

## 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, as well as disclose actual principles of corporate governance, which being 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 organization, in 2012 Company's 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 herein.

The directors recognize the importance of the corporate governance and support the development of corporate standards in the Company. The Company intends to develop and implement the corporate governance practices which impose additional obligations on the Company than those required under legislation of Kazakhstan.

## KAZAKHSTAN CORPORATE GOVERNANCE CODE AND 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 practices in the area of corporate governance and Recommendations on 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 herein). 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 (namely, 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 relationship with the shareholders of the Company
  - Division of responsibilities between the Chairman of the Board of Directors and 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 treatment of inside information
  - Provisions for responsibilities of the Board of Directors to ensure effective risk management system
  - Provisions for evaluation of performance of the Chairman and members of the Board of Directors

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# CORPORATE GOVERNANCE INFORMATION

- Provisions for appointment/re-appointment of the Board of Directors members

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

During 2012 the Company complied with the provisions of Kazakhstan Corporate Governance Code in all significant aspects.

During 2012 the Company complied with the provisions of its Corporate Governance Code in all significant aspects, except the following:

- The Corporate Governance Code of the Company provides that at least one third of the Board of Directors members must be independent directors.

Until September 2012 the Board of Directors comprised eight members including the Chairman and three independent non-executive Directors: Philip Dayer, Paul Manduca, and Edward Walshe. On October 1, 2012 Paul Manduca left the Board of Directors, and up to the end of 2012 no independent director was appointed. Therefore, from October 1, 2012 the requirement of the Corporate Governance Code of the Company with respect to the number of independent directors within the Board of Directors was not complied.

- The Corporate Governance Code of the Company provides that Nominations Committee formed by the Board of Directors makes recommendations to the Board of Directors on nominees to the Board of Directors for approval of a resolution for the General Meeting of Shareholders when the decision on the appointment of a director is made.

Nominations Committee developed requirements for the position of independent director, and on the basis of surveys made by external consultants made recommendations to the Board of Directors about the candidate to be elected. However the Board of Directors did not decide on the matter due to a disagreement on behalf of the Nominations Committee of JSC NC KMG with the criteria for election of a candidate.

Given the refusal of the Nominations Committee of JSC NC KMG to endorse the candidate proposed to be elected as a third independent director, the Company now has only two independent directors. This represents a breach of the Company's Charter and a violation of the Law of the Republic of Kazakhstan "On Joint Stock Companies". At the time of the Company's IPO in September 2006, NC KMG entered into a Relationship Agreement with the Company whereby NC KMG undertook, inter alia, that 'NC KMG shall not vote on any resolution of the shareholders (or any resolution of the Board of Directors) to appoint or remove any independent director of the Company' except in certain circumstances that are not relevant in this instance.

- 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.

Throughout 2012 the independent non-executive directors met eight times without the Chairman of the Board to discuss the following issues: Company's development strategy; relationship between the Company and its majority shareholder; cash funds management and observance of the Treasury Policy; internal audit and internal control matters; Company's related party transactions; appointment of the Board of Directors and succession policy; implementation of the insurance program. The evaluation of performance of the Chairman of the Board of Directors was not formally carried out by directors. However, the performance of the Board of Directors is annually evaluated by an independent consultant.

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

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 31 of this report. In 2012 the evaluation of the effectiveness of the risk management system was not carried out by the Board of Directors. However the information on risk factors is provided in the Annual Report.

## **DIFFERENCES BETWEEN THE CODE ON CORPORATE GOVERNANCE OF THE COMPANY 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 upon appointment meet the independence criteria set out therein.

The Corporate Governance Code of the Company does not contain the provisions on 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 provision of the Corporate Governance Code of the Company. The Chairman of the Board of Directors is representing the majority shareholder.

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

In contrast, the Corporate Governance Code and the Charter of the Company provide that at least 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, 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 Corporate Governance Code of the Company does not provide for the appointment of a senior independent director by the Board of Directors, taken into account the current shareholders' structure. The requirement for a senior independent director will be taken into consideration from time to time.

