

**KazMunaiGas Exploration Production
Joint Stock Company**

Condensed consolidated interim
financial statements (unaudited)

For the nine months ended September 30, 2016

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CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (unaudited)

Tenge million

		September 30, 2016	December 31, 2015
	Notes	Unaudited	Audited
ASSETS			
Non-current assets			
Property, plant and equipment	5	280,420	234,367
Intangible assets		10,014	9,619
Investments in joint ventures	6	157,126	154,453
Investments in associate	7	143,319	154,241
Receivable from a jointly controlled entity		24,641	21,602
Loans receivable from joint ventures	6	31,517	27,941
Other financial assets	8	35,973	33,760
Deferred tax asset		62,279	71,904
Other assets		2,940	5,717
Total non-current assets		748,229	713,604
Current assets			
Inventories		26,330	23,102
Income taxes prepaid		48,967	36,225
Taxes prepaid and VAT recoverable		41,123	16,132
Mineral extraction and rent tax prepaid		6,064	6,064
Prepaid expenses		25,848	30,135
Trade and other receivables	8	59,071	105,443
Receivable from a jointly controlled entity		8,717	8,822
Other financial assets	8	905,952	833,912
Cash and cash equivalents	8	213,357	237,310
Total current assets		1,335,429	1,297,145
Total assets		2,083,658	2,010,749
EQUITY			
Share capital	9	165,324	163,004
Other capital reserves		2,471	3,945
Retained earnings		1,387,932	1,311,759
Other components of equity		326,885	333,141
Total equity		1,882,612	1,811,849
LIABILITIES			
Non-current liabilities			
Borrowings		4,596	5,990
Deferred tax liability		138	240
Provisions	10	46,377	45,264
Total non-current liabilities		51,111	51,494
Current liabilities			
Borrowings		5,519	5,585
Provisions	10	71,467	70,010
Income taxes payable		13	13
Mineral extraction tax and rent tax payable		17,139	22,249
Trade payables and other liabilities		55,797	49,549
Total current liabilities		149,935	147,406
Total liabilities		201,046	198,900
Total liabilities and equity		2,083,658	2,010,749

The accompanying notes on pages 5-17 are the integral part of these condensed consolidated interim financial statements (unaudited).

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (unaudited)

Tenge million

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
Revenue	11	201,340	108,232	514,706	349,337
Share of results of associate and joint ventures	6, 7	(893)	(5,393)	(7,603)	(3,486)
Finance income		7,750	6,560	22,025	18,295
Total revenue and other income		208,197	109,399	529,128	364,146
Production expenses	12	(72,155)	(50,865)	(195,364)	(160,037)
Selling, general and administrative expenses	13	(31,917)	(37,068)	(94,514)	(91,118)
Exploration expenses		(51)	(1,186)	(51)	(1,663)
Depreciation, depletion and amortization		(9,175)	(4,538)	(22,524)	(15,158)
Taxes other than on income	14	(36,493)	(49,011)	(115,803)	(131,584)
Net reversal of allowance for VAT recoverable	17	20,298	—	13,362	—
(Loss)/gain on disposal of property, plant and equipment	5	(250)	4	(532)	(71)
Finance costs		(836)	(14,809)	(2,702)	(16,740)
Foreign exchange (loss)/gain, net		(8,733)	243,029	(7,284)	261,663
Profit before tax		68,885	194,955	103,716	209,438
Income tax expense	15	(10,411)	(60,071)	(27,993)	(71,665)
Profit for the period		58,474	134,884	75,723	137,773
Foreign currency translation difference	2	(7,139)	153,433	(6,256)	155,018
Other comprehensive (loss)/income for the period to be reclassified to profit and loss in subsequent periods		(7,139)	153,433	(6,256)	155,018
Total comprehensive income for the period, net of tax		51,335	288,317	69,467	292,791
Earnings per share – Tenge thousands					
Basic and diluted		0.86	1.98	1.11	2.02

The accompanying notes on pages 5-17 are the integral part of these condensed consolidated interim financial statements (unaudited).

