercise of employee options (Note 11) | – | 35 | – | – | – | 35 |
| Dividends (Note 11) | – | – | – | (134,683) | – | (134,683) |
| **As at December 31, 2014** | **263,095** | **(100,091)** | **2,355** | **1,098,170** | **75,587** | **1,339,116** |

The notes on pages 94 to 121 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 with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company's direct majority shareholder is Joint Stock Company National Company KazMunayGas ("NC KMG" or the "Parent Company"), which represents the state's interests in the Kazakh oil and gas industry and which holds 63.21% of the Company's outstanding shares as at December 31, 2014 (2013: 63.22%). The Parent Company is 100% owned by Joint Stock Company Samruk-Kazyna Sovereign Welfare Fund ("Samruk-Kazyna SWF"), which is in turn 100% owned by the government of the Republic of Kazakhstan (the "Government").

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

## 2. 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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

#### Exchange rates

The official rate of the Kazakhstan Tenge to the US Dollar at December 31, 2014 and December 31, 2013 was 182.35 and 153.61 Tenge to the US Dollar, respectively.

The majority of the foreign currency exchange gain recorded by the Company during 2014 relates to the devaluation of Tenge that occurred on February 11, 2014. The exchange rates before and after devaluation were around 155 Tenge to the US dollar and ranged from 181 to 185 Tenge to the US dollar, respectively.

#### 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 32 | Presentation-`Offsetting Financial Assets and Financial Liabilities |
| IFRIC 21 | Levies |
| IFRS 10, IFRS 12, IAS 27 | Investment Entities |
| IAS 39 | Financial instruments: Novation of Derivatives and Continuation of Hedge Accounting |

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

### 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, 2017) |
| IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations (Amendments) (January 1, 2016) |
| IFRS 14 | Regulatory Deferral Accounts (January 1, 2016) |
| IAS 19 | Defined Benefit Plans: Employee Contributions (Amendments) (July 1, 2014) |
| IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments) (January 1, 2016) |
| IAS 27 | Equity Method in Separate Financial Statements (Amendments) (January 1, 2016) |
| Improvements to IFRSs | 2010–2012 cycle (July 1, 2014) |
| Improvements to IFRSs | 2012–2014 cycle (July 1, 2016) |

## 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 associates and interests in joint arrangements

The Company's investment in its associates 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 of joint arrangement when it exercises joint control over 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 associates 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 associates includes purchase price premium identified on acquisition, which is primarily attributable to the value of the licences based on their proved reserves. The licences are amortised 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 associates are eliminated to the extent of the interest in the associate.

The share of profit of associates and joint ventures are shown on the face of the consolidated statement of comprehensive income. This is the profit attributable to equity holders of the associates and joint ventures and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 2. Summary of significant accounting policies (continued)

The financial statements of the associates 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 associates 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 profit or loss.

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 profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

### 2.3. Foreign currency translation

The consolidated financial statements are presented in Kazakhstan Tenge ("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 profit or loss. 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 profit or loss.

### 2.4. Oil and natural gas exploration and development expenditure

#### Exploration license costs

Exploration license costs are capitalised within intangible assets and amortised 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 licence cost is written off. Upon determination of economically recoverable reserves ("proved reserves" or "commercial reserves"), amortisation ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, and all licences 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 capitalised 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 capitalised within property, plant and equipment.

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

### 2.5. Property, plant and equipment

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

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas properties are depreciated using a unit-of-production method over proved developed reserves. Certain oil and gas property assets with useful lives less than the remaining life of the fields are depreciated on a straight-line basis over useful lives of 4-10 years.

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

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

### 2.6. Impairment of non-financial assets

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

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

### 2.7. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets include capitalsed 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 amortised 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 profit or loss, 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 profit or loss, directly attributable transaction costs.

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

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Regular way

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 2. Summary of significant accounting policies (continued)

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 amortised 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 amortised cost using the effective interest method less any allowance for impairment.

### Available for sale financial investments

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

### 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (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 profit or loss.

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 profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

*Available for sale financial investments*

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

**Derecognition of financial assets**

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

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

## 2.9. Inventories

Inventories are stated at the lower of cost determined on a first-in first-out ("FIFO") basis and net realizable value. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortisation ("DD&A") and overheads based on normal capacity. Net realsable 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.

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

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 2. Summary of significant accounting policies (continued)

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 capitalised or expensed as appropriate.

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

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

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

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

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

### 2.13. Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised 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 amortised 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 149,745 Tenge per month in 2014 (2013: 139,950 Tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. Starting from 1 January 2014 the Company is required to contribute an additional 5% of the salary for a majority of its employees to their pension funds.

### 2.17. Revenue recognition

The Company sells crude oil 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 is physically placed onboard a vessel or offloaded from the vessel, transferred into pipe or other delivery mechanism depending on the contractually agreed terms.

The Company's crude oil sale contracts generally specify maximum quantities of crude oil to be delivered over a certain period. Crude oil shipped but not yet delivered to the customer is 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.

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

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, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled tand it is probable that the temporary difference will not reverse in the foreseeable future.

## 3. Significant Non-Cash Transactions

During the year ended December 31, 2014 the Company excluded from the consolidated statement of cash flows a non-cash transaction related to the offset of withholding income tax payable against the interest receivable on financial assets in the amount of 1,773 million Tenge (2013: 1,365 million Tenge) and against dividends received from the associate in the amount of 1,499 million Tenge (2013: 1,766 million Tenge).

## 4. Significant Accounting Estimates and Judgements

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

### Oil and gas reserves

Oil and gas reserves are a material factor in the Company's computation of DD&A. The Company estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under SPE methodology, the Company uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices.

Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions, are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

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

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

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

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 4. Significant Accounting Estimates and Judgements (continued)

**Recoverability of oil and gas assets**

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

An impairment charge of 75 billion Tenge was made in the Consolidated Financial Statements for the year ended December 31, 2012 as a result of a formal assessment of the recoverable amount of JSC Ozenmunaigas carried out by management of the Company. This formal assessment was made due to the presence of impairment indicators. The main indicators were the level of production being materially lower than planned in 2010 and 2011 and the increasing levels of operational and capital expenditure.

In April 2013 management of the Company updated the formal assessment of the recoverable amount of JSC Ozenmunaigas, and an additional impairment charge of 56 billion Tenge was made in the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2013. The additional impairment charge related primarily to the increase in export customs duty from 40 US Dollar per ton to 60 US Dollar per ton that occurred on April 12, 2013.

In April 2014 management of the Company updated its formal assessment of the recoverable amount of JSC Ozenmunaigas, which indicated that the carrying value of JSC Ozenmunaigas assets exceeded the estimated recoverable amount. The impairment charge of 27 billion Tenge was recognised in the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2014. This impairment charge related primarily to increases in employee benefit costs and an increase in export customs duty from 60 US Dollar per ton to 80 US Dollar per ton.

As at December 31, 2014 declining crude oil prices indicated that Company's cash generating units may be impaired. In December 2014 the Parent company also announced that they were retracting their 18.50 USD per GDR offer for the remaining shares. Therefore, for the year ended December 31, 2014 management of the Company has carried out a formal assessment of the recoverable amount of its assets, including subsidiaries, joint ventures and associates. An additional impairment loss of 228 billion Tenge, related to JSC Ozenmunaigas, was recognised in the Consolidated financial statement of comprehensive income and reduced the carrying value of the assets to nil at December 31, 2014.

The Company calculates recoverable amount using a discounted cash flow model. The discount rate of 13.09% was derived from the Company's post-tax weighted average cost of capital. The business plans, which are approved on an annual basis, are the primary source of information. They contain forecasts for crude oil production, sales volumes, revenues, costs and capital expenditure. Various assumptions such as oil prices and cost inflation rates take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and variability. The projection of cash flows was limited by the date of licence expiry in May 2021. Expenditure cash flows up to 2019 were obtained from the Company's business plan together with management's current assessment of probable changes in operational and capital expenditure. Most of the projections beyond that period were inflated using available inflation estimates, except for capital expenditure projections, which represent management's best available estimate as at the date of impairment assessment.