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

The Corporate Governance Code of the Company imposes such requirements to 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 executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

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

#### **DIRECTORS' RESPONSIBILITY STATEMENT**

In accordance to the Corporate Governance Code of the Company the Board of Directors and the Management Board shall be responsible for the fair presentation of the Company's Annual Report and Financial Statement.

In compliance with the UKLA Disclosure and Transparency Rules, each of the directors (as stated on pages 7–8 hereof), confirms that to the best of his or her knowledge:

- The financial statement prepared in accordance with the International Financial Reporting Standards (IFRS) gives a true and fair account of the assets, liabilities, financial position, the results of the financial and economic activities of the Company, consolidated balance sheets of the Company and its subsidiaries;
- The management Report includes a fair review of the results of the financial and economic activities, and financial position of the Company, its joint obligations with its subsidiaries, as well as the description of the principal risks and uncertainties they face.

#### **STRUCTURE OF THE BOARD OF DIRECTORS**

As of December 31, 2012 the Board of Directors consisted of seven members, including:

<b>NAME</b>	<b>POSITION</b>
LYAZZAT KIINOV	CHAIRMAN OF THE BOARD OF DIRECTORS
ALIK AIDARBAYEV	MEMBER OF THE BOARD OF DIRECTORS (GENERAL DIRECTOR)
YERZHAN ZHANGAULOV	MEMBER OF THE BOARD OF DIRECTORS
ASSIYA SYRGABEKOVA	MEMBER OF THE BOARD OF DIRECTORS
TIMUR BIMAGAMBETOV	MEMBER OF THE BOARD OF DIRECTORS
PHILIP DAYER	INDEPENDENT DIRECTOR
EDWARD WALSH	INDEPENDENT DIRECTOR

At the extraordinary general shareholder's meeting on February 27, 2012 the following decisions were made:

- The powers of Askar Balzhanov as a member of the Board of Directors were terminated;
- Lyazzat Kiinov was elected as a member of the Board of Directors.

On March 13, 2012 by the decision of the Board of Directors Lyazzat Kiinov was appointed as the Chairman of the Board of Directors of the Company.

At the annual general shareholders' meeting on May 29, 2012 the following decisions were made:

- The powers of Sisengali Utegaliyev as a member of the Board of Directors were terminated;
- Timur Bimagambetov was elected as a member of the Board of Directors.

# CORPORATE GOVERNANCE INFORMATION

Paul Manduca left the Board of Directors from October 1, 2012 due to his appointment as a Chairman of Prudential plc.

In accordance with the Corporate Governance Code of the Company, the Company's Board of Directors has established the fact of the independence of the Directors and believes that Philip Dayer and Edward Walshe 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 making independent decisions by these directors.

## STRUCTURE OF THE MANAGEMENT BOARD

In 2012, the Management Board of the Company consisted of senior executives, including General Director and his deputies.

### THE MEMBERS OF THE MANAGEMENT BOARD AS OF DECEMBER 31, 2012 ARE LISTED BELOW:

NAME	POSITION
ALIK AIDARBAYEV	GENERAL DIRECTOR AND CHAIRMAN OF THE MANAGEMENT BOARD
ABAT NURSEITOV	DEPUTY GENERAL DIRECTOR FOR PRODUCTION
MALIK SAULEBAY	MANAGING DIRECTOR FOR LEGAL ISSUES
BENJAMIN FRASER	MANAGING DIRECTOR – FINANCIAL CONTROLLER
BOTAGOZ ASHIRBEKOVA	MANAGING HR DIRECTOR

During the year the Board of Directors adopted following decisions on the composition of the Management Board:

- On January 26, 2012 on:
  - Termination of powers of the following members of the Management Board:
    - Eshmanov Kiikbay
    - Bekezhanova Zhanneta
    - Aubakirov Askar
    - Biseken Bagitkali
    - Khituov Taras
    - Zhamauov Zhumabek
  - Election of new members of the Management Board:
    - Nurseitov Abat
    - Fraser Benjamin
    - Saulebay Malik
    - Salimov Eldan
    - Ashirbekova Botagoz
- On June 23, 2012 on termination of powers of Miroshnikov Vladimir as a member of the Management Board
- On September 28, 2012 on termination of powers of Salimov Eldan as a member of the Management Board

## RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

The responsibilities between the Board of Directors, the Management Board and General Director of the Company are allocated in accordance with the Charter of the Company, Sections 12 and 13. Further 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.

