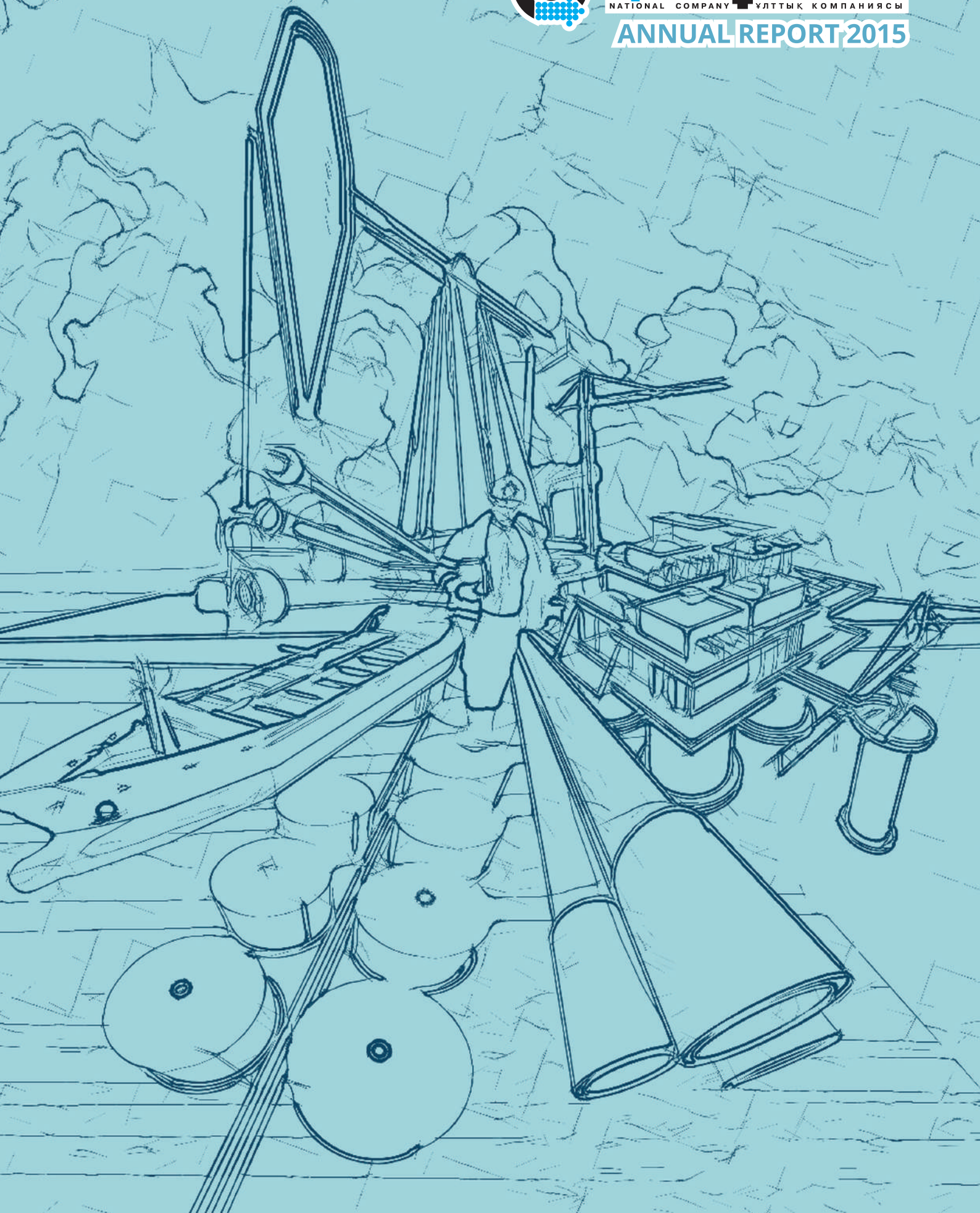




**ҚазМұнайГаз**  
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

**ANNUAL REPORT 2015**





**ҚазМұнайГаз**  
NATIONAL COMPANY • ҰЛТТЫҚ КОМПАНИЯСЫ  
**ANNUAL REPORT 2015**



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# Statement of Chairman of Board of Directors



**Dear colleagues and partners,**

Like all companies in the sector, NC KMG faces unprecedented challenges in the current external environment.

Sustained low oil prices, and the likelihood that prices will stay low for longer, have rightly focused attention on improving efficiency and addressing the cost base of the company. To this end, NC KMG has initiated a significant and wide-ranging programme of self-help, which is starting to bear early fruit.

We are looking at all parts of our operations with fresh eyes, to develop the most efficient management structures; consistently apply the most effective technologies; and optimise our financial structure and commercial arrangements. In some areas, such as the performance of our refinery operations, early gains from our commitment to optimization and investment are now coming through.

This programme as a whole will take time to enact, and the external environment will remain challenging as we implement

our plans, but the result will be a much strengthened and more efficient company, delivering improved performance in all price environments.

We are also working to embed this approach across the KMG Group more widely, to allow the businesses to be run in a more integrated way.

KMG is becoming a much more focused business, as we dispose of minority stakes and prepare for our role in the Comprehensive Privatization Plan that will see the oil and gas sector in Kazakhstan evolve into a more competitive ecosystem. We have made significant progress in this regard and remain committed to preparing NC KMG for IPO.