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (unaudited)

Tenge million

		Nine months ended September 30,	
	Notes	2016	2015
Cash flows from operating activities			
Profit before tax		103,716	209,438
Adjustments to add/(deduct) non-cash items			
Depreciation, depletion and amortisation		22,524	15,158
Share of result of associate and joint ventures		7,603	3,486
Loss on disposal of property, plant and equipment (PPE)	5	532	71
Dry well expense on exploration and evaluation assets		–	695
Recognition of share-based payments		1,350	–
Unrealised foreign exchange loss/(gain) on non-operating activities		7,406	(253,008)
Change in provisions		1,108	28,093
Net reversal of allowance for VAT recoverable	17	(13,362)	–
Other non-cash income and expense		2,442	954
Add finance costs		2,702	16,740
Deduct finance income		(22,025)	(18,295)
Working capital adjustments			
Change in other assets		(872)	429
Change in inventories		(3,308)	506
Change in taxes prepaid and VAT recoverable		(12,689)	6,032
Change in prepaid expenses		4,287	202
Change in trade and other receivables		34,874	11,106
Change in trade and other payables		4,746	(3,468)
Change in mineral extraction and rent tax payable and prepaid		5,890	(5,169)
Income tax paid		(38,988)	(27,868)
Net cash generated from/(used in) operating activities		107,936	(14,898)
Cash flows from investing activities			
Purchases of PPE	5	(67,107)	(72,645)
Proceeds from sale of PPE		384	270
Purchases of intangible assets		(1,442)	(1,241)
Loans provided to joint ventures		(2,538)	(2,605)
Dividends received from joint ventures and associate, net of withholding tax	6, 7	13,083	13,822
(Placement)/withdrawals of term deposits, net		(88,841)	23,639
Repayments of loan receivable from related parties		–	2,495
Interest received		11,903	7,111
Net cash used in investing activities		(134,558)	(29,154)
Cash flows from financing activities			
Repayment of borrowings		(1,526)	(918)
Dividends paid to Company's shareholders		(123)	(28,781)
Net cash used in financing activities		(1,649)	(29,699)
Net change in cash and cash equivalents		(28,271)	(73,751)
Cash and cash equivalents at the beginning of the period	8	237,310	180,245
Exchange gain on cash and cash equivalents		4,318	34,365
Cash and cash equivalents at the end of the period	8	213,357	140,859

The accompanying notes on pages 5-17 are the integral part of these condensed consolidated interim financial statements (unaudited).

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (unaudited)

Tenge million

	Share capital	Treasury stock	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total Equity
As at December 31, 2014 (audited)	263,095	(100,091)	2,355	1,098,170	75,587	1,339,116
Profit for the period	–	–	–	137,773	–	137,773
Other comprehensive income	–	–	–	–	155,018	155,018
Total comprehensive income	–	–	–	137,773	155,018	292,791
Dividends (Note 9)	–	–	–	(30,080)	–	(30,080)
As at September 30, 2015 (unaudited)	263,095	(100,091)	2,355	1,205,863	230,605	1,601,827
As at December 31, 2015 (audited)	263,095	(100,091)	3,945	1,311,759	333,141	1,811,849
Profit for the period	–	–	–	75,723	–	75,723
Other comprehensive income	–	–	–	–	(6,256)	(6,256)
Total comprehensive income	–	–	–	75,723	(6,256)	69,467
Recognition of share-based payments	–	–	1,350	–	–	1,350
Forfeiture of share-based payments	–	–	(2)	–	–	(2)
Exercise of employee options	–	2,320	(2,822)	502	–	–
Dividends (Note 9)	–	–	–	(52)	–	(52)
As at September 30, 2016 (unaudited)	263,095	(97,771)	2,471	1,387,932	326,885	1,882,612

The accompanying notes on pages 5-17 are the integral part of these condensed consolidated interim financial statements (unaudited).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

For the nine months ended September 30, 2016

Tenge million unless otherwise stated

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

KazMunaiGas Exploration Production Joint Stock Company (the “Company”) is incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons and refined products with its core operations of oil and gas properties located in the Pre-Caspian and Mangystau basins of western Kazakhstan. The Company’s direct majority shareholder is Joint Stock Company National Company KazMunaiGas (“NC KMG” or the “Parent Company”), which represents the state’s interests in the Kazakh oil and gas industry and which holds 63.02% of the Company’s outstanding shares as at September 30, 2016 (December 31, 2015: 63.21%). The Parent Company is 90% owned by Joint Stock Company Samruk-Kazyna Sovereign Welfare Fund (“Samruk-Kazyna SWF”), which is in turn 100% owned by the Government of the Republic of Kazakhstan (the “Government”).