The Board of Directors is responsible to shareholders for effective management and proper control over 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 policy of the Company, making decisions on potential acquisitions of oil and gas assets, and other significant issues.

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

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

During 2012 the Board of Directors held 29 meetings, including 6 meetings in person, 21 in the form of written consent, and 2 meetings via telephone conference call.

During the year the Board of Directors reviewed among others the following issues:

- Review the issues related to implementation of the Company's Development Strategy
- Approval of the Company's budgets and business plans
- Exploration program
- Shares buy-back program
- Health, safety and environment issues
- Issues related to amendments to subsoil use contracts
- Relationship with affiliates, subsidiaries of JSC NC KMG
- Approval of Company's related party transactions (transaction in respect of oil supplies to the domestic market in the second half of the year has not been approved by the Board of Directors. More detailed information is given in note 23 to the consolidated financial statements and the section "Domestic sales in Kazakhstan" of the Operating and Financial Review 2012)
- Setting up two subsidiaries on the basis of the production units: Ozenmunaigaz JSC and Embamunaigaz JSC, as well as Drilling Well Servicing Division LLP and Support Service Vehicles and Well Servicing Division LLP
- Transfer of subsoil use rights to the abovementioned subsidiaries – Ozenmunaigaz JSC and Embamunaigaz JSC
- Sale of interest in Kazakhstan Petrochemical Industries Inc. LLP
- Engagement of a partner in Karpovskiy Severniy project
- Matters within the competence of the supreme bodies of subsidiaries
- Issues of compliance, issues on observance of the UK Bribery Act
- Election of new Chairman of the Board of Directors
- Formation of committees of the Board of Directors
- Election of members of the Management Board
- Determining the amount of salaries and conditions of remuneration and bonuses of the members of the Management Board
- Granting options under the Company's options program
- Preliminary approval of the Company's consolidated financial statements for the 2011
- Introducing proposals on the amount of dividends by the results of 2011
- Report of the Board of Directors and Management Board for 2011
- Report on assessment of performance of the Board of Directors for 2011
- Review of plans and reports of the internal audit department, the status of implementation of the recommendations of the internal audit department
- The performance of key performance indicators (KPIs) of the internal audit department and internal audit department's staff issues

In 2012 the Board of Directors approved the following documents:

- Revised Corporate Governance Code (preliminary approval)
- Code of Corporate Ethics
- Charters and internal documents of subsidiaries

The Board of Directors also reviewed and recommended to the General Meeting of Shareholders to make amendments to the Charter of the Company.

# CORPORATE GOVERNANCE INFORMATION

## PRESENCE OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE MEMBERS OF THE COMMITTEES AT MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES (2012)

	BOARD OF DIRECTORS	AUDIT COMMITTEE	NOMINATIONS COMMITTEE	REMUNERATION COMMITTEE	STRATEGIC PLANNING COMMITTEE
NUMBER OF MEETINGS HELD IN 2012	29	5	3	7	1
LYAZZAT KIINOV	22	-	1	-	-
SISENGALI UTEGALIYEV	5	-	-	-	-
ALIK AIDARBAYEV	29	-	3	-	1
YERZHAN ZHANGAULOV	28	-	-	-	-
ASSIYA SYRGABEKOVA	29	-	-	-	-
TIMUR BIMAGAMBETOV	19	-	-	-	-
PAUL MANDUCA	23	4	2	6	-
PHILIP DAYER	29	5	3	7	-
EDWARD WALSH	29	5	3	7	1

The Management Board is an executive authority and regulates the Company's current activities. In 2012 39 meetings of the Management Board were held on a regular basis and as necessary.