Finally, we continue to work to strengthen and deepen our international partnerships which have successfully delivered major multi-year projects at supergiant fields such as Tengiz and Karachaganak. Kazakhstan's rich geology means that significant reserves remain to be developed

both at these fields and at other world-class prospects. KMG has the technical expertise that - with the right organisational structure - will enable us to develop the country's resources to their full value, driving production growth and lifting exports to key nearby markets such as China.

Overall, through 2015, KMG has put in place the foundations for a sustainable business. The external environment is likely to remain challenging through 2016 and into 2017, but if we can continue to accelerate our progress in maximizing the efficiency of our existing operations, bringing new assets on line with our partners and continuing our programme of exploration, there are good reasons to be optimistic about the future.

Yours sincerely,

**Frank Kuijlaars**  
Chairman of the Board of Directors,  
JSC NC "KazMunayGas"

# Statement of Chairman of Management Board



Dear colleagues and partners,

The year 2015 has quite literally become a strength test for the company. Under the conditions of record low oil prices, we had to maintain the production level, financial soundness and the existing level of social protection. I would like to note with satisfaction that KMG team has successfully accomplished the tasks set, having performed above the targets on the majority of operating assets.

Following the results of 2015, the consolidated oil and gas condensate output amounted to almost 22.7 mn tons. KMG's net profit attributable to the Company's Shareholder was around 398 bn KZT (a six-fold performance above the target). The Company paid over 529 bn KZT in taxes and charges to the budget of the republic, becoming one of the biggest taxpayers.

Compliance with the instructions of the Head of the State, Government and the Samruk-Kazyna Fund for the implementation of the Comprehensive Privatization Plan was among the key areas of KMG's activities. Interests in 26 core and non-

core enterprises were sold in 2015, including the Kazakh Institute of Oil and Gas JSC, Caspimunaigas RDI JSC, and Rauan Media Group JSC. The plans are to transfer participatory interests in several other companies to the competitive environment in 2016, including the refineries, a foreign asset - KMG International N.V., LLP NMSC «KazMorTransFlot» and the Eurasia Air Airline JSC. Sale of a 50% interest in the Kashagan project to the principal shareholder, the Samruk-Kazyna JSC, was also a necessary measure aimed to strengthen the company's financial stability and reduce the debt load.

Over the last year, the efforts on brown-field development of KMG's refining facilities were continued. The aromatics production complex was launched in the Atyrau Refinery, which made it possible to considerably increase the output of high-octane gasolines. The bitumen production plant reached its design performance. According to the company's strategic plans, after the reconstruction, the three Kazakhstan refineries will fully cover the domestic market needs for all types of POLs as early as in 2017.

One of the notable events of the reporting period is completion of construction of the Beineu-Bozoi section, planned to be commissioned in 2016. «Beineu-Bozoi-Shymkent», with the capacity of 10 bn cubic metres annually is a gas pipeline vitally important for the country, and it will make it possible to connect all gas pipelines of the country into an integrated gas-transportation system and provide the southern regions with the gas from the western fields.

Carrying out the instructions of the Head of State on support to local producers, jointly with foreign partners, KMG has launched a number of oil-and-gas equipment-producing enterprises on the territory of Kazakhstan. This will render it possible to develop the workforce capacity of the production presence regions and increase the local content share in the pur-

chased equipment in the long term. Last year the volume of local content in KMG's purchases reached 75%.

From the beginning of 2015 KazMunayGas officially entered the Samruk-Kazyna JSC's Business Transformation Program. Systemic analysis of all business areas was performed, and paths for development of the KMG group of companies outlined. The plans are to drastically change KMG's organizational model within the framework of transformation: the number of management levels in the KMG group of companies will be reduced, the company will abandon the portfolio investor concept and shift to active operation management of production assets. About 40 urgent projects (the so-called 'quick-wins') are being implemented as part of the program, aimed to improve the industrial and business processes. Some of them already produce real economic effect by increasing the efficiency of production and reducing the cost of oil production.

The key success factor of a modern company is the people working in it - oil men, gas workers, oilfield services workers and many others. The year 2015 was marked by strengthened staff management - the Common Labour Remuneration System (CLRS) was implemented, the Common Succession Pool was created, Youth Councils are operating in the central office and at the local level. The company's units responsible for the safety of people's life and health are operating with considerably greater efficiency, systematic work on reducing the industrial injuries rate is underway.

Lastly, I would like to thank all colleagues and partners for the successful operation, and for everyone's contribution to the achievement of the production and financial activity results. We are pursuing new goals and objectives now, and have the potential resources sufficient for the company's further development and yield enhancement.

Faithfully yours,

**Sauat Mukhametbayevich Mynbayev**  
Chairman of the Management Board,  
JSC NC "KazMunayGas"

Joint Stock Company “National Company “KazMunayGas” is the national company for exploration, production, refining and transportation of hydrocarbons, representing the state in Kazakhstan’s oil-and-gas sector.

JSC NC “KazMunayGas” was incorporated through the merger of National Oil and Gas Company “Kazakhoil” and National Company “Oil and Gas Transportation” based on Decree No.811 dated 20 February 2002 of the President of the Republic of Kazakhstan.

Shareholders of JSC NC KazMunayGas: Sovereign Wealth Fund “Samruk-Kazyna” JSC - 90% of shares; National Bank of Kazakhstan - 10%.

The Company’s primary strategic objective is maximizing the shareholder value through increasing long-term value of the assets and facilitating modernization and diversification of the national economy.