The key assumptions required for the recoverable amount estimation are the oil prices, production volumes, the foreign exchange rate and discount rate. The sensitivity of the headroom to changes in the key assumptions was estimated.

Brent crude oil price assumptions were based on market expectations together with the expectations of independent industry analysis and research organisations. If Brent crude oil prices had been assumed to be 5% higher than the price assumptions used in the assessment, this would have had the effect of increasing the estimated recoverable amount by 37 billion Tenge. If the domestic price had been assumed to be 5% higher than the price assumptions used in the assessment, this would have had the effect of increasing the estimated recoverable amount by almost 18 billion Tenge.

Estimated production volumes are based on the business plan and take into account development plans as part of the long-term planning process. If the production volume were to be reduced by around 5% for the whole period, this would cause almost nil effect.

An assumed KZT/USD exchange rate of 185 was used to convert US Dollar denominated sales based on the business plan. If the KZT/USD exchange rate had been assumed to be 25% higher for the whole period, it would have had the effect of increasing the recoverable amount by 99 billion Tenge.

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

### 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 licence 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 licence 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 licence term, no liability has been recognised.There is some uncertainty and significant judgement involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The Company calculates asset retirement obligations separately for each contract.

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company reviews site restoration provisions at each reporting date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

Estimating the future closure costs involves significant estimates and judgements by management. Most of these obligations are several years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 16.60% and 15.72% of the provision at December 31, 2014 and 2013 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, 2014 were 5.0% and 7.9% respectively (2013: 5.0% and 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 13.

### Environmental remediation

The Company also makes judgements 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. As at the date of these financial statements the Company has changed its estimate for the environmental provision, which relates to certain soil contamination and oil waste disposal, in accordance with a memorandum of cooperation ("MOC") signed by the Parent Company (comprising the Company and JSC Ozenmunaigas) with the Ministry of the Environment and Water Resources and Ministry of Oil and Gas in June 2014. The MOC agrees the scope and timing of the remediation plan to be executed over a period of seven years till 2021.

Further uncertainties related to environmental remediation obligations are detailed in Note 24. 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 are calculated under the terms of the tax legislation enacted in the tax code disclosed in Note 20. Further uncertainties related to taxation are detailed in Note 24.

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 5. Property, plant and equipment

| | Oil and gas properties | Other assets | Construction work-in-progress | Total |
|---|---|---|---|---|
| Net book amount at January 1, 2013 | **259,086** | **41,302** | **25,132** | **325,520** |
| Additions | 1,417 | 4,104 | 132,957 | 138,478 |
| Change in ARO estimate | (63) | – | – | (63) |
| Disposals | (4,179) | (1,307) | (2,550) | (8,036) |
| Transfers from construction work-in-progress | 99,996 | 23,858 | (123,854) | – |
| Internal transfers | 182 | (1,900) | 1,718 | – |
| Depreciation charge | (40,626) | (4,499) | – | (45,125) |
| Impairment (Note 18) | (49,603) | (5,802) | (4,694) | (60,099) |
| **Net book amount at December 31, 2013** | **266,210** | **55,756** | **28,709** | **350,675** |
| | | | | |
| Additions | 178 | 2,673 | 123,188 | 126,039 |
| Change in ARO estimate | 203 | – | – | 203 |
| Disposals | (4,182) | (1,083) | (1,025) | (6,290) |
| Transfers from construction work-in-progress | 107,950 | 13,027 | (120,977) | – |
| Internal transfers | (48) | 25 | 23 | – |
| Depreciation charge | (52,320) | (5,188) | – | (57,508) |
| Impairment (Note 18) | (222,330) | (16,451) | (17,902) | (256,683) |
| **Net book amount at December 31, 2014** | **95,661** | **48,759** | **12,016** | **156,436** |
| | | | | |
| **At December 31, 2014** | | | | |
| Cost | 749,948 | 114,640 | 29,493 | 894,081 |
| Accumulated depreciation | (309,629) | (28,550) | – | (338,179) |
| Accumulated impairment | (344,658) | (37,331) | (17,477) | (399,466) |
| **Net book amount** | **95,661** | **48,759** | **12,016** | **156,436** |
| **At December 31, 2013** | | | | |
| Cost | 654,545 | 102,441 | 30,841 | 787,827 |
| Accumulated depreciation | (267,116) | (25,534) | – | (292,650) |
| Accumulated impairment | (121,219) | (21,151) | (2,132) | (144,502) |
| **Net book amount** | **266,210** | **55,756** | **28,709** | **350,675** |

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 6. Intangible Assets

| | Exploration and evaluation assets | Other intangibles | Total |
|---|---|---|---|
| **2013** | | | |
| Net book amount at January 1, 2013 | 15,789 | 3,795 | 19,584 |
| Additions | 4,955 | 889 | 5,844 |
| Dry well write-off | (10,447) | – | (10,447) |
| Disposals | (887) | (11) | (898) |
| Amortisation charge | (998) | (1,021) | (2,019) |
| **Net book amount at December 31, 2013** | **8,412** | **3,652** | **12,064** |
| Additions | 1,440 | 624 | 2,064 |
| Dry well write-off | (1,263) | – | (1,263) |
| Disposals | (17) | (16) | (33) |
| Amortisation charge | (982) | (995) | (1,977) |
| **Net book amount at December 31, 2014** | **7,590** | **3,265** | **10,855** |
| **At December 31, 2014** | | | |
| Cost | 41,897 | 9,271 | 51,168 |
| Accumulated amortisation | (22,075) | (5,933) | (28,008) |
| Accumulated impairment | (12,232) | (73) | (12,305) |
| **Net book amount** | **7,590** | **3,265** | **10,855** |
| **At December 31, 2013** | | | |
| Cost | 41,998 | 8,782 | 50,780 |
| Accumulated amortisation | (21,267) | (5,025) | (26,292) |
| Accumulated impairment | (12,319) | (105) | (12,424) |
| **Net book amount** | **8,412** | **3,652** | **12,064** |

In 2014 the Company recognised dry well expenses related to exploratory wells drilled on its Uzen–Karamandybas and Taisogan blocks. In 2013 the Company recognised dry well expenses related to the exploratory wells drilled on the East Zharkamys and, Karaton–Sarkamys blocks and the White Bear prospect.

## 7. Financial assets

### Other financial assets

| | 2014 | 2013 |
|---|---|---|
| US dollar denominated held to maturity deposits | 16,848 | 12,957 |
| Tenge denominated held to maturity deposits | 1,717 | 8,752 |
| Other | 2 | 2 |
| **Total non-current** | **18,567** | **21,711** |
| US dollar denominated term deposits | 525,277 | 406,013 |
| Tenge denominated term deposits | 8,632 | 75,961 |
| Great Britain pound denominated term deposits | 1,571 | – |
| Euro denominated term deposits | 33 | 32 |
| **Total current** | **535,513** | **482,006** |
| | **554,080** | **503,717** |

The weighted average interest rate on US dollar denominated term deposits in 2014 was 1.9% (2013: 2.2%). The weighted average interest rate on Tenge denominated term deposits in 2014 was 7.9% (2013: 5.0%).

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 7. Financial assets (continued)

### Trade and other receivables

| | 2014 | 2013 |
|---|---|---|
| Trade receivables | 56,633 | 153,519 |
| Other | 1,022 | 820 |
| Allowance for doubtful receivables | (1,085) | (1,120) |
| | **56,570** | **153,219** |

As at December 31, 2014 the Company's trade receivables included receivables from sales of crude oil to KazMunayGas Trading AG ("KMG Trading"), a subsidiary of the Parent Company, of 45,133 million Tenge (2013: 148,246 million Tenge). Of this amount none is overdue (2013: 54,992 million Tenge overdue).