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

2. BASIS OF PREPARATION

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

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

Exchange rates

The official exchange rate of the Kazakhstan Tenge to the US dollar at September 30, 2016 and December 31, 2015 was 335.46 and 339.47 Tenge to the US dollar, respectively. Any translation of Tenge amounts to US dollar or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

3. SEASONALITY OF OPERATIONS

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

4. ACCOUNTING POLICIES

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited) (continued)

Tenge million unless otherwise stated

4. ACCOUNTING POLICIES (continued)

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

- IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations (Amendments)*
- IFRS 14 *Regulatory Deferral Accounts*
- IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments)*
- IAS 27 *Equity Method in Separate Financial Statements (Amendments)*
- IAS 1 *Disclosure Initiative (Amendments)*
- IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception (Amendments)*
- IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)*
- Improvements to IFRSs 2012-2014 cycle

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

5. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended September 30, 2016 the Company prepaid for and purchased property, plant and equipment with a cost of 67,107 million Tenge (during nine months ended September 30, 2015: 72,645 million Tenge).

Property, plant and equipment with the net book value of 1,533 million Tenge were disposed of by the Company during the nine months ended September 30, 2016, resulting in a net loss on disposal of 532 million Tenge (nine months ended September 30, 2015: 3,556 million Tenge and 71 million Tenge, respectively).

6. INVESTMENTS IN JOINT VENTURES

	Ownership share	September 30, 2016	December 31, 2015
		Unaudited	Audited
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	86,760	83,752
Interest in JV Ural Group Limited BVI ("UGL")	50%	70,366	70,701
Interest in JV KS EP Investments BV ("KS EP Investments")	51%	—	—
		157,126	154,453

Movement in investment in joint ventures during the period:

	Nine months ended September 30,	
	2016	2015
	Unaudited	Unaudited
Carrying amount at 31 December (audited)	154,453	95,177
Share of total comprehensive income	2,963	7,891
Dividends declared	—	(13,822)
Foreign currency translation difference	(1,818)	42,942
Share in additional paid in capital	1,528	14,932
Carrying amount at September 30 (unaudited)	157,126	147,120

Unrecognized share in loss of KS EP Investments amounted to 18 million Tenge for the nine months ended September 30, 2016 (the nine months ended September 30, 2015: 4,689 million Tenge).

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited) (continued)

Tenge million unless otherwise stated

6. INVESTMENTS IN JOINT VENTURES (continued)

Kazgermunai

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

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

	September 30, 2016	December 31, 2015
	Unaudited	Audited
Cash and cash equivalents	34,267	32,656
Other current assets	32,632	17,712
Non-current assets	168,660	198,757
	235,559	249,125
Dividends payable	—	25,460
Other current liabilities	26,705	11,689
Non-current liabilities	35,334	44,472
	62,039	81,621
Net assets	173,520	167,504
Proportion of the company's ownership	50%	50%
Carrying value of the investment	86,760	83,752

	Nine months ended September 30,	
	2016	2015
	Unaudited	Unaudited
Revenues	112,602	101,100
Operating expenses	(92,250)	(64,789)
- including depreciation and amortization	(28,454)	(12,906)
- including equity method accounting adjustments	(6,290)	(628)
Profit from operations	20,352	36,311
Finance income	660	450
Finance cost	(815)	(558)
Profit before tax	20,197	36,203
Income tax expense	(12,242)	(20,359)
Profit and other comprehensive income for the period	7,955	15,844
Company's share of the comprehensive income for the period	3,978	7,922

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited) (continued)

Tenge million unless otherwise stated

6. INVESTMENTS IN JOINT VENTURES (continued)

UGL

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

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

	September 30, 2016	December 31, 2015
	Unaudited	Audited
Cash and cash equivalents	478	921
Other current assets	31	54
Non-current assets	213,670	207,323
	214,179	208,298
Current liabilities	2,290	3,118
Non-current financial liabilities	60,688	53,901
Non-current liabilities	10,469	9,877
	73,447	66,896
Net assets	140,732	141,402
Proportion of the company's ownership	50%	50%
Carrying value of the investment	70,366	70,701