### Mission

Maximizing the profits of the Republic of Kazakhstan from participation in the development of the national petroleum industry through:

- ▷ increasing KMG’s long-term value, improving profitability, ensuring industrial safety;
- ▷ becoming an integrated oil and gas company competitive on the international market;
- ▷ socially-responsible conduct of business, support to domestic suppliers of goods, works and services, development of the local workforce.

### Vision

KazMunayGas is a highly efficient and competitive integrated oil and gas company meeting the highest standards of safety operations.

### Ambitions

Join the ranks of the world’s top thirty oil and gas companies, increasing by 2022 the reserves of liquid hydrocarbons (oil and condensate) to 1,413 mn tons, the oil output - to 35.4 mn tons annually.

## → Strategic objectives

KMG’s Long-term Strategy determines areas of development for KMG’s core activities, sets quantitative and qualitative indicators for 2012-2022, providing for KMG’s strategic sustainability and improvement in its economic efficiency indicators.

Achievement of KMG’s strategic goals and accomplishment of the objectives related thereto will ensure creation of maximum profits for the Republic of Kazakhstan from participation in the development of the national oil and gas sector.

Goals and objective of KMG’s long-term strategy for 2012-2022:

### In the oil and gas upstream sector:

- ▷ Expanding oil and gas production to 35.4 mn tons annually 1.5 bcm annually.
- ▷ Growth in the reserves to 1.4 bn tons of oil and gas condensate.
- ▷ Increasing the success of exploration works from the drilled exploration wells to over 25%.
- ▷ Construction of appropriate infrastructure.



### In the oil and gas transportation sector:

- ▷ Increasing the capacity of the export oil pipeline systems to 101 mn tons of oil annually.
- ▷ Phased development of the national commercial fleet (both in Kazakhstan and overseas) - up to 13 mn tons/year.
- ▷ Increasing gas transportation to 121 bcm annually.
- ▷ Modernization and development of trunk and regional gas-transportation systems.

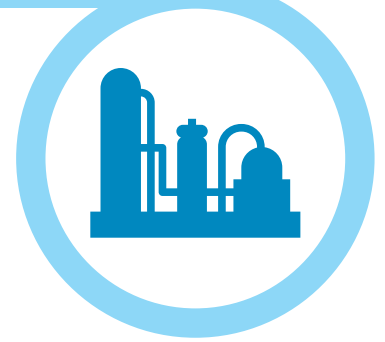


*Strategic objectives are in accordance with KMG’s long-term Strategy 2012-2022 as at the end of 2015.*



### In the sector of oil refining and marketing of crude oil and oil products:

- ▷ Increasing the crude processing capacity to 17.6 mn tons annually (AR - 5.5 MMtpa, PPCP - 5.1 MMtpa, PKOP - 6 MMtpa, Aktau Bitumen Plant - 1 MMtpa).
- ▷ Increase in the crude processing depth up to 87-90%.
- ▷ Bringing the quality of the motor fuels to the K-4, 5 standards.
- ▷ Increasing the market share of retail sales of oil products to 32%.



### In the support sector and innovation-and-technology sector:

- ▷ Creation of infrastructure ensuring efficient implementation of oil and gas projects, namely creation of KMG's drilling company.
- ▷ Development of the mechanical engineering in Kazakhstan. Construction of a shipyard/ dry dock and attraction of foreign investment to creation of new mechanical engineering production facilities in the RoK.
- ▷ Enhancing the efficiency of operation of the KMG group of companies by means of adoption and application of new technology and innovations;
- ▷ Creation of an efficient system for the Company's technological development, including use of intellectual property and scientific findings.
- ▷ Ensuring seamless implementation of KMG's Innovation-based-and-technological development strategy.



### In the sphere of increasing the efficiency of management - creation of additional competitive advantages in the following areas:

