
RISK FACTORS

The Company is subject to several risks, including environmental, market, operational, financial, investment and corporate governance risks.

The company exercises risk management in accordance with Risk Management Policy. The Company's Risk Management Policy aims at increasing shareholder value and improving corporate governance through risk identification, assessment and analysis of its significance, as well as development of measures to minimize and control risks.

ENVIRONMENTAL RISKS

The main risks associated with the external environment of the Company include political, economic and regional risks.

POLITICAL RISKS

- Ability to change the external or domestic policy by the leadership of the country, which may significantly affect the investment attractiveness of the country in general and the Company in particular;
- The likelihood of negative changes to legislation, including tax legislation, aimed at maximizing budget revenues from raw materials industries;
- In the process of reforming the public authorities the abolition and the creation of new ministries and agencies regulating the operation of the Company may take place, which may lead to a lack of or delay of approval of regulations affecting the Company;
- Government of Kazakhstan can significantly limit the claimed scope of export quotas or modify the mandatory volume of supply to the domestic market, which could have a material impact on the Company's financial results;
- Government of Kazakhstan can constrain cash management in the form of depositing in banks. The state represented by SWF "Samruk-Kazyna" and NC KMG may have an impact on KMG EP in the interests of the state as a whole, which may be contrary to the interests of other groups of shareholders of KMG EP.

ECONOMIC RISKS

- The economy of the Republic of Kazakhstan is poorly diversified and depends significantly on world commodity prices. A significant and sustained fall in global commodity prices could lead to a drop in profits of mineral companies, and eventually economic decline;
- Aging infrastructure of the economy could have a material adverse effect on the efficiency of the Company's business.

- Current legislation in the area of procurement of goods and services does not allow for increases in the efficiency of logistics.
- Lack of a competitive environment among suppliers and contractors reduces the quality of work and services provided by the company.
- Level of development of financial system of Kazakhstan may worsen the conditions of allocation of free funds (for details see below – in Financial Risks section).

REGIONAL RISKS

Regions of the Company's activity are: Mangistau, Atyrau, Aktyubinsk and Kyzylorda regions.

The main production units of the Company carry out its production activity in regions characterized by severe climatic conditions, and some regions are characterized by shortage of highly skilled professionals in the field of oil production and gas processing. At the same time these regions are the regions with high social and economic risks which have a substantial impact on the operations of the Company.

For the assets of Mangistau region the risk of social conflicts and strikes is relatively high, as is often demonstrated, and has had a significant impact on the Company's operations and performance of its obligations under subsoil use contracts.

The company has consistently sought to promote and maintain social stability in the regions, interacts with local governments and communities to find solutions for social issues in the regions.

An appropriate set of measures, including the following steps is being developed to reduce the negative impact of changes in the situation in the country and the main regions:

- Actions aimed at addressing the situation, including changes in business-model of the Company, the transfer of production units in independently operating companies in order to promote regional development
- Actions aimed at increasing the geographic diversification of the Company's operation, in order to minimize the risk of a given region;
- Actions aimed at minimizing the social tensions in the regions of the core business;
- Actions to improve business efficiency, to minimize the risks with a significant adverse effect on the ability of the Company to develop business.

The Company strives to ensure that its social programs are the most carefully targeted and meet the needs of society. However, the increase in non-commercial costs associated

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with the minimization 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. In addition, their geographical distance calls attention to the transport component and supply of electricity for continuous operation of the Company.

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

PARTNERS RISK

The Company collaborates with and involves foreign and domestic companies in various areas of its activity. The Company has a limited ability to exert influence on the behavior or operational activities of its partners, which may affect the Company's operations or finances. Therefore, the Company is developing long-term and mutually beneficial partner relationships.

MARKET RISKS

Market risks include risks of adverse impact of oil price changes, exchange rates, and interest rates (for more details about currency risk and interest rate risk, see the Financial Risks Section below).