In 2012 the Management Board reviewed following key issues related the Company's operating activities:

- On approval of setting up the Drilling Well Servicing Division LLP (UBR)
- On approval of setting up the Support Service Vehicles and Well Servicing Division LLP (UTTIOS)
- On approval of revised budget for 2012
- On investment strategic project "Setting up and development of JSC "Ozenmunaigas" and JCS "Embamunaigas" on the basis of property and property rights of JSC "KMG EP"
- On project "Setting up and business setup of UTTIOS LLP and business unit of OMG UBR LLP
- On approval of number of procedures regulating internal activities of the Company.

The Management Board also makes decisions on other issues of the Company's operations, not pertaining to the exclusive competence of the General Meeting of Shareholders, the Board of Directors and officials of the Company.

### AUDIT COMMITTEE

#### MEMBERS OF THE AUDIT COMMITTEE

In 2012 this committee was composed of only independent Directors, namely, Philip Dayer (Chairman of the committee) and Edward Walshe. From October 1, 2012 due to the early termination of the powers of an independent Director Paul Manduca, Philip Dayer is the Chairman of the committee. Appointments to the Audit Committee are made for the period of three years, and can be extended by the Board of Directors not more than for two additional three years periods, provided that the members of the Audit Committee are independent.

#### NUMBER OF MEETINGS

During 2012 the Audit Committee held five meetings. The Chairman of the Audit Committee makes the decisions about the frequency and timing of the meetings. The number of meetings is determined in accordance with requirements to the duties of the committee. At the same time at least four meetings per year must be held, which should coincide with key dates of the cycle of preparation of financial reporting and audit of the Company (when audit plans of internal and external auditors are prepared, and when the interim financial statements, preliminary announcements and the annual report near completion).

#### RESPONSIBILITIES AND DUTIES OF THE AUDIT COMMITTEE

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

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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's review.

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

#### ACTIVITIES OF THE AUDIT COMMITTEE IN 2012

- Financial statement
  - Review of the issues on preparation of financial statements in compliance with the IFRS
  - Approval of quarterly and annual financial statements to be disclosed to the Kazakhstan and London Stock Exchange
  - Approval of press-releases in relation to financial statements and operating and financial reviews
- Internal audit
  - Review and approval of internal audit department operational plan
  - Internal audit department's staff issues
  - Assessment of the effectiveness of internal audit
- The Company's social expenses
- Forecasts of cash flows of the Company
- Treasury policy compliance
- Compliance
  - Review of the draft of the Code of Corporate Ethics
  - Review of the draft of the revised Corporate Governance Code
  - Review of the draft of the Policy on Countering Bribery;
  - Review of the draft of the Whistleblowing Policy;
  - Review the issues on compliance with the UK Bribery Act

#### REMUNERATION COMMITTEE

##### MEMBERS OF THE REMUNERATION COMMITTEE

In 2012 this committee was composed of only independent Directors: Philip Dayer (Chairman of the committee), Paul Manduca until October 1, 2012, 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 of the members of the Board of Directors, General Director, members of the Management Board and other employees of the Company, including the 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 share option plans of the Company and other long-term incentive programs for managers and employees of the Company.

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

The Remuneration Committee oversees provision of adequate information disclosure in respect of remuneration and compensation of members of the Management Board and the Board of Directors of the Company in accordance with the laws of the Republic of Kazakhstan, the Listing Rules and the Company's internal documents.

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

The Remuneration Committee shall report regularly to the Board of Directors on its work, and also annually review compliance by the committee with the provisions on the Remuneration Committee providing information to the Board of Directors.