	Nine months ended September 30,	
	2016	2015
	Unaudited	Unaudited
Revenues	6	9
Operating expenses	(492)	(500)
Loss from operations	(486)	(491)
Finance income	13	423
Finance cost	(1,205)	—
Loss before tax	(1,678)	(68)
Income tax (expense)/benefit	(352)	6
Loss and other comprehensive loss for the period	(2,030)	(62)
Company's share of the comprehensive loss for the period	(1,015)	(31)

During nine months ended September 30, 2016 the Company provided interest free loans to UGL for the amount of 7,350 thousand US dollars or 2,538 million Tenge (nine months ended September 30, 2015: of 13,300 thousand US dollars or 2,605 million Tenge). On initial recognition the loans are recognized at the fair value determined by discounting future cash flows. Investments in UGL are adjusted accordingly to recognize effect of discounting.

Carrying value of the loans receivable from UGL totaled to 93,952 thousand US dollars (31,517 million Tenge) at September 30, 2016 (December 31, 2015: 82,309 thousand US dollars or 27,941 million Tenge).

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited) (continued)**

Tenge million unless otherwise stated

7. INVESTMENTS IN ASSOCIATE

		September 30, 2016	December 31, 2015
	Ownership share	Unaudited	Audited
Interest in Petrokazakhstan Inc. ("PKI")	33%	143,319	154,241

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

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

Movement in investment in associate during the reporting period:

	Nine months ended September 30,	
	2016	2015
Carrying amount at December 31 (audited)	154,241	116,054
Share of the total comprehensive loss	(9,331)	(19,927)
Foreign currency translation difference	(1,591)	48,460
Carrying amount at September 30 (unaudited)	143,319	144,587

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

	September 30, 2016	December 31, 2015
	Unaudited	Audited
Cash and cash equivalents	57,124	48,568
Other current assets	49,542	78,268
Non-current assets	497,993	556,382
	604,659	683,218
Current liabilities	51,705	132,525
Non-current liabilities	118,655	83,297
	170,360	215,822
Net assets	434,299	467,396
Proportion of the company's ownership	33%	33%
Carrying value of the investment	143,319	154,241

	Nine months ended September 30,	
	2016	2015
	Unaudited	Unaudited
Revenues	90,590	91,184
Operating expenses	(119,822)	(118,235)
- including depreciation and amortization	(40,340)	(28,519)
- including equity method accounting adjustments	(25,373)	(14,570)
Loss from operations	(29,232)	(27,051)
Share in profit of joint ventures	8,513	5,308
Finance income	198	165
Finance cost	(4,140)	(3,964)
Loss before tax	(24,661)	(25,542)
Income tax expense	(7,355)	(8,938)
Loss for the period	(32,016)	(34,480)
Other comprehensive income/(loss)	3,740	(25,906)
Total comprehensive loss	(28,276)	(60,386)
Company's share of the comprehensive loss for the period	(9,331)	(19,927)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited) (continued)**

Tenge million unless otherwise stated

8. FINANCIAL ASSETS

Other financial assets

	September 30, 2016	December 31, 2015
	Unaudited	Audited
US dollar denominated term deposits	33,291	31,680
Tenge denominated term deposits	2,679	2,077
Other	3	3
Total non-current	35,973	33,760
US dollar denominated term deposits	903,519	831,122
Great Britain pound denominated term deposits	2,433	2,790
Total current	905,952	833,912
	941,925	867,672

As at September 30, 2016 the non-current US dollar denominated term deposits include restricted deposits in the amount of 33,159 million Tenge (December 31, 2015: 31,405 million Tenge), which are kept in blocked accounts designated as a liquidation fund per requirements of subsoil use contracts.

Trade and other receivables

	September 30, 2016	December 31, 2015
	Unaudited	Audited
Trade receivables	59,186	93,027
Dividend receivable	–	12,730
Other	928	852
Allowance for doubtful receivables	(1,043)	(1,166)
	59,071	105,443

As at September 30, 2016 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGas Trading AG ("KMG Trading") and KazMunaiGas Refinery and Marketing ("KMG RM"), both subsidiaries of the Parent Company, amounting to 48,148 million Tenge (December 31, 2015: 36,824 million Tenge) and nil (December 31, 2015: 52,137 million Tenge), respectively.