Significant decrease of overdue receivables occurred due to amendments into the sales agreement with KMG Trading implemented in April and November 2014. According to these amendments payment terms for the receivables from KMG Trading for the crude oil that was sold subsequently to Rompetrol Refinare S.A. refinery, a related party, were increased from two months to three months. Additionally, under the new payment terms enacted in November 2014 the Company receives fees at the rate of 6 months LIBOR + 3.17% for each calendar day starting from the 31st day from the date of consignment and penalties at the rate of 6 months LIBOR + 3.17% for each delayed day starting from the 91st day from the date of consignment.

As at December 31, 2014 the Company's trade receivables are 80% denominated in USD (2013: 97%).

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

| | 2014 | 2013 |
|---|---|---|
| Current | 56,159 | 97,859 |
| 0-30 days overdue | 189 | 40,921 |
| 30-60 days overdue | – | 14,439 |
| 90 and more days overdue | 222 | – |
| | **56,570** | **153,219** |

### Cash and cash equivalents

| | 2014 | 2013 |
|---|---|---|
| US dollar denominated term deposits with banks | 77,519 | 81,888 |
| Tenge denominated term deposits with banks | 29,401 | 24,431 |
| US dollar denominated cash in banks and on hand | 67,355 | 5,626 |
| Tenge denominated cash in banks and on hand | 5,951 | 5,561 |
| Great Britain pound denominated cash in bank and on hand | 19 | 1,530 |
| | **180,245** | **119,036** |

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

The weighted average interest rate on Tenge denominated deposits in 2014 was 6.9% (2013: 3.5%). The weighted average interest rate on US dollar denominated deposits in 2014 was 0.4% (2013: 0.3%).

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 8. Investments In Joint Ventures And Receivable From A Jointly Controlled Entity

| | Ownership share | 2014 | 2013 |
|---|---|---|---|
| Interest in JV Kazgermunai LLP ("Kazgermunai") | 50% | 69,052 | 64,201 |
| Interest in JV Ural Group Limited BVI ("UGL") | 50% | 26,125 | 22,627 |
| Interest in JV KS EP Investments BV ("KS EP Investments") | 51% | – | 2,139 |
| Receivable from jointly controlled entity | | 18,466 | 17,191 |
| | | **113,643** | **106,158** |

Movement in investment in joint ventures during the reporting period:

| | 2014 | 2013 |
|---|---|---|
| Carrying amount at January 1 | 88,967 | 89,252 |
| Share of total comprehensive income and loss | 32,996 | 23,858 |
| Dividends received | (45,464) | (30,570) |
| Exchange difference and other adjustments | 13,217 | 1,545 |
| Unrecognised loss of KS EP Investments | 4,297 | – |
| Share in additional paid in capital | 1,164 | 4,882 |
| **Carrying amount at December 31** | **95,177** | **88,967** |

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

### Kazgermunai

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

The following table illustrates the summarized financial information of Kazgermunai, based on its IFRS financial statements, and reconciliation with the Company's carrying value of investment:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | 37,630 | 27,801 |
| Other current assets | 15,425 | 57,122 |
| Non-current assets | 136,167 | 132,975 |
| | **189,222** | **217,898** |
| Current liabilities | 27,694 | 76,845 |
| Non-current liabilities | 23,424 | 12,651 |
| | **51,118** | **89,496** |
| **Net assets** | **138,104** | **128,402** |
| **Proportion of the company's ownership** | **50%** | **50%** |
| **Carrying value of the investment** | **69,052** | **64,201** |

| | 2014 | 2013 |
|---|---|---|
| Revenues | 250,694 | 372,392 |
| Operating expenses | (115,899) | (261,503) |
| *including depreciation and amortisation* | (20,964) | (45,435) |
| Profit from operations | 134,795 | 110,889 |
| Finance incomet | 1,053 | 589 |
| Finance cost | (663) | (604) |
| Profit before tax | 135,185 | 110,874 |
| Income tax expense | (51,840) | (54,075) |
| **Profit for the year** | **83,345** | **56,799** |
| Other comprehensive income | – | – |
| **Total comprehensive income** | **83,345** | **56,799** |
| **Company's share of the comprehensive income for the year** | **41,673** | **28,400** |

Kazgermunai cannot distribute its profits until 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. UOG has completed its exploration stage and is currently in the process of obtaining a production license.

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

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | 214 | 2,539 |
| Other current assets | 17 | 13 |
| Non-current assets | 105,155 | 82,380 |
| | **105,386** | **84,932** |
| Current liabilities | 515 | 1,862 |
| Non-current financial liabilities | 49,942 | 35,652 |
| Non-current liabilities | 2,680 | 2,165 |
| | **53,137** | **39,679** |
| **Net assets** | **52,249** | **45,253** |
| **Proportion of the company's ownership** | **50%** | **50%** |
| **Carrying value of the investment** | **26,125** | **22,627** |

| | 2014 | 2013 |
|---|---|---|
| Revenues | 88 | 5 |
| Operating expenses | (1,920) | (2,413) |
| Loss from operations | (1,832) | (2,408) |
| Finance income | 8 | 37 |
| Finance cost | (613) | (589) |
| Loss before tax | (2,437) | (2,960) |
| Income tax expense | (17) | (14) |
| **Loss for the year** | **(2,454)** | **(2,974)** |
| Other comprehensive income | – | – |
| **Total comprehensive loss** | **(2,454)** | **(2,974)** |
| **Company's share of the comprehensive loss for the year** | **(1,227)** | **(1,487)** |

The operating activities of UGL are dependent upon continued financing in the form of shareholder loans to enable UGL to meet its current obligations and to continue its activities. As a result the Company has provided financing in the form of additional shareholder loans in the amount of 6,100 thousand US dollars (1,093 million Tenge) during the year ended December 31, 2014 (2013: 59,450 thousand US dollars or 9,045 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 loans using a discount rate of 15%. The carrying amount of these loans at December 31, 2014, amounted to 141,149 thousand US dollars (25,738 million Tenge) (2013: 119,798 thousand US dollars or 18,402 million Tenge).

### KS EP Investments

On November 16, 2012 the Company sold 49% share in its 100% subsidiary KS EP Investments to Karpinvest Oil and Gas Ltd. ("Karpinvest"), a subsidiary of MOL Hungarian Oil and Gas Plc. KS EP Investments owns a 100% interest in LLP Karpovskiy Severniy ("KS LLP"), which is a subsoil use right holder under the Contract for Exploration of Oil, Gas and Condensate at Karpovskiy Severniy contract area in western Kazakhstan. Under the terms of a shareholders agreement, joint control has been established over the operations of KS EP Investments and no single shareholder is in a position to control the activity unilaterally, making it a jointly controlled entity for both shareholders.

The following table illustrates the summarised financial information of KS EP Investments and reconciliation with the Company's carrying value of investment:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | 1,884 | 409 |
| Other current assets | 141 | 56 |
| Non-current assets | 5,491 | 11,953 |
| | **7,516** | **12,418** |
| Current financial liabilities | 14,682 | 7,712 |
| Other current liabilities | 1,332 | 511 |
| | **16,014** | **8,223** |
| **Net assets** | **(8,498)** | **4,195** |
| **Proportion of the company's ownership** | **51%** | **51%** |
| **Cumulative unrecognised losses** | **4,334** | **–** |
| **Carrying value of the investment** | **–** | **2,139** |

| | 2014 | 2013 |
|---|---|---|
| Operating expenses | (12,841) | (5,244) |
| *including depreciation and amortisation* | (5,884) | (5,184) |
| Loss from operations | (12,841) | (5,244) |
| Finance income | 8 | 5 |
| Finance cost | (1,650) | (696) |
| Loss before tax | (14,483) | (5,935) |
| Income tax expense | (124) | (55) |
| **Loss for the year** | **(14,607)** | **(5,990)** |
| Other comprehensive income | – | – |
| **Total comprehensive loss** | **(14,607)** | **(5,990)** |
| **Company's share of the comprehensive loss for the year** | **(7,450)** | **(3,055)** |

The operating activities of KS LLP are dependent upon continued financing in the form of shareholder loans to enable KS LLP to meet its current obligations and to continue its activities. As a result the Company has provided financing in the form of additional shareholder loans to KS EP Investments in the amount of 15,646 thousand US dollars (2,802 million Tenge) during the year ended December 31, 2014 (2013:

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

14,510 thousand US dollars or 2,207 million Tenge). The fair value of shareholder loans, which are given at an interest rate of 6.5%, is determined by discounting future cash flows for the loans using a discount rate of 15%. Shareholder loans payable by KS EP Investments on December 31, 2014 were extended till December 31, 2015. The carrying amount of these loans at December 31, 2014, amounted to 42,185 thousand US dollars (7,692 million Tenge) (2013: 25,602 thousand US dollars or 3,933 million Tenge).