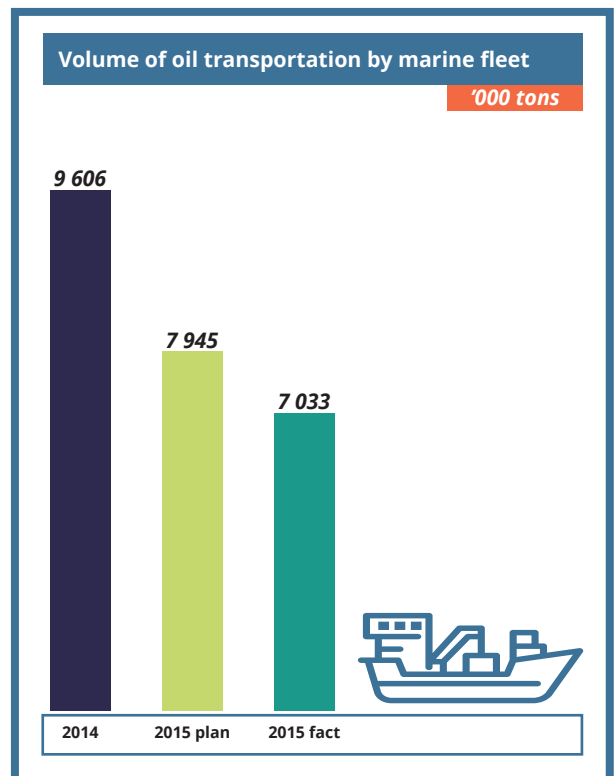
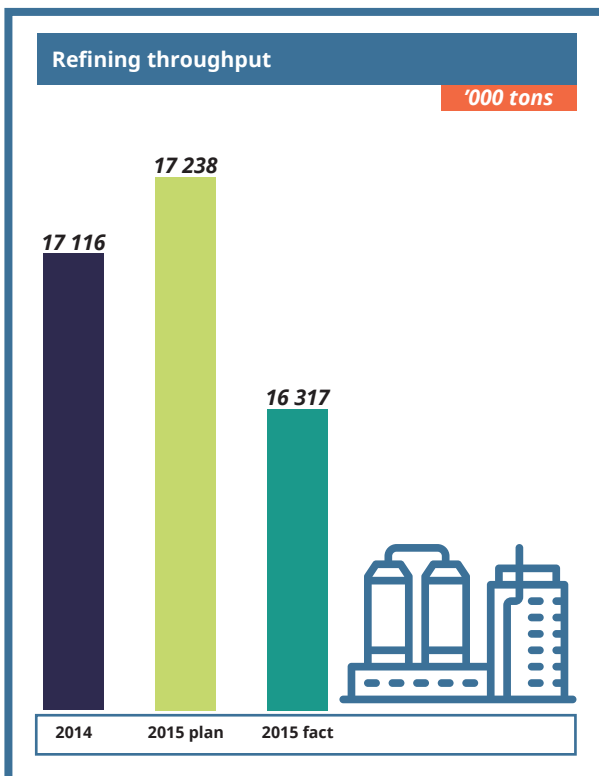
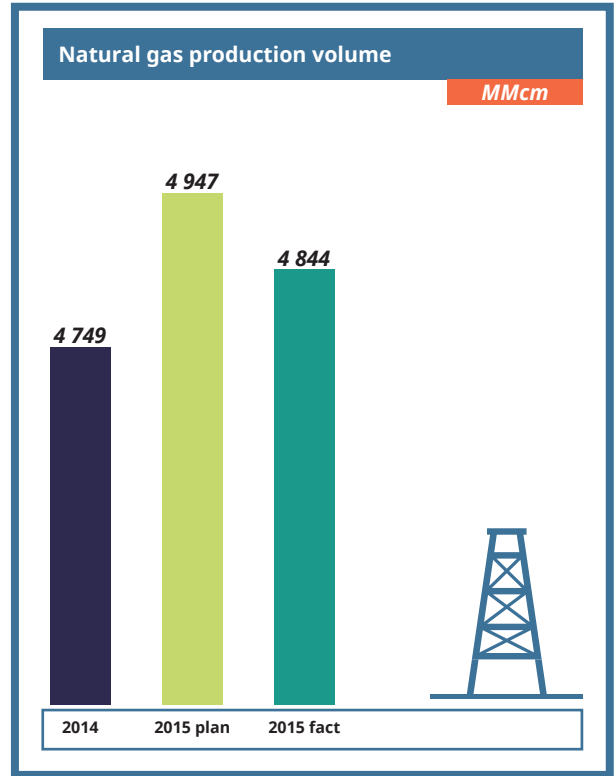
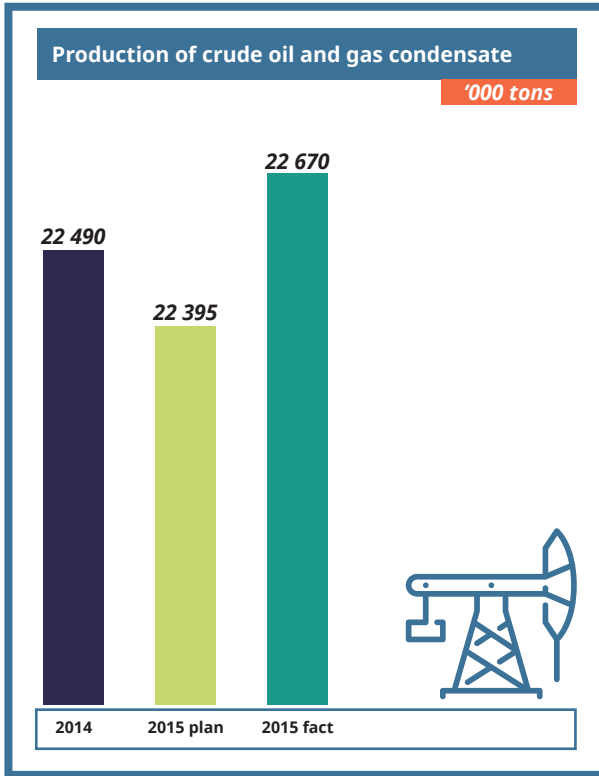
- ▷ Enhancing KMG's financial standing through strict control over the debt level and rational management of the owner's equity.
- ▷ Improvement of the corporate governance system for bringing it to compliance with the requirements of the world's best practice.
- ▷ Forming target asset structure by means of focusing on the core activities, maintaining control over support sector assets of strategic importance, consolidating the assets ensuring synergies, eliminating internal competition and reducing the number of management levels.
- ▷ Implementation of the staff policy. Staff satisfaction of not less than 85%.
- ▷ Development of the risk management system.
- ▷ No industrial accidents, emergency prevention, decreasing the accident and occupational illnesses rate.
- ▷ Creation of production capacity with the optimum level of energy-saving by means of increasing the energy efficiency of production, lowering the volumes of energy consumption and organizational management of energy efficiency.
- ▷ Development of an integrated management system in the sphere of quality, environment protection, occupational health and safety.
- ▷ Increasing the level of corporate social responsibility. Increasing expenditures for charity and sponsorship, participation in the implementation of governmental and industry social programmes and republic-wide measures.