As at September 30, 2016 the Company's trade receivables also included receivables from sales of refined products to KazMunaiGas Onimderiy ("KMG Onimderiy"), subsidiary of KMG RM, amounting to 8,989 million Tenge (December 31, 2015: nil).

Cash and cash equivalents

	September 30, 2016	December 31, 2015
	Unaudited	Audited
US dollar denominated term deposits with banks	72,754	207,440
Tenge denominated term deposits with banks	31,058	12,370
US dollar denominated cash in banks and on hand	104,799	15,488
Tenge denominated cash in banks and on hand	4,541	1,767
Great Britain pound denominated cash in bank and on hand	205	245
	213,357	237,310

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited) (continued)

Tenge million unless otherwise stated

9. SHARE CAPITAL

Shares outstanding

During the nine months ended September 30, 2016 the weighted average number of all shares outstanding amounted to 68,254,228 shares (nine months ended September 30, 2015: 68,162,635 shares).

Book value per share

The Kazakhstan Stock Exchange has enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets per shares outstanding as at period end. As at September 30, 2016 the amount per outstanding share is 27,505 Tenge (December 31, 2015: 26,544 Tenge).

Dividends

Total dividends per share recognised as distributions to equity holders during 2016 amounted to 25 Tenge per share for preferred shares only as at September 30, 2016 (2015: 440 Tenge per share for both outstanding ordinary and preferred shares).

10. PROVISIONS

	September 30, 2016	December 31, 2015
	Unaudited	Audited
Taxes and related fines and penalties	60,623	60,086
Asset retirement obligation	22,510	21,322
Environmental remediation	17,715	17,610
Other	16,996	16,256
	117,844	115,274

11. REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	Unaudited	Unaudited	Unaudited	Unaudited
Export				
Crude oil	138,689	71,776	373,367	244,142
Refined products	21,051	–	37,750	–
Gas products	–	105	162	708
Domestic (Note 17)				
Refined products	36,611	251	75,288	1,061
Crude oil	66	31,362	15,459	90,227
Gas products	2,553	1,813	5,452	4,895
Other sales and services	2,370	2,925	7,228	8,304
	201,340	108,232	514,706	349,337

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited) (continued)

Tenge million unless otherwise stated

12. PRODUCTION EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	Unaudited	Unaudited	Unaudited	Unaudited
Employee benefits	37,734	38,260	108,094	113,911
Refinery processing costs	15,853	165	31,823	555
Repairs and maintenance	7,180	5,483	16,962	14,006
Energy	5,113	4,576	15,534	13,742
Materials and supplies	4,052	4,025	13,141	13,756
Transportation services	1,446	1,435	3,900	3,890
Change in crude oil balance	(1,505)	(5,011)	(419)	197
Decrease in asset retirement obligation in excess of capitalized asset	—	(86)	—	(3,999)
Other	2,282	2,018	6,329	3,979
	72,155	50,865	195,364	160,037

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	Unaudited	Unaudited	Unaudited	Unaudited
Transportation expenses	22,826	13,814	68,779	45,601
Employee benefits	3,960	5,011	11,979	13,741
Agency fee (Note 17)	1,803	—	3,605	—
Consulting and audit services	1,865	242	2,919	1,130
Sponsorship	377	257	1,528	445
Repairs and maintenance	494	228	901	603
Management fees (Note 16)	—	1,112	—	3,338
(Reversal)/accrual of fines and penalties (Note 17)	(2,029)	14,762	(601)	22,345
Other	2,621	1,642	5,404	3,915
	31,917	37,068	94,514	91,118

14. TAXES OTHER THAN ON INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	Unaudited	Unaudited	Unaudited	Unaudited
Export customs duty	22,067	11,563	55,530	42,940
Mineral extraction tax (Note 17)	7,394	25,414	39,661	51,046
Rent tax (Note 17)	3,768	9,423	13,411	31,385
Property tax	1,704	1,725	5,028	4,531
Other taxes	1,560	886	2,173	1,682
	36,493	49,011	115,803	131,584