**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 509.5 million US Dollars (92,912 million Tenge) as at December 31, 2014 (2013: 536.3 million US dollars or 82,375 million Tenge). The Total Maximum Amount represents the balance of the Company's share of the original purchase price funded by CITIC plus accrued interest. The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Company recognises in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total Maximum Guaranteed Amount. The carrying amount of this receivable at December 31, 2014, amounted to 100.5 million US dollars (18,331 million Tenge) (2013: 110.9 million US dollars or 17,033 million Tenge) net of unamortised 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.

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

## 9. Investments in associate

| | Ownership share | 2014 | 2013 |
|---|---|---|---|
| Interest in Petrokazakhstan Inc. ("PKI") | 33% | 116,054 | 107,095 |

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:

| | 2014 | 2013 |
|---|---|---|
| Carrying amount at 1 January | 107,095 | 118,959 |
| Share of the total comprehensive income | 18,738 | 21,215 |
| Dividends received | (29,981) | (35,334) |
| Exchange difference and other adjustments | 20,202 | 2,255 |
| **Carrying amount at December 31** | **116,054** | **107,095** |

## Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 9. Investments in associate (continued)

The following table illustrates the summarised financial information of PKI, based on its IFRS financial statements, and reconciliation with the Company's carrying value of investment:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | 23,371 | 8,241 |
| Other current assets | 73,831 | 98,237 |
| Non-current assets | 416,493 | 391,201 |
| | **513,695** | **497,679** |
| Current liabilities | 86,751 | 86,826 |
| Non-current liabilities | 75,266 | 86,323 |
| | **162,017** | **173,149** |
| **Net assets** | **351,678** | **324,530** |
| **Proportion of the company's ownership** | **33%** | **33%** |
| **Carrying value of the investment** | **116,054** | **107,095** |

| | 2014 | 2013 |
|---|---|---|
| Revenues | 263,445 | 295,928 |
| Operating expenses | (174,633) | (220,106) |
| *including depreciation and amortisation* | (53,275) | (38,831) |
| Profit from operations | 88,812 | 75,822 |
| Share in profit of joint ventures | 32,527 | 53,585 |
| Finance income | 690 | 695 |
| Finance cost | (4,065) | (3,344) |
| Profit before tax | 117,964 | 126,758 |
| Income tax expense | (52,100) | (59,709) |
| **Profit for the year** | **65,864** | **67,049** |
| Other comprehensive income | (9,084) | (2,761) |
| **Total comprehensive income** | **56,780** | **64,288** |
| **Company's share of the comprehensive income for the year** | **18,738** | **21,215** |

## 10. Inventories

| | 2014 | 2013 |
|---|---|---|
| Crude oil | 13,783 | 13,999 |
| Materials | 12,574 | 13,423 |
| | **26,357** | **27,422** |

As at December 31, 2014 the Company had 324,311 tons (2013: 303,157 tons) of crude oil in storage and transit.

## 11. Share Capital

| | | Shares outstanding |
|---|---|---|
| | Number of shares | Tenge million |
| **As at January 1, 2013** | **68,157,702** | **162,952** |
| Reduction of treasury stock due to exercise of share options | 1,607 | 17 |
| **As at December 31, 2013** | **68,159,309** | **162,969** |
| Reduction of treasury stock due to exercise of share options | 3,326 | 35 |
| **As at December 31, 2014** | **68,162,635** | **163,004** |

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

### 11.1 Share capital

#### Authorised shares

The total number of authorised shares is 74,357,042 (2013: 74,357,042). 70,220,935 of authorised shares are ordinary share (2013: 70,220,935) and 4,136,107 are non-redeemable preference shares (2013: 4,136,107). 43,087,006 of the outstanding shares are owned by the Parent Company as at December 31, 2014 (2013: 43,087,006). The shares of the Company have no par value.

#### Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognised as distributions to equity holders during 2014 amounted to 1,976 Tenge per share (2013: 1,619 Tenge per share) for both the outstanding ordinary and preferred shares as at May 23, 2014, the date of record.

### 11.2 Employee share option plans

There was no expense for share option plans related to employee services received during the year (2013: 145 million Tenge).

#### Employee option plans

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

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

#### 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:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| | No. | WAEP | No. | WAEP |
| Outstanding at January 1 | 1,354,307 | 19.61 | 1,677,948 | 19.47 |
| Exercised during the year | (19,954) | 14.16 | (8,867) | 13.00 |
| Forfeited during the year | (197,830) | 20.51 | (314,774) | 19.01 |
| Outstanding at December 31 | 1,136,523 | 19.54 | 1,354,307 | 19.61 |
| Exercisable at December 31 | 1,136,523 | 19.54 | 1,346,462 | 19.59 |

The weighted average remaining contractual life for share options outstanding as at December 31, 2014 is 2.87 years (2013: 3.76 years). The range of exercise price for options outstanding at December 31, 2014 was 13.00 US Dollars – 26.47 US dollars per GDR (2013: 13.00 US Dollars – 26.47 US Dollars). The EOP 1 and EOP 2 are equity settled plans and the fair value is measured at the grant date.

### 11.3 Kazakhstan Stock Exchange disclosure requirement

The Kazakhstan Stock Exchange enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets (Note 6) per shares outstanding as at year end. As at December 31, 2014 the amount per share outstanding is 19,598 Tenge (December 31, 2013: 20,102 Tenge).

## 12. Earnings per share

| | 2014 | 2013 |
|---|---|---|
| Weighted average number of all shares outstanding | 68,160,405 | 68,158,471 |
| Profit for the year | 47,038 | 141,829 |
| Basic and diluted earnings per share | 0.69 | 2.08 |

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 | Asset retirement obligation | Other | Total |
|---|---|---|---|---|---|
| **At January 1, 2013** | **17,304** | **12,945** | **15,119** | **8,878** | **54,246** |
| Additional provisions | – | 9,937 | 791 | – | 10,728 |
| Unused amounts reversed | – | (2,215) | – | (2,445) | (4,660) |
| Unwinding of discount | 1,372 | – | 1,199 | – | 2,571 |
| Changes in estimate | (260) | – | (63) | – | (323) |
| Used during the year | (896) | (6,042) | (851) | (503) | (8,292) |
| **At December 31, 2013** | **17,520** | **14,625** | **16,195** | **5,930** | **54,270** |
| Current portion | 3,703 | 14,625 | 1,035 | 704 | 20,067 |
| Non-current portion | 13,817 | – | 15,160 | 5,226 | 34,203 |
| | | | | | |
| Additional provisions | – | 1,481 | 422 | 2,928 | 4,831 |
| Unused amounts reversed | – | – | (64) | – | (64) |
| Unwinding of discount | 1,097 | – | 1,268 | – | 2,365 |
| Changes in estimate | 1,110 | – | (284) | – | 826 |
| Used during the year | (2,277) | (15,174) | (924) | (637) | (19,012) |
| **At December 31, 2014** | **17,450** | **932** | **16,613** | **8,221** | **43,216** |
| Current portion | 5,912 | 932 | 502 | 941 | 8,287 |
| Non-current portion | 11,538 | – | 16,111 | 7,280 | 34,929 |

As at December 31, 2014 the tax provision in the amount of 12,136 million Tenge was offset with the income tax prepayment in order to reflect the Cassation panel procedure requirement on full repayment of tax assessment to have a right to file an appeal to the Supreme Court (Notes 20, 24).