# ➔ Target values of performance indicators

Achievement of key production performance indicators (KPIs)





Volume of oil transportation by trunk oil pipeline

'000 tons



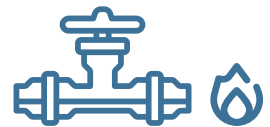
Oil freight turnover

MMt\*km



Gas transportation volume

Mcm

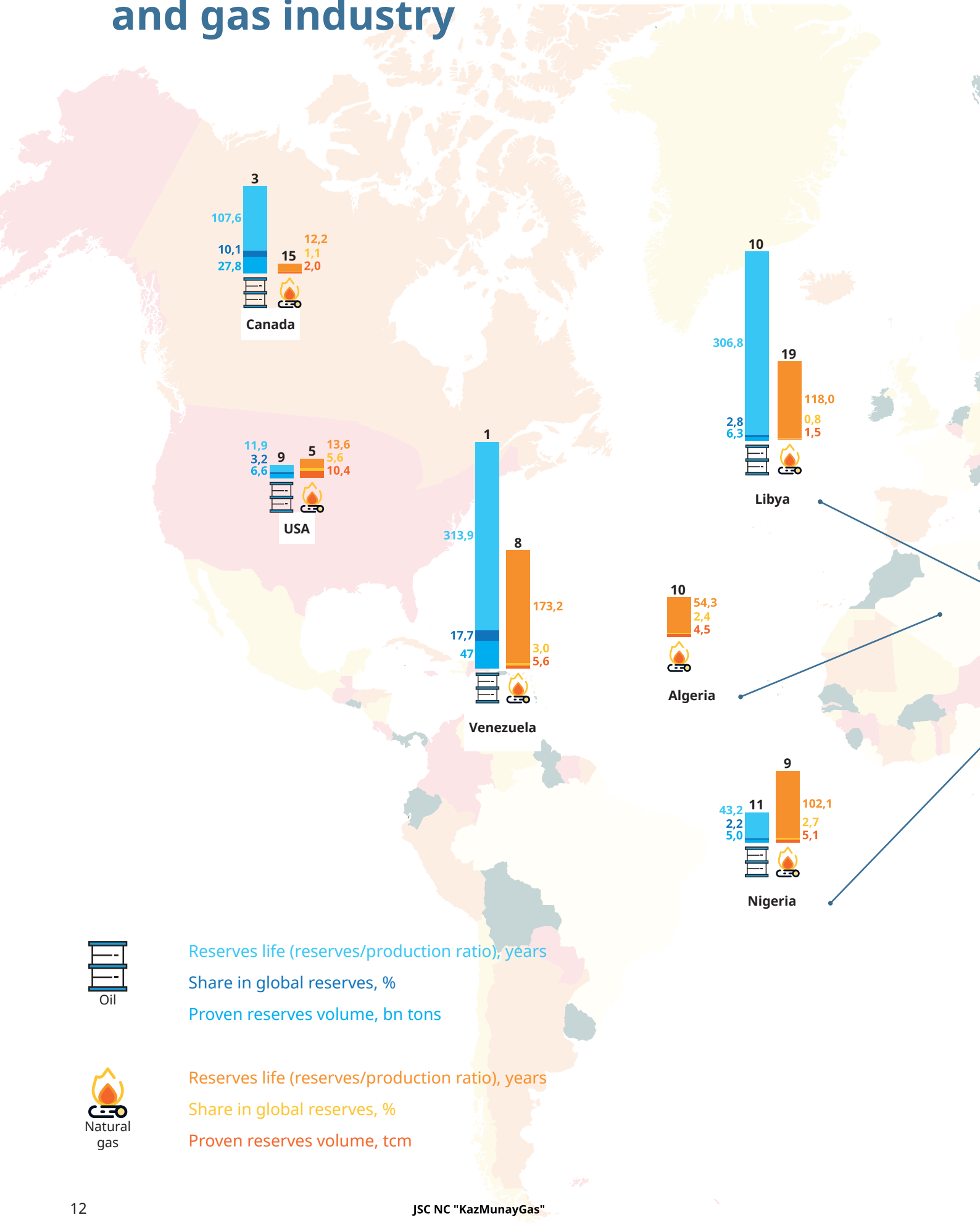


Volume of commodity transport works for gas transportation

bcm\*km



# Quick info on Kazakhstan's oil and gas industry



Reserves life (reserves/production ratio), years  
 Share in global reserves, %  
 Proven reserves volume, bn tons