##### ACTIVITIES OF THE REMUNERATION COMMITTEE IN 2012

In 2012 the Remuneration Committee held seven meetings. The committee shall hold meetings as required, but not less than once every six months. Meetings may be convened at the initiative of the Chairman of the committee, any member of the committee or by the decision of the Board of Directors.

In 2012 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

# CORPORATE GOVERNANCE INFORMATION

- Issues related to Options plan
- Issues related to transfer to the personnel incentive system

Total amount of remunerations of independent directors for the year as of December 31, 2012, are listed in the table below:

NAME	ANNUAL REMUNER- ATION, 000 US\$	PHYSICAL ATTEN- DANCE, 000 US\$	PHONE-VID- EO CONFER- ENCE PAR- TICIPATION, 000 US\$	MEETINGS OF INDE- PENDENT DIRECTORS, 000 US\$	COMMITTEE CHAIRMANSHIP 000 US\$	TOTAL FOR 2012 (EX- CLUDING TAXES), 000 US\$	TOTAL FOR 2012 (INCLUDING TAXES), 000 KZT
PAUL MANDUCA	112.5	50	10	15	18.7	206.2	34,126
EDWARD WALSH	150	60	15	22.5	15	262.5	43,562
PHILIP DAYER	150	60	15	22.5	15	262.5	43,562
<b>TOTAL</b>	<b>412.5</b>	<b>170</b>	<b>40</b>	<b>60</b>	<b>48.7</b>	<b>731.2</b>	<b>121,250</b>

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

## NOMINATION COMMITTEE

In 2012 the members of the Nominations Committee were: Alik Aidarbayev (the Chairman of the committee until June 26, 2012), Lyazzat Kiinov (from June 26, 2012), Edward Walshe (acting Chairman of the committee), Paul Manduca (member of the committee until October 1, 2012), and Philip Dayer.

The main purpose of the committee is to increase efficiency and quality of work of the Board of Directors in selection of professionals to fill positions in the Company, as well as to ensure succession in changing officers of the Company, to define criteria for selection of candidates for the Board of Directors, General Director, members of the Management Board, and company secretary.

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

## ACTIVITIES OF THE NOMINATIONS COMMITTEE FOR 2012

During 2012 the committee held three meetings, where the following issues were discussed:

- Involving of a company for searching a candidate to the position of an independent director of the Company
- Defining the criteria of the candidate for the position of the independent director of the Company
- Recommendations to the Board of Directors for election of an independent director
- Recommendation to the Board of Directors on the membership of the committees of the Board of Directors
- Recommendation on election of a member of the Management Board

## STRATEGIC PLANNING COMMITTEE

In 2012 the members of the Strategic Planning Committee were: Edward Walshe (Chairman of the committee), Alik Aidarbayev (until January 18, 2013), Timur Bimagambetov, and Philip Dayer (from June 26, 2012).

The main purpose of the committee is to develop and provide recommendations to the Board of Directors on setting the priorities of the Company and its development strategy.

## ACTIVITIES OF THE COMMITTEE ON STRATEGIC PLANNING FOR 2012

In 2012 the committee held one meeting, where the following issues were discussed:

- Issues related to implementation of the current Company's Development Strategy
- Exploration program
- Business development, acquisition program
- Problems in implementing production plans and their resolution

- The structure of the interaction with Ozenmunaigaz JSC and Embamunaigaz JSC

The committee was advised during this meeting that NC KMG's strategy was under review and that discussion of the Company's strategy should await the outcome of that review. NC KMG has made a copy of its strategy available to the committee in January 2013.

### STAKES OF THE MEMBERS OF THE BOARD OF DIRECTORS

Stakes of the members of the Board of Directors in common, preferred shares and GDRs of the Company, according to information provided by members of the Board of Directors as of December 31, 2012 are the following:

NAME	ORDINARY SHARES	GDRS	PREFERRED SHARES
PHILIP DAYER	-	6,828	-
EDWARD WALSH	-	-	-

### MAJOR SHAREHOLDERS AND/OR GDR HOLDERS

In accordance with the laws of the Republic of Kazakhstan below is the list of holders of securities of the Company, who own shares as of December 31, 2012, the number of which must be reported. This requirement does not apply to holders of GDR, however, the Company considers it necessary to specify the information that on September 30, 2009, the State Investment Fund of the People's Republic of China Investment Corporation (CIC) announced on acquisition of GDR amounting to about 11% of the shares of the Company in the form of GDRs.