## 14. Revenue

| | 2014 | 2013 |
|---|---|---|
| Export: | | |
| Crude oil | 706,940 | 712,343 |
| Gas products | 2,586 | 2,628 |
| Domestic (Note 24): | | |
| Crude oil | 109,169 | 76,049 |
| Gas products | 10,993 | 10,315 |
| Refined products | 2,863 | 3,514 |
| Other sales and services | 13,219 | 11,863 |
| | **845,770** | **816,712** |

## 15. Production Expenses

| | 2014 | 2013 |
|---|---|---|
| Employee benefits | 130,367 | 92,318 |
| Repairs and maintenance | 26,781 | 22,619 |
| Materials and supplies | 20,050 | 16,920 |
| Energy | 16,706 | 15,908 |
| Transportation services | 5,875 | 5,633 |
| Change in crude oil balance | 1,373 | 727 |
| Processing expenses | 1,205 | 1,099 |
| Change in estimate of environmental remediation obligation (Note 13) | 1,110 | – |
| Other | 8,433 | 6,811 |
| | **211,900** | **162,035** |

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 16. Selling, general and administrative expenses

| | 2014 | 2013 |
|---|---|---|
| Transportation expenses | 68,687 | 61,810 |
| Employee benefits | 16,758 | 12,986 |
| Management fees and commissions | 4,451 | 3,750 |
| Fines and penalties | 3,592 | 5,191 |
| Consulting and audit services | 2,188 | 1,354 |
| Repairs and maintenance | 1,023 | 1,093 |
| Sponsorship | 933 | 1,681 |
| Other | 4,936 | 4,495 |
| | **102,568** | **92,360** |

## 17. Taxes Other Than On Income

| | 2014 | 2013 |
|---|---|---|
| Rent tax | 151,861 | 165,307 |
| Mineral extraction tax | 89,840 | 84,433 |
| Export customs duty | 74,227 | 48,981 |
| Property tax | 6,204 | 5,473 |
| Environmental tax | 1,312 | 4,893 |
| Other taxes | 4,767 | 2,601 |
| | **328,211** | **311,688** |

## 18. Impairment of Property, Plant And Equipment

| | 2014 | 2013 |
|---|---|---|
| Impairment (Note 4) | 255,375 | 56,275 |
| Social objects impairment | 942 | 2,285 |
| Other | 366 | 1,539 |
| | **256,683** | **60,099** |

## 19. Finance Income/Costs

### 19.1. Finance income

| | 2014 | 2013 |
|---|---|---|
| Interest income on deposits with banks | 13,499 | 10,489 |
| Interest income on receivable from jointly controlled entities | 7,108 | 5,163 |
| Interest income on Debt Instrument of NC KMG (Note 21) | – | 4,557 |
| Interest income on held to maturity financial assets | – | 330 |
| Other | 155 | 38 |
| | **20,762** | **20,577** |

### 19.2. Finance costs

| | 2014 | 2013 |
|---|---|---|
| Interest expense | 6,662 | 5,261 |
| Unwinding of discount on ecology remediation obligation | 1,097 | 1,372 |
| Unwinding of discount on asset retirement obligation | 1,083 | 1,199 |
| Other | 110 | 253 |
| | **8,952** | **8,085** |

## Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 20. Income Taxes

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

| | 2014 | 2013 |
|---|---|---|
| Corporate income tax | 52,727 | 51,695 |
| Excess profit tax | 11,831 | 8,343 |
| **Current income tax** | **64,558** | **60,038** |
| Corporate income tax | (49,152) | (6,494) |
| Excess profit tax | (871) | 4,987 |
| **Deferred income tax** | **(50,023)** | **(1,507)** |
| **Income tax expense** | **14,535** | **58,531** |

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

| | 2014 | 2013 |
|---|---|---|
| Profit before tax | 61,573 | 200,360 |
| Income tax | 14,535 | 58,531 |
| **Effective tax rate** | **24%** | **29%** |
| | | |
| Statutory income tax | 20% | 20% |
| Increase / (decrease) resulting from | | |
| Withholding tax | 2% | 1% |
| Excess profit tax | 5% | 7% |
| Income tax of prior years | 15% | – |
| Share of result of associate and joint ventures | (20%) | (5%) |
| Non-taxable income | (1%) | (1%) |
| Tax provisions | – | 1% |
| Asset retirement obligation and environmental remediation | (11%) | – |
| Non-deductible expenses | 14% | 6% |
| **Effective tax rate** | **24%** | **29%** |

In 2013 excess profit tax relates mainly to the current excess profit tax of JSC Embamunaigaz, as well as deferred excess profit tax asset write-off for JSC Ozenmunaigaz. Non-deductible expenses include dry-well write-off expenses and environmental tax and related fines and penalties.

During 2014 the Company reassessed corporate income tax and excess profit tax and submitted additional tax returns for 2009-2012.

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, 2013** | **11,382** | **2,162** | **13,971** | **4,453** | **31,968** |
| Recognised in profit and loss | 3,503 | (1,234) | (348) | 467 | 2,388 |
| **At December 31, 2013** | **14,885** | **928** | **13,623** | **4,920** | **34,356** |
| | | | | | |
| Recognised in profit and loss | 48,171 | 7,337 | (5,754) | (43) | 49,711 |
| **At December 31, 2014** | **63,056** | **8,265** | **7,869** | **4,877** | **84,067** |

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

**Deferred tax liabilities:**

| | Fixed and Intangible assets | Provisions | Taxes | Other | Total |
|---|---|---|---|---|---|
| **At January 1, 2013** | – | – | – | – | – |
| Recognised in profit and loss | (943) | 68 | 1 | (7) | (881) |
| **At December 31, 2013** | **(943)** | **68** | **1** | **(7)** | **(881)** |
| Recognised in profit and loss | 305 | 1 | 1 | 5 | 312 |
| **At December 31, 2014** | **(638)** | **69** | **2** | **(2)** | **(569)** |

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.

## 21. Related party transactions

The category 'entities under common control' comprises entities controlled by the Parent Company. The category 'other state controlled entities' comprises entities controlled by Samruk-Kazyna SWF. Starting from 2014 BTA Bank, Kazkommertsbank and Alliance Bank are no longer related parties to the Company since these banks are no longer controlled or significantly influenced by Samruk-Kazyna SWF.

Sales and purchases with related parties during the twelve months ended December 31, 2014 and 2013 and the balances with related parties at December 31, 2014 and December 31, 2013 are as follows:

| | 2014 | 2013 |
|---|---|---|
| **Revenue and other income (Note 14)** | | |
| Entities under common control | 849,240 | 796,817 |
| Other state controlled entities | 45 | 26 |
| Parent company | 155 | – |
| Joint ventures | 6,023 | 2,866 |
| **Purchases of goods and services** (Note 15 and 16) | | |
| Entities under common control | 39,882 | 33,120 |
| Other state controlled entities | 18,069 | 18,032 |
| Parent Company | 4,451 | 3,750 |
| Interest earned on financial assets | | |
| **Interest earned on Debt Instrument** | – | 4,557 |
| Effective interest rate on Investments in Debt Instrument of NC KMG – indexed USD/KZT | – | 7.00% |
| Interest earned on loans to Joint ventures | 403 | 183 |
| Average interest rate on loans to Joint ventures | 1.11% | 0.76% |
| **Fair value loss on loans provided** | | |
| Joint ventures | 1,185 | 4,814 |
| **Salaries and other short-term benefits** | | |
| Members of the Board of Directors | 157 | 109 |
| Members of the Management Board | 337 | 247 |
| **Share-based payments** | | |
| Members of the Management Board | – | 2 |

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| **Trade and other receivables** (Note 7 and Note 8) | | |
| Entities under common control | 58,305 | 155,473 |
| Joint ventures | 52,677 | 40,175 |
| Other state controlled entities | 2,274 | 1,248 |
| **Trade payables** | | |
| Entities under common control | 1,907 | 1,734 |

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 21. Related party transactions (continued)

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Other state controlled entities | 454 | 482 |

### Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. Export sales to related parties represented 5,571,211 tons of crude oil in 2014 (2013: 6,017,228 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 130,608 Tenge in 2014 (2013: 121,340 Tenge).