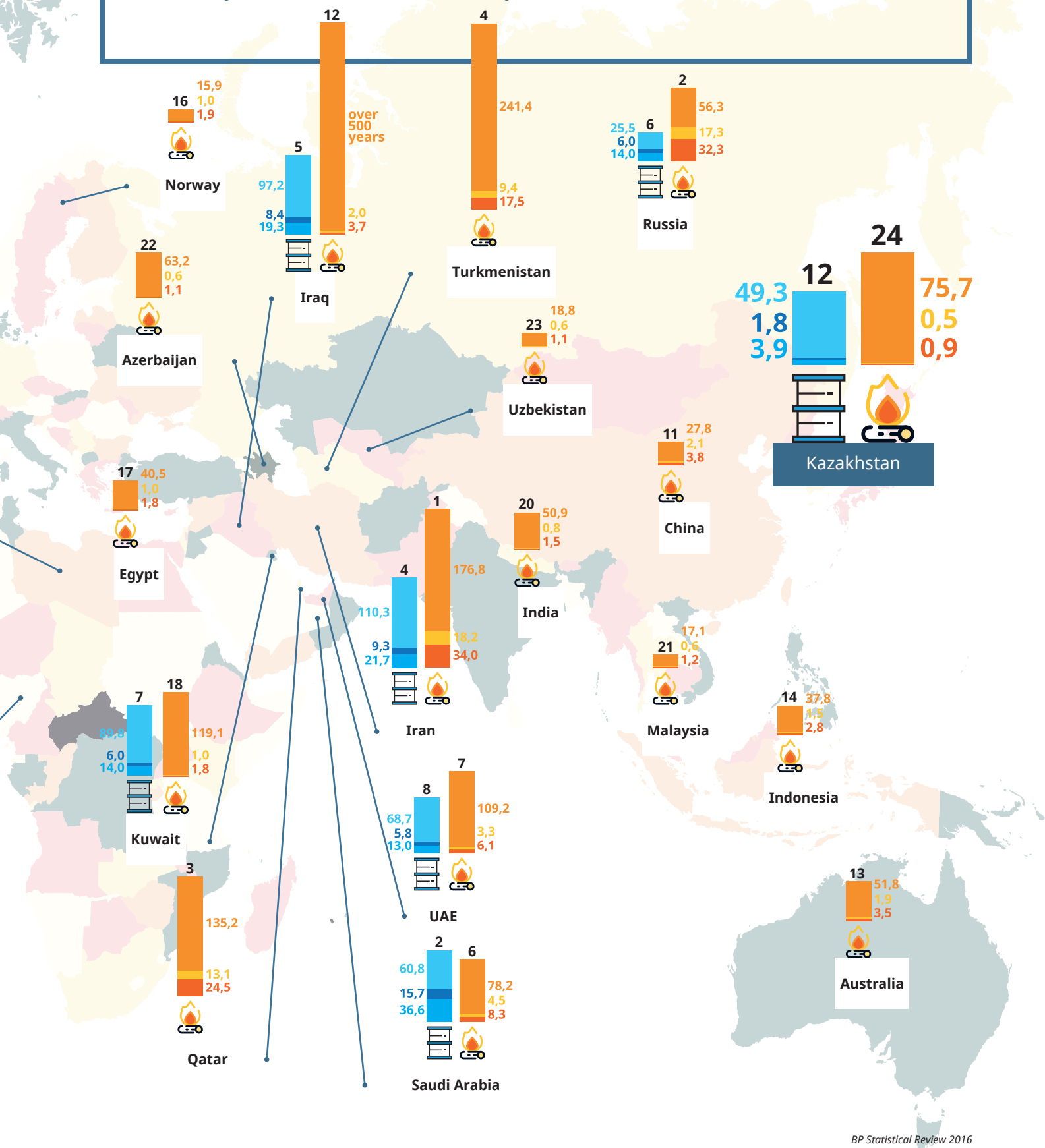
Reserves life (reserves/production ratio), years  
 Share in global reserves, %  
 Proven reserves volume, tcm

# 2015

The Republic of Kazakhstan is one of the key sources of hydrocarbons to the world economy

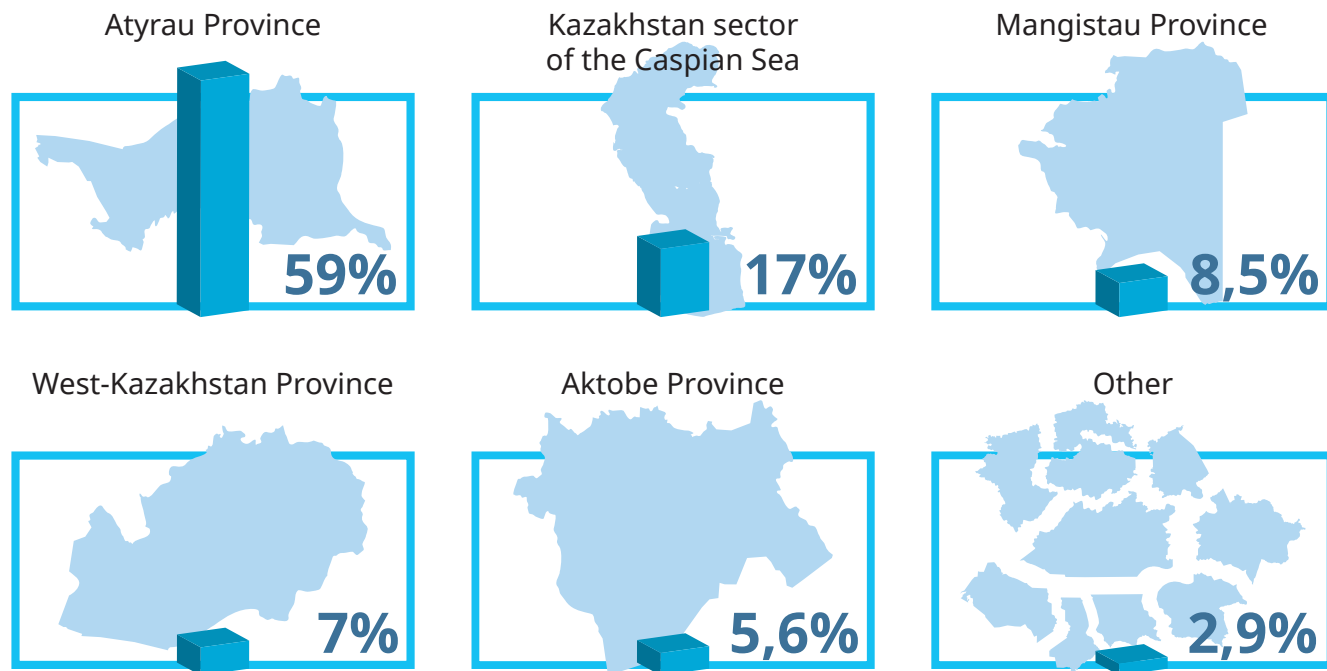
Kazakhstan occupies 12th place in the world in terms of proven oil reserves