SHAREHOLDER	ORDINARY SHARES	PREFERRED SHARES	TOTAL NUMBERS OF SHARES PLACED
AMOUNT OF SHARES ISSUED	70,220,935	4,136,107	74,357,042
IN POSSESSION OF JSC NC KAZMUNAIGAS	43,087,006	-	43,087,006
PERCENTAGE OF ISSUED SHARE CAPITAL	61.36%	0.00%	57.95%

### CONTRACTS OF DIRECTORS, LETTER OF APPOINTMENT OF DIRECTORS AND LABOR CONTRACTS OF MEMBERS OF THE MANAGEMENT BOARD

#### CONTRACTS WITH DIRECTOR

- The powers of Askar Balzhanov as a member of the Board of Directors were terminated on February 27, 2012;
- Lyazzat Kiinov was elected as a member of the Board of Directors on February 27, 2012;
- The powers of Sisengali Utegaliyev as a member of the Board of Directors terminated on May 29, 2012;
- Timur Bimagambetov was elected as a member of the Board of Directors on May 29, 2012.

#### LABOUR CONTRACTS OF MEMBERS OF THE MANAGEMENT BOARD

All the members of the Management Board signed labour contracts with the Company in accordance with the internal rules of the Company. Except for the foregoing, it is not expected to enter into any other employment agreements with members of the Company's Board of Directors or Management Board members.

### INTERNAL CONTROL AND RISK MANAGEMENT

Company operates a system of internal control and risk management. The system is developed for identifying, evaluating and managing significant risks in order to achieve its strategic goals and to preserve and increase shareholder value.

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.

The existing chain of authority and interaction between elements of the internal control system provides a level of independence necessary for its effective functioning, and in line with best international practice in this area.

The key elements of the Company's internal control include:

- The internal company documents such as financial, operational, administrative policies, policies for managing the funds and other procedures.
- Constant monitoring of the operating and financial activities and related work in compliance with the safety requirements of the Company.

The internal audit service of the Company provides the Board of Directors with objective information about how effectively the system of internal control of the Company operates. In its work the internal audit service uses a risk-oriented approach which allows identifying and focusing maximum attention on the critical areas of the Company, thereby helping to improve the Company's overall performance and the quality of its corporate governance. The internal audit service monitors the implementation of the recommendations by the management and reports thereon to the Audit Committee and the Board of Directors.

With regard to risk management, the Management Board established a Committee on Risk Management and more detailed information on its activities is presented below.

## RISK MANAGEMENT COMMITTEE

The Risk Management Committee has been set up under the Management Board.

The main purpose of the committee is a prompt consideration of risk management issues in the Company. The committee may make recommendations to the Management Board on risk management, and monitoring the effectiveness of risk management systems and make recommendations to structural units of the Company to improve the risk management system in order to make business processes more efficient and achieve the strategic goals of the Company.

In addition the financial risks information can be found in the Operating and Financial Review, beginning from page 40. General information on the risk profile of the Company can be found in the Risk Factors section on page 55.

## INFORMATION ON TAXATION IN THE UK

The overview given below is based on the UK law and the 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) 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 Holder does 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 the 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 assumptions 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 the UK withholding tax.

## TAXATION OF DIVIDENDS

A UK Holder receiving a dividend on shares or GDRs may be subject to the 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 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 the 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 the 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 the 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 the UK capital gains tax liability.

An individual holder of shares or GDRs who ceases to be a resident or an 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 an ordinarily resident in the UK at the time of the disposal.

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A corporate UK Holder will generally be subject to the 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 the 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 of 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 usually is not be 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 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.