In addition, the Company supplies oil and gas products to the local market through JSC "KazMunaiGas Refinery and Marketing", a subsidiary of the Parent Company, at the directive of the Kazakhstan government, the ultimate controlling shareholder of the Parent Company. These supplies to the domestic market represented 1,912,000 tons of crude oil production in 2014 (2013: 1,900,000 tons). Prices for the local market sales are determined by agreement with the Parent Company. For deliveries to the local market in 2014 the Company received an average price per produced crude oil ton of around 48,000 Tenge (2013: 40,000 Tenge). Trade and other receivables from related parties principally comprise amounts related to export sales transactions.

Sales to 'entities under common control' also include revenue from the counter sale of 447 thousand tons of crude oil (2013: null) to the Russian Federation (Note 24) through JSC "KazMunaiGas Refinery and Marketing". The sales of crude oil are priced by reference to Platt's index quotations and adjusted for spreads between Brent and Urals, and less Russian export customs duty, trader's margin, differential and difference between transportation expenses to the Russia-Belarus border and to the Russia-Kazakhstan border. For these counter deliveries of crude oil the Company received an average price per ton of approximately 38,871 Tenge in 2014 (2013: nil).

### Purchases and payables

Management fees to the Parent Company amounted to 4,451 million Tenge in 2014 (2013: 3,750 million Tenge). Transportation services related to the shipment of 6,033,932 tons of crude oil (2013: 6,061,163 tons) and transshipment of 1,991,256 tons of crude oil to the Caspian Pipeline Consortium collection point in 2014 (2013: 1,956,043 tons) were purchased from a subsidiary of the Parent Company for 32,472 million Tenge in 2014 (2013: 26,485 million Tenge). The remaining services purchased from subsidiaries of NC KMG include primarily payments for security services and processing.

### Share based payments to members of the Management Board

Share based payments to members of the Management Board represents the amortisation of share based payments over the vesting period. During 2014 the Company granted no options (2013: no options).

## 22. 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, 2014 the Company has no floating interest rate borrowings and no exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | Increase/decrease in Tenge to US dollar exchange rate | Effect on profit before tax |
|---|---|---|
| **2014** | | |
| US dollar | +25.00% | 150,804 |
| US dollar | -5.00% | (30,161) |
| **2013** | | |
| US dollar | +20.00% | 149,879 |
| US dollar | -20.00% | (149,879) |

### *Credit risk*

The Company is exposed to credit risk in relation to its trade receivables. The vast majority of the Company's 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, 21). 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.

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

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[1] 2014 | Rating[1] 2013 | 2014 | 2013 |
|---|---|---|---|---|---|
| Halyk Bank | Kazakhstan | BB+ (stable) | BB (stable) | 134,632 | 137,173 |
| Deutsche Bank | UK | A (negative) | A (stable) | 110,518 | 72,686 |
| BNP Paribas | UK | A+ (negative) | A+ (negative) | 88,756 | 74,359 |
| Kazkommertsbank | Kazakhstan | B (stable) | B (stable) | 83,245 | 78,826 |
| Citi Bank N.A. | UK branch | A (stable) | A (stable) | 81,378 | 25,403 |
| ING Bank | Netherlands | A (negative) | A- (stable) | 61,177 | 51,619 |
| Eurasian Bank | Kazakhstan | B+ (positive) | B+ (positive) | 47,623 | 27,327 |
| Tsesna Bank | Kazakhstan | B+ (stable) | B (positive) | 36,578 | – |
| HSBC Plc | UK | AA- (negative) | AA- (negative) | 33,186 | 27,868 |
| Sberbank | Kazakhstan | Ba2 (negative) | BBB- (stable) | 19,603 | 11,847 |
| ATF Bank (Fitch) | Kazakhstan | B- (stable) | B- (stable) | 12,309 | 36,128 |
| Citi Bank Kazakhstan | Kazakhstan | Not available | Not available | 12,104 | 44,087 |
| Credit Suisse | Switzerland | A (negative) | A (stable) | 11,439 | 8,206 |
| RBS NV | UK | Baa2 (negative) | A- (negative) | 1,571 | – |
| BankCenterCredit (Moody's) | Kazakhstan | B2 (stable) | B2 (stable) | 79 | 6,300 |
| Alliance Bank (Moody's) | Kazakhstan | Caa2 | CCC (negative) | 2 | 212 |
| HSBC Kazakhstan | Kazakhstan | Not available | Not available | – | 15,285 |
| RBS Kazakhstan | Kazakhstan | Not available | Not available | – | 4,821 |
| NurBank | Kazakhstan | B (stable) | BB+ (stable) | – | 530 |
| Other | | | | 125 | 76 |
| | | | | 734,325 | 622,753 |

[1] Source: official sites of the banks and rating agencies as at December 31 of the respective year.

### 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 summarises the maturity profile of the Company's financial liabilities at December 31, 2014 based on contractual undiscounted payments:

| Year ended December 31, 2013 | On demand | Less than 3 months | 3-12 months | 1-5 years | more than 5 years | Total |
|---|---|---|---|---|---|---|
| Borrowings | – | 276 | 2,228 | 4,723 | 1,023 | 8,250 |
| Trade and other payables | 68,489 | – | – | – | – | 68,489 |
| | 68,489 | 276 | 2,228 | 4,723 | 1,023 | 76,739 |
| Year ended December 31, 2014 | On demand | Less than 3 months | 3-12 months | 1-5 years | more than 5 years | Total |
| Borrowings | – | 361 | 2,944 | 4,752 | 778 | 8,835 |
| Trade and other payables | 59,513 | – | – | – | – | 59,513 |
| | 59,513 | 361 | 2,944 | 4,752 | 778 | 68,348 |

### 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.

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 22. Financial risk management objectives and policies (continued)

### 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 healthy capital ratios in order to support its business and maximise shareholder value.

As at December 31, 2014 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, 2014 and 2013.

## 23. Financial instruments

Fair values of financial instruments such as short-term trade receivables, trade payables and fixed interest rate borrowing approximate their carrying value.

## 24. 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.

In 2014 the Kazakhstan economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

### Russian Federation market obligation

According to an inter-governmental agreement between Kazakhstan and the Russian Federation, Kazakhstan fulfills counter deliveries to the Russian Federation. JSC "KazMunaiGas Refinery and Marketing", a related party, was determined as an operator and the Company was determined as one of the suppliers through governmental quotas. Based on this inter-governmental agreement in September 2014 the Company concluded a contract with JSC "KazMunaiGas Refinery and Marketing" to supply crude oil to the Russian Federation (Note 21). The contract was valid till December 31, 2014 without pre-determined volumes. Under this contract the Company has supplied 447 thousand tons of crude oil. A contract for the year 2015 is not yet concluded. These supplies are additional to the obligation of the Company to supply crude oil to the local market.

### Local market obligation

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. While the price for such supplies of crude oil is agreed with the Parent Company, this price may be materially below international market prices and may even be set at the cost of production (Note 21). 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.

During 2014 the Company's subsidiaries delivered 2,014,377 tons of oil (2013: 1,993,861 tons) to the domestic market. The Company's share in the delivery of oil to the domestic market of its joint venture Kazgermunai comprised 971,250 tons in 2014 (2013: none). The Company's share in the delivery of oil to the domestic market of its associate PetroKazakhstan Inc. comprised 946,081 tons in 2014 (2013: 353,256 tons).

### Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2014.

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

As a result of the limited scope tax audit conducted in February 2014 the final notification of the 2006-2008 tax audit was issued by the Tax Committee of the Ministry of Finance in March 2014. Total tax assessments have amounted to 12,136 million Tenge, including 4,568 million Tenge of principal, 4,645 million Tenge of administrative fines and 2,923 million Tenge of late payment interest.

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

Cassation panel procedure required the Company to pay 12,136 million Tenge in order to have the right to appeal to the Supreme Court by July 2015. The Company is planning to appeal to the Supreme Court of the Republic of Kazakhstan within the stated period and correspondingly paid the above amount in October of 2014.

In September 2014 a complex tax audit covering the period 2009-2012 was started. On December 26, 2014 and December 30, 2014 the Company received notifications for the above mentioned period with respect to local taxes related to "Ozenmunaigas" and "Embamunaigas" Production Branches, respectively. The tax authorities have claimed to pay 496 million Tenge of various local taxes and 437 million Tenge of administrative fines and late payment fees. As of the date of these financial statements the Company has not received final notification, yet.

### Mineral extraction tax (MET)

On July 2, 2013 the Tax Committee of Yessil district of Astana provided a notification to the Company of 8,785 million Tenge for alleged discrepancies between data reported in the Company's MET tax returns and data supplied by the Ministry of Oil and Gas of the Republic of Kazakhstan for the period from 2009 to 2012. These alleged discrepancies were caused by the fact that the sliding rates of tax in 2012 MET tax returns were determined based on volumes of production for the period when subsoil use contracts belonged to the Company (when the Company carried out its activities on the licence area through its production branches), whereas the information provided by the Ministry of Oil and Gas of the Republic of Kazakhstan included production volumes of the Company and its subsidiaries JSC "Ozenmunaigas" and JSC "Embamunaigas" combined.

According to the tax authorities, for the purposes of determination of the sliding tax rate the Company should have included production volumes of JSC "Ozenmunaigas" and JSC "Embamunaigas" as well, even though transfer of subsoil use contracts took place during 2012. However, based on norms stipulated in the Kazakh tax legislation the Company believes that the MET rate should be determined based upon production for the period when it directly owned the subsoil use contracts.

The Company disagrees with the above notification and has provided the written explanations of its position. The tax authorities have not yet audited the Company on this matter and hence no tax assessment has yet been made. Should the tax authorities audit the Company and assess additional MET liabilties, the Company will appeal such an assessment. As management believes that it is more likely than not that the Company will be successful in its appeal, no provisions in relation to this matter have been made in the consolidated financial statements as at December 31, 2014.

### Value-added-tax (VAT) recoverability

In 2012 as part of the creation of new subsidiaries on the basis of the production branches of the Company the Company's production assets were sold to JSC "Ozenmunaigas" and JSC "Embamunaigas". This sale was subject to VAT according to Kazakh tax legislation. The VAT paid to the tax authorities upon completion of the reorganisation was recorded as VAT recoverable in the financial accounts of both JSC "Ozenmunaigas" and JSC "Embamunaigas". Upon various tax audits of the subsidiaries' accounts the tax authorities determined that the amounts paid were non recoverable.

The Company disagreed with this interpretation of the VAT law and filed a complaint with the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan. On August 27, 2014 the Company received final notification from the State Revenue Committee of the Ministry of Finance that the decision to not refund the VAT was upheld.

The Company disagreed with the final decision of the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan and in November 2014 appealed to the Specialized Interdistrict Economic Courts Mangistau and Atyrau region.

Upon consideration of the complaint by JSC "Ozenmunaigas", on January 29, 2015 Specialized Interdistrict Economic Court of Mangistau region made a positive decision on the complaint of the Company. However, as a result of a complaint by the JSC "Embamunaigas" on January 21, 2015 Specialized Interdistrict Economic Court of Atyrau region was ruled to dismiss the complaint in its entirety. Upon receipt of the decision of the court of the first instance, "Embamunaigas" is planning to appeal the above decision in the higher courts. Management believes that the Company will be successful in recovering the VAT and has not provided for any allowances on these amounts as at December 31, 2014.

Total recoverable VAT related to the sale of assets to JSC "Ozenmunaigas" and JSC "Embamunaigas" in the amount of 46 558 million Tenge was reclassified from current assets to long-term asset and discounted at 7.93% for the period of 18 months being the average time during which tax issues were resolved historically.

### Turgai Petroleum comprehensive tax audits

In September to December 2013, Kyzylorda Tax department of the Tax Committee of the Ministry of Finance (the "Tax department") conducted a complex tax audit of Turgai Petroleum (50% joint venture of PKI) for 2009-2012. As a result of the complex tax audit the Tax department assessed additional corporate income tax of 3,562 million Tenge including transfer pricing effect of 2,733 million Tenge, additional excess profit tax of 8,793 million Tenge including transfer pricing effect of 5,275 million Tenge, additional other

## Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

## 24. Commitments and contingencies (continued)

taxes of 117 million Tenge and aggregate late payment interest of 5,228 million Tenge.

Turgai Petroleum disagreed with the complex tax audit results and filed a claim with the Tax Committee of the Ministry of Finance. Management of PKI believes that Turgai Petroleum has a strong position on this issue except for the transfer pricing effect of 8,008 million Tenge and related late payment interest of 3,568 million Tenge. Therefore PKI recognised a provision of 5,788 million Tenge (50% of tPKI's share of 8,008 million Tenge transfer pricing and related late payment interest of 3,568 million Tenge) in its 2013 consolidated financial statements. No significant changes occurred up to December 31, 2014.

**PetroKazakhstanKumkolResources JSC (PKKR) comprehensive tax audit**

In September 2013 the Tax department initiated a complex tax audit for 2009-2012 of PKKR (100% subsidiary of PKI). On April 16, 2014 the Tax department issued the Act and notification on the result of the complex tax audit. As a result of the complex tax audit the Tax department assessed additional corporate income tax of 2,676 million Tenge, additional excess profit tax of 4,775 million Tenge, additional other taxes of 66 million Tenge and aggregate penalty of 2,521 million Tenge, wherein the amount of the mineral extraction tax is reduced by 499 million Tenge. After several claims and counterclaims the Tax department decreased the assessment by excluding corporate income tax, excess profit tax and related penalties.

As part of complex tax audit for 2009-2012, on January 13, 2014 the Tax department issued a separate notification for environmental emissions for 10,665 million Tenge and related fines and penalties for 8,758 million Tenge.

PKKR disagreed with the thematic tax audit results and filed a claim with the Tax Committee of the Ministry of Finance. PKI management assessed the risk of unfavourable outcome of this claim as probable and recognised a provision for 19,423 million Tenge in its 2013 consolidated financial statements. In October 2014 PKKR received notification decreasing the initial assessment for 4,222 million Tenge including 1,027 million Tenge of penalty. As a result PKKR reversed 4,222 million Tenge and related fine in amount of 1,598 million Tenge from general and administrative expenses in 2014.

**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.

**Ozenmunaigas environmental audit 2012–2013**

On January 24, 2014 JSC Ozenmunaigas received a notification from the Department of Ecology of Mangystau Region to pay a fine of 212,625 million Tenge for environmental damage caused by the disposal of excessive waste to the environment in 11 waste collectors. The total amount was determined as a result of an inspection that covered 2012 and 2013. However, these wastes have historical origins. According to the current legislation of the Republic Kazakhstan, the environmental permit is issued for newly formed and disposed waste.

In accordance with the above, on February 7, 2014 JSC "Ozenmunaigas" filed a claim and on February 21, 2014 Specialized Administrative Court of Mangystau region satisfied in full in favor of the Company. This decision is not appealable, but may be challenged by the General Prosecutor offices.