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited) (continued)**

Tenge million unless otherwise stated

15. INCOME TAX EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	Unaudited	Unaudited	Unaudited	Unaudited
Corporate income tax	8,002	62,644	19,386	68,485
Excess profit tax	(922)	1,696	(914)	6,207
Current income tax	7,080	64,340	18,472	74,692
Corporate income tax	3,331	(4,006)	9,521	(3,048)
Excess profit tax	—	(263)	—	21
Deferred income tax	3,331	(4,269)	9,521	(3,027)
Income tax expense	10,411	60,071	27,993	71,665

16. RELATED PARTY TRANSACTIONS

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

Sales and purchases with related parties during the nine months ended September 30, 2016 and 2015 and the balances with related parties at September 30, 2016 and December 31, 2015 are as follows:

	Nine months ended September 30,	
	2016	2015
	Unaudited	Unaudited
Revenue and other income		
Entities under common control	451,487	348,479
Joint ventures	3,348	3,810
Other state controlled entities	164	28
Associates	23	19
Purchases of goods and services		
Entities under common control	72,136	29,666
Other state controlled entities	16,056	13,759
Parent Company (Note 13)	—	3,338
Joint ventures	274	45
Interest earned on financial assets		
Interest earned on loans to Joint ventures	3,159	2,815
Average interest rate on loans to Joint ventures	1.04%	1.05%
Salaries and other short-term benefits		
Members of the Board of Directors	226	123
Members of the Management Board	448	353
Share based payments		
Members of the Management Board	914	—

	September 30, 2016	December 31, 2015
	Unaudited	Audited
Prepaid expenses and trade and other receivables		
Joint ventures	65,275	72,306
Entities under common control	63,818	95,516
Other state-controlled entities	2,909	2,796
Associates	34	7
Trade and dividend payables		
Entities under common control	4,405	2,530
Other state controlled entities	389	327
Joint ventures	116	28

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited) (continued)

Tenge million unless otherwise stated

17. COMMITMENTS AND CONTINGENCIES

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

Local market obligation

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

Starting from April 1, 2016 the Company ceased sales of crude oil to KMG RM and started tolling crude oil at Atyrau Refinery ("ANPZ") and Pavlodar Refinery ("PNHZ") and selling refined products on its own account using KMG RM as a sales agent.

Prior to April 1, 2016 the Company supplied crude oil to the local market by selling to KMG RM, a subsidiary of the Parent Company. Prices for local market sales were previously determined through an annual negotiation process with KMG RM and the Parent Company. In the first quarter of 2016 KMG RM unilaterally set the domestic price. As at the date of these financial statements the Independent Non-Executive Directors of the Company ('the INEDs') have not come to a final decision with respect to the approval of these prices.

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 September 30, 2016.

Value-added-tax (VAT) recoverability

Total VAT claim related to the Company's sale of assets to JSC "Ozenmunaigas" and JSC "Embamunaigas" in 2012 amounted to 46,558 million Tenge. The tax authorities have conducted various audits and have repeatedly denied the Company's requests to have these VAT amounts recognised as currently recoverable. The full amount of this VAT claim has been provided for in 2015.

On August 31, 2016 the Company filed an application for the VAT recoverability in the amount of 57,410 million Tenge, of which on October 10, 2016 the Tax authorities confirmed VAT to be recoverable in the amount of 24,567 million Tenge, which has subsequently been received by the Company (Note 18). This VAT claim was related to the period of 2012-2015.

In these financials, the Company has reversed 24,567 million Tenge of previously accrued VAT allowance. However, in light of recent tax audit results and tax authority rulings the Company assessed the amount of VAT paid in its operating activities that more likely than not will be nonrecoverable from the Government and has provided an additional allowance in an amount of 8,941 million Tenge and 2,264 million Tenge in JSC "Ozenmunaigas" and JSC "Embamunaigas", respectively, as at September 30, 2016.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited) (continued)**

Tenge million unless otherwise stated

17. COMMITMENTS AND CONTINGENCIES (continued)

Mineral extraction tax (MET)

In September 2016 JSC “Ozenmunaigas” has received approval of its application for a temporary reduced rate of MET for the Uzen and Karamandybas fields in Mangystau oblast. The reduced MET rate is set at 9.0% (compared to 13.0% in 2015) for the whole of 2016 on the condition that in 2016 Uzen and Karamandybas fields record losses under tax accounting. The maximum benefit available is expected to be approximately 17 billion Tenge in 2016, which may ultimately be reduced in accordance with current legislation should the JSC “Ozenmunaigas” have taxable profit for 2016. For the 9 months of 2016 the effect of this reduction was equal to 11,549 million Tenge, which was included in these financials. Management is currently forecasting that JSC “Ozenmunaigas” will claim a taxable loss in its final 2016 tax filing and thus recorded MET for JSC “Ozenmunaigas” at the 9.0% reduced rate in these financial statements.