The company provides wholesale supply of oil, for both internal and external markets. The main possible deterioration, both for internal and external markets, is a decline in oil prices, which can be characterized by significant volatility due to a number of factors: the balance of supply and demand, the impact of policies of major oil-producing countries or the political situation in the main producing regions of energy. A decline in world oil prices would significantly result in a deteriorating financial performance of the Company.

The company does not at the moment resort to hedging the risks of oil prices falling, but in each situation uses internal cost management tools to reduce the negative impact of the risk.

FINANCIAL RISKS

The Company is exposed to various financial risks, among which are the currency risks, inflation risks, risks of changes in interest rates on the allocated temporarily free funds, 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 in drawing up development plans.

INFLATION RISKS

The company conducts its principal operations in the Republic of Kazakhstan and uses KZT as a basic currency of accounts.

The costs associated with the payment of wages, energy costs, the cost of logistics services are sensitive to the inflation of KZT.

INTEREST RATE EXPOSURES

The operation of the Company is exposed to interest rate changes, which may adversely affect the value of temporarily funds assets and, accordingly, the financial results of operations of the Company.

CURRENCY RISKS

Currency risk is the fluctuation in exchange rates, which has a multidirectional impact on financial and economic activities of the Company.

A considerable part of the Company's revenues is denominated in US dollars (USD) or linked to USD. A part of the Company's expenses is denominated in foreign currency, or otherwise significantly dependent on the fluctuations of foreign currencies (mainly the USD and to a lesser extent the euro and the ruble) for KZT. Currently, the majority of operating costs of the Company are paid at prices fixed in KZT.

A rise in the value of the 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 perform the following steps to reduce the negative effects:

- expansion of the number of partner banks, primarily drawn from the institutions least affected by the current global financial crisis;
- greater use of trade finance instruments (letters of credit, guarantees) allowing 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;
- receivables.

CREDIT RISKS

Operations associated with the movement of material and cash flows for contractors, beginning with financial institutions serving the financial flows of the Company, and ending with the end buyers of products and contractors providing various services for the Company, are all subject to credit risks.

An efficient centralized cash management system implemented by the Treasury of the Company allows it to minimize credit risks.

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

RISK	RISK PROBABILITY	NATURE OF CHANGES IN THE STATEMENTS
FALLING OF BANK DEPOSIT RATES	AVERAGE	DECREASE IN PROFIT DUE TO FALLING OF REVENUES FOR 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)	AVERAGE	INCREASED COST OF PURCHASED EQUIPMENT – INCREASED DEPRECIATION
INFLATION RISK	AVERAGE	INCREASE IN ACCOUNTS RECEIVABLE, INCREASE IN COSTS OF OUTPUTS
CREDIT RISK	AVERAGE	PROBLEM WITH RECEIVABLES. REDUCTION OF PROFIT

TAX RISKS

The tax system of the Republic of Kazakhstan is characterized by small volumes of law enforcement practice in respect of the recently adopted regulations. It is also characterized by the risk of additional taxation, fines and penalties based on improper interpretation of the legislation. These factors complicate the planning of the tax costs of the Company. The Company's Management develops actions to minimize the risk, based on participation in the work of improving the quality of both the Tax Code, and amendments thereto. In addition, the Company continues to defend its interests in the courts.

CHANGE IN CUSTOMS REGULATIONS AND DUTIES

Considering that the Company carries out foreign trade activities, changes in customs regulations, volatility of ICD and lack of a transparent formula for calculating the ICD, could adversely affect the Company's financial results.

However, the Company carries out continuous monitoring of changes in the current legislation of the Republic of Kazakhstan and takes them into account in its activities. This allows it to minimize the risks associated with these changes.

OPERATIONAL RISKS

The main operational risks of the Company lie in the field of exploration and production, and relate to the implementation of continuous operations of the Company.

Below is a list of key operational risks, to minimize which the Company allocates considerable resources and pays them much attention, both in their daily activities, and in the process of planning and operating efficiency evaluation.