In addition, on February 19, 2014 the Department of Ecology of Mangystau Region claimed an administrative fine for environmental damage of 327,880 million Tenge.

JSC "Ozenmunaigas" appealed the claim in the Specialized Interdistrict Economic Court of Mangystau Region that concluded on March 6, 2014 that the act of inspection was illegal and the administrative fine was fully cancelled. On April 22, 2014 the Judicial Panel of Appeals of Mangystau Regional Court rejected an appeal of the Department of Ecology of Mangystau Region against the decision of the Specialized Interdistrict Economic Court of Mangystau Region.

On June 25, 2014 by the resolution of the Judicial Panel of Cassation of Mangystau Regional Court, decisions of Specialized Administrative Court of Mangystau region dated on March 6, 2014 and the Judicial Panel of Appeals of Mangystau Regional Court dated April 22, 2014, were upheld.

Management of the Company believes that JSC "Ozenmunaiga" will successfully defend its position in further appeals by the Ecology Department on this matter, and therefore no provision has been accrued for this matter as at December 31, 2014.

**Embamunaigas Gas flaring**

On January 23, 2014 the Company received a notification from the Department of Ecology of Atyrau Region to pay a fine of 37,150 million Tenge for environmental damage caused by violations of enviromental law, including associated gas flaring. The total amount was determined as a result of an inspection that covered the period 2008 to 2013.

The Company disagreed with this notification and appealed the claim of the Department of Ecology of Atyrau Region. On June 3, 2014 the Company received the final assessment with reduced amount of enviromental damages and the liability to pay 1,959 million Tenge. The amount was accrued and paid in June 2014.

# Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

### Oilfield licenes

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 licence could result in fines, penalties, licence limitation, suspension or revocation. The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, statement of income or cash flows.

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

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

| Field | Contract | Expiry date |
|---|---|---|
| Uzen (8 fields) | No. 40 | 2021 |
| Emba (1 field) | No. 37 | 2021 |
| Emba (1 field) | No. 61 | 2017 |
| Emba (23 fields) | No. 211 | 2018 |
| Emba (15 fields) | No. 413 | 2020 |

### Commitments arising from oilfield and exploration licenses

| Year | Capital expenditures | Operational expenditures |
|---|---|---|
| 2015 | 90,890 | 6,309 |
| 2016 | 62,847 | 3,397 |
| 2017 | 52,720 | 3,317 |
| 2018 | 494 | 3,317 |
| 2019-2024 | – | 6,633 |
| | 206,951 | 22,973 |

### Crude oil supply commitments

The Company has obligations to supply oil and oil products to the local market under government directives (Note 21).

### Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2014:

| Year | Capital expenditures | Operational expenditures |
|---|---|---|
| 2015 | 9,100 | 4,965 |

### Commitments of UGL

The Company's share in the commitments of UGL is as follows as at December 31, 2014:

| Year | Capital expenditures | Operational expenditures |
|---|---|---|
| 2015 | 12,350 | 324 |

### Commitments of KS EP Investments

The Company's share in the commitments of KS EP Investments is as follows as at December 31, 2014:

| Year | Capital expenditures | Operational expenditures |
|---|---|---|
| 2015 | 1,056 | 32 |
| 2016 | 3,386 | 62 |
| | 4,442 | 94 |

### Commitments of PKI

The Company's share in the commitments of PKI is as follows as at December 31, 2014:

| Year | Capital expenditures |
|---|---|
| 2015 | 1,562 |

These consolidated financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on February 24, 2015:

Chief Executive Officer — Nurseitov A. A.

Chief Financial Officer — Abdulgafarov D. Y.

### Contact information


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# Information For Shareholders

The Annual General Meeting of shareholders was held on 19 May 2015 at 10:00 AM at Kabanbay batyr 15, Hilton Garden Inn Astana hotel, Tulip conference hall, 1st floor (left wing), Astana, 010000, Kazakhstan.

## Website

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

## Shareholders' Requests

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.

## Number Of Shares In Issue:

| | Ordinary shares | Preferred shares | Total |
|---|---|---|---|
| Number of issued shares [1] | 70,220,935 | 4,136,107 | 74,357,042 |

[1] Includes treasury shares and GDRs. The Company's shares are traded on the Kazakhstan Stock Exchange and the GDRs - on the London Stock Exchange. One GDR represents 1/6 of an ordinary share.

## Contact Information

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Fax: +1 (732) 544 6346
Email: adr@db.com

# Reference Information

| Abbreviation | Explanation |
|---|---|
| AR | Atyrau Refinery LLP |
| CCEL | CCEL (CITIC Canada Energy Limited, 100% owner of CCPL, formerly Nations Energy Company Ltd). Holds a 100% voting stake in JSC Karazhanbasmunai, which operates the Karazhanbas field |
| CIC | China Investment Corporation, the State investment fund of the People's Republic of China. The primary mission of CIC is to make long-term investments in order to reduce financial operation risks for the benefit of its shareholders |
| CIS | Commonwealth of Independent States |
| CIT | Corporate Income Tax |
| CGP | Central Gathering Plant |
| CPC | Caspian Pipeline Consortium pipeline connects the Tengiz field in Kazakhstan with the Russian port of Novorossiysk on the Black Sea. An important route for oil transportation from the Caspian Sea to the international market |
| ECD | Export Customs Duty |
| EMG | JSC Embamunaigas, one KMG EP's two production assets, operating 41 main fields in the Atyrau Region in Western Kazakhstan |
| EPT | Excess Profit Tax |
| KASE | Kazakhstan Stock Exchange |
| KazGPZ | Kazakh Gas Processing Plant LLP |
| KBM | JSC Karazhanbasmunai |
| KGM | JV Kazgermunai LLP |
| KCP | Kazakhstan-China pipeline |
| LSE | London Stock Exchange |
| MET | Mineral Extraction Tax |
| Miller and Lents, Ltd | Independent international consultancy that specialises in hydrocarbon reserve assessment |
| NC KMG | National Company KazMunayGas JSC, a state oil and gas company of the Republic of Kazakhstan, in the form of a joint-stock company with 100% of its shares held in the Sovereign Wealth Fund Samruk-Kazyna |

| Abbreviation | Explanation |
|---|---|
| NGDU | Oil and Gas Production Department |
| OGPU | Oil and gas production unit |
| OMG | JSC Ozenmunaigas, one KMG EP's two production assets, operating in two main fields in the Mangistau Region |
| OTS | Oil transfer station |
| PKI | PetroKazakhstan Inc |
| PKOP | PetroKazakhstan Oil Products LLP |
| PPCP | Pavlodar Petrochemical Plant LLP |
| Ryder Scott Company L.P. | Independent international consultancy that specialises in hydrocarbon reserve assessment |
| Samruk-Kazyna Holding | Kazakhstan Sovereign Wealth Fund managing state assets and shares of national companies |
| Standard&Poor's/Moody's | International rating agencies that award short-term and long-term credit ratings |
| Ton-to-barrel conversion factors | In the case of KMG EP – 7.36 bbl/ton; KGM – 7.70 bbl/ton; KBM – 6.68 bbl/ton; PKI – 7.75 bbl/ton; others – 7.33 bbl/ton |
| TP | JSC Turgai Petroleum |
| UAS | Uzen – Atyrau – Samara, a 1,500km-long oil pipeline across the territory of the Atyrau and Mangistau regions to Russia |
| UBR | LLP Drilling Well Servicing Division |
| UGL | Ural Group Limited – owns the exploration license for the Fedorovskiy block through 100% stake in LLP Ural Oil and Gas (UOG) |
| UOG | Ural Oil and Gas LLP |
| UTTiOS | LLP Support Service Vehicles and Well Servicing Division |
| 1P reserves | Proven reserves |
| 2P reserves | Proven and probable reserves |
| 3P reserves | Proven, probable and possible reserves |

# NOTES

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БАРЛАУ ӨНДІРУ АКЦИОНЕРЛІК ҚОҒАМЫ

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