Kazakhstan occupies 24th place in the world in terms of proven natural gas reserves

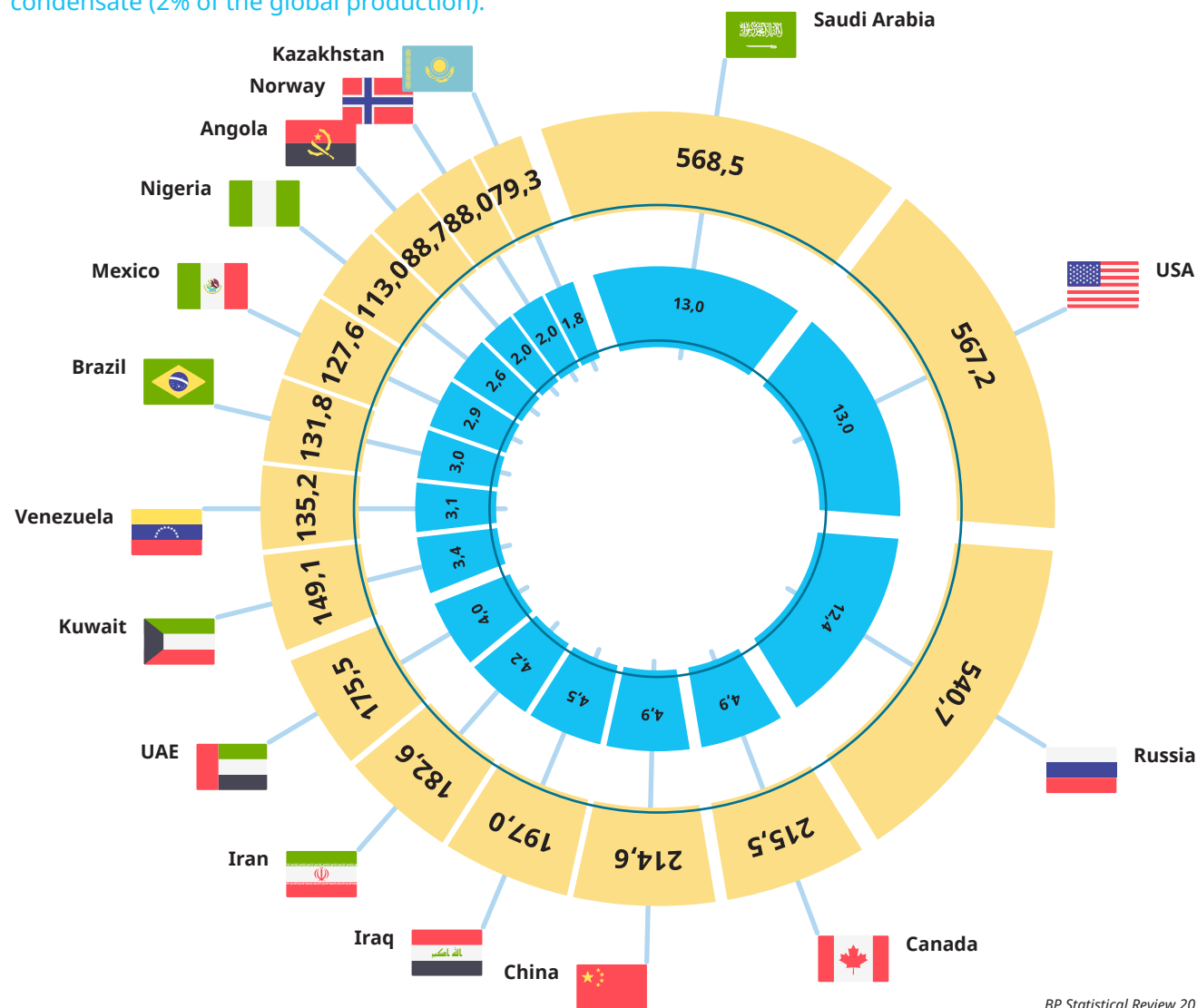


BP Statistical Review 2016

A considerable portion of Kazakhstan's hydrocarbon resources is accounted for by the Western part, particularly, the Caspian Oil-and-gas-bearing Basin.



In 2015 Kazakhstan ranked 16th globally with the production volumes of 79.3 mn tons of oil and gas condensate (2% of the global production).