EXPLORATION

There is always a risk of non-commercial discovery of hydrocarbons and/or drilling a "dry" well in carrying out exploration work. To reduce the risk of exploration a complex geological and geophysical investigation is carried out. In addition to traditional seismic surveys this includes geochemical studies, high-resolution electrical exploration and special methods for seismic and gravics data processing, as well as for the analysis of geological risks.

PRODUCTION

One of the most important tasks of the Company is to maintain an optimal level of production in its own fields, most of which are located at the late stage of operation. To this end, the Company uses modern methods and technologies of impact on the oil reservoirs and well bottom zones.

The main key factors in reducing the efficiency of production activities of the Company:

- Status of firm wells.
- Technical integrity of equipment
- Continuity of supply.
- Weather conditions.
- Timeliness of procurement and supply of equipment.
- Quality of the delivered equipment.
- Timeliness and quality of service provided by the contractors.
- Safety of operating personnel.
- Environmental security.
- Effectiveness of planning.
- Compliance with state regulators.

However, the production activity of the Company is subject to the risks of failures and breakdowns of primary equipment. To reduce these risks, the Company carries out a set of preventive measures and a program of modernisation and repair of equipment. The main production equipment is insured against loss from fire, explosion, natural and other hazards, and the Company additionally insures against the risk of a well out-of-control.

HEALTH, SAFETY AND ENVIRONMENT

Production activities of the Company involve a wide range of risks to workers' health and the environment. These risks include unsafe practices, industrial accidents, environmental damage, environmental pollution and natural disasters. Consequences of these risks can be very severe, including fatal accidents, air pollution, soil and water pollution, fire, suspension or stop of production. Depending on the cause of occurrence of these events, the consequences could adversely affect the reputation, financial and operating policies of the Company. In this regard, the Company performs various measures to prevent the occurrence of such threats, including the control of occupational health and safety, hazards identification and training. The current labour protection systems and health, safety and environment of the Company have been introduced and function in accordance with ISO 14001, OHSAS 18001. Every year the company insures the risks of occupational safety and the environment associated with its own activities and projects.

INFORMATION TECHNOLOGY

The Company is subject to risks in the field of information technology in connection with the use and implementation of a large number of high-tech equipment and software for effective operating activity. It is in connection with these that

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problems of adapting new equipment and software, as well as secure storage of sensitive business data, may arise. In order to ensure effective work in this direction the Company annually analyzes the technologies used. In its selecting and purchasing policy the Company gives preference to the most adaptable and recommended information technologies, so as to provide reliable control of access to business data.

INVESTMENT RISKS

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

- Limitation of new assets on the ground in Kazakhstan available for the purchase.
- Increased competition from large international oil companies for access to oil and gas assets.
- Lack of its own high-performance service expertise, which would enable KMG EP to participate in offshore projects in Kazakhstan, as well as attractive international projects.

Furthermore, KMG EP is the largest oil and gas company controlled by the Government of Kazakhstan. In this regard, the state represented by SWF "Samruk-Kazyna" and NC KMG may have an impact on KMG EP in the interests of the state as a whole, which may be contrary to the interests of the shareholders of KMG EP.

All of these factors, both separately and in combination, can lead to an underestimation or overestimation of the attractiveness of the projects, inefficient investment decisions and, consequently, a reduction in inventory levels and a decrease in the value of the Company.

RISKS OF CORPORATE GOVERNANCE

REDUCING THE ORGANIZATIONAL CAPACITY

One of the major factors affecting the efficient operation of the Company is the reduction of its organizational capacity. Highly qualified personnel are the basis of competitive advantage and the basis for achieving the strategic goals of the Company. Each year, the Company faces the challenge of attracting staff with appropriate qualifications. This is primarily due to the impossibility of recruiting staff due to shortage of the necessary category of professionals in the labour market in some regions.

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

FRAUD AND CORRUPTION

Resource allocation that does not comply with best interests of the Company, 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 is taking all possible steps to prevent illegal activities that can cause reputational damage to the Company. The Company is subject to the Law on Combating Corruption which came into force in July 2011 as well as the UK Bribery Act 2010 and builds its own internal policies and procedures in strict accordance with the above laws.