Rent tax

In 2016, changes into the tax legislation were introduced in relation to methodology of calculating the rent tax. On the basis of these changes along with correspondence with the tax authorities the Company has reviewed its rent tax declarations for the period 2012-2013. As a result of this review the Company filed in August 2016 a rent tax return which reduced its current rent tax payable by the amount of 6,291 million Tenge. The Company is currently reviewing its rent tax calculations for 2014-2015, however uncertainty exist as to the final amount of revision, and the ultimate date of filing for such amounts. Therefore, no adjustments to these financials for 2014-2015 reduced rent tax has been made.

2006-2008 tax audit

Following the 2006-2008 tax audit by the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan in 2012, a tax charge including principal and administrative fines and late payment interest of 16,938 million Tenge was levied on KMG EP. The Company disputed the amount and filed an out of court appeal directly to the Ministry of Finance. This was followed by two inspections and discussions with the Ministry of Energy of the Republic of Kazakhstan and in 2014 resulted in a reduction of the total charges to 12,187 million Tenge. Since that time, the Company has appealed the remaining charge through the court system. In August 2016 the Supreme Court of the Republic of Kazakhstan has decided to further decrease the tax charge by 4,093 million Tenge, including 2,401 of principal and 1,692 of penalty. The Administrative Court of Astana on October 14, 2016 based on the decision of the Supreme Court of the Republic of Kazakhstan has decided to decrease the administrative fine by 3,562 million Tenge.

In these financials, the Company has included the reduction of 2,401 million Tenge of principal and 1,692 million Tenge of penalty. The reduction in administrative fine will be recognized at the time when the decision of the Administrative Court of Astana comes into legal force.

Environment

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited) (continued)

Tenge million unless otherwise stated

17. COMMITMENTS AND CONTINGENCIES (continued)

Oilfield licenses

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

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

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

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

Commitments arising from oilfield licenses

Year	Capital expenditures	Operational expenditures
2016 (remaining)	31,135	1,018
2017	12,876	4,018
2018	9,601	3,986
2019	8,048	3,485
2020-2048	2,334	19,061
	63,994	31,568

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at September 30, 2016:

Year	Capital expenditures	Operational expenditures
2016 (remaining)	1,986	1,470

Commitments of UGL

The Company's share in the commitments of UGL is as follows as at September 30, 2016:

Year	Capital expenditures	Operational expenditures
2016 (remaining)	1,594	643

Commitments of PKI

The Company's share in the commitments of PKI is as follows as at September 30, 2016:

Year	Capital expenditures
2016 (remaining)	333

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited) (continued)**

Tenge million unless otherwise stated

18. SUBSEQUENT EVENTS

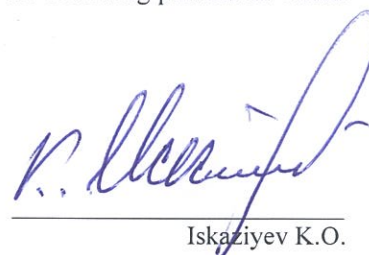
Tax refund received

On October 11, 2016 the Company has received 24,567 million Tenge of VAT refund from the Government for the period of 2012-2015 years.

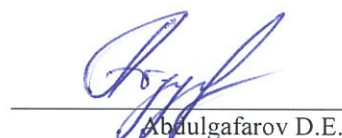
On November 9, 2016 in accordance with the results of 2006-2008 tax audit the Company has received tax refund in the amount of 4,093 million Tenge.

These condensed consolidated interim financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on November 15, 2016:

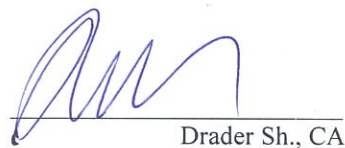
Chief Executive Officer


Iskaziye K.O.

Chief Financial Officer


Abdulgafarov D.E.

Financial Director – Financial Controller


Drader Sh., CA

Chief Accountant


Zainelova A.A., CPA

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