BP Statistical Review 2016

The bigger share (about 85%) of oil produced in Kazakhstan is exported. Main foreign trade partners of Kazakhstan on the crude oil market are the European countries - Italy, the Netherlands, France, Austria, Switzerland etc., and China as well.

More than half of the gas produced in Kazakhstan is associated petroleum gas. Due to the insufficient development of the associated gas utilization infrastructure, and for the purposes of sustainable subsoil use and more complete recovery of liquids, more than half of the associated gas is injected by the subsoil users back into the reservoir.



Export transportation of the Kazakh oil is provided by the oil pipeline transport, marine shipping from the port of Aktau on the Caspian Sea, ports of Batumi and Novorossiysk on the Black Sea, and in the offshore area of the Mediterranean Sea with the oil tankers of "Kazmortransflot" National Maritime Shipping Company, and by rail.

**The CPC oil pipeline** (39.4 MMtpa throughput capacity) with the total length of 1,510 km (of them 452 km constitute the Kazakhstan section) connects Kazakh oil field "Tengiz" with the oil terminal "South Ozereyevka" on the Black Sea, next to the port of Novorossiysk, Russia.

**The Atyrau-Samara oil pipeline** (17.5 MMtpa throughput capacity) with the total length of 697 km (of them, 535 km constitute the Kazakhstan section) provides access to the European markets across the territory of Russia along the Baltic Pipeline System, 'Druzhba' oil pipeline system, and access to the port of Novorossiysk along the system of OJSC Transneft.

**The Atasu-Alashankou oil pipeline** (20 MMtpa throughput capacity) 965 km in length (of them 962.2 km constitute the Kazakhstan section) provides access to China's market. The oil pipeline was commissioned in 2006 as part of implementing the first stage of the 'Kazakhstan-China' oil pipeline project.

**Sea part of Aktau** currently affords the opportunity to transport Kazakhstan oil for exports across the Caspian Sea in the following directions:

- ▷ Aktau-Makhachkala and further along the Makhachkala-Novorossiysk oil pipeline to the Black Sea market;
- ▷ Aktau-Baku and further to the Black Sea ports (Batumi/Kulevi);
- ▷ Aktau-Neka (currently not in use).

Kazakhstan's gas-transportation infrastructure was engineered at the time of existence of the USSR, and was intended for transporting the Central Asia's gas to Russia. As a consequence of the transit nature of the gas-transportation infrastructure, a considerable part of the territory of the Republic of Kazakhstan remains without gas supply, especially the North Kazakhstan regions. Meanwhile, the implementation of the Kazakhstan-China trunk gas pipeline construction project at the Beineu-Bozoi-Shymkent section is aimed, among other things, to provide gas supply to the most densely populated regions of Kazakhstan.

The gas-transportation infrastructure of the Republic of Kazakhstan for gas transit is comprised of the following trunk gas pipelines:

- ▷ **"Central Asia-Centre"** – around 4,000 km in length, the capacity is 60 bcm (Turkmen and Uzbek gas);
- ▷ **"Bukhara-Ural"** – around 4,500 km in length, the capacity is 7.2 bcm (Uzbek gas);
- ▷ **"Orenburg-Novopskov" and "Soyuz" TGP** – 760 km in length, the capacity is 10 bcm and 20 bcm (Russian gas);
- ▷ **"Kazakhstan-China"** (1,310 km in length) is a part of the "Central Asia-China" trunk gas pipeline, designed for transporting the gas from the Galkynysh gas megafield (Turkmenistan) to China, with the existing capacity of 37 bcm and an option of expansion to 55 bcm.



The refining sector is represented by a number of major oil & gas refining enterprises.

**Atyrau Refinery (AR):** the designed processing capacity is 5.0 MMtpa, the conversion ratio was 59% in 2015.

**Shymkent Refinery (Petro Kazakhstan Oil Products, PKOP):** the designed capacity is 6.0 MMtpa, the conversion ratio was 75% in 2015.

**Pavlodar Petrochemical Plant (PPCP):** Kazakhstan's most complex technology-intensive refinery. Balanced processing capacity is 5.1 MMtpa, the conversion ratio was 72% in 2015. The enterprise is designed to process the oil from West Siberia fields.

**CaspiBitum:** a plant for production of road bitumens from the heavy Karazhanbas crude. The designed oil refining capacity is 1.0 mn tons annually. It was commissioned in late 2013. The refining throughput following the 2015 results amounted to 188 thousand tons.

Following the results of 2015, 14.5 mn tons of crude oil were refined in the 4 refineries. The following was produced from the refined oil:

- ▷ gasoline - 2,841.5 thousand tons;
- ▷ diesel - 3,857.0 thousand tons;
- ▷ fuel oil - 3,360.6 thousand tons;
- ▷ jet fuel - 285.2 thousand tons.

3 gas-processing plants are operating in the republic, and they have the total processing capacity of 18.9 bcm of gas annually: Kazakh Gas-processing Plant (KazGPP) with the natural gas processing capacity of 2.9 bcm, Zhanazhol Gas-processing Plant (ZhGPP) - 4 bcm, Tengiz Gas-processing Plant (TGPP) - 12 bcm.

Furthermore, under the Agreement on Counter-Delivery of Gas between the OAO "Gazprom", NHC "Uzbekneftegaz" and JSC NC "KazMunayGas" of 27 December 2006, the Karachaganak field gas is processed in the Orenburg GPP. In this case, the entire volume of gas imported from Uzbekistan to Kazakhstan is 'swapped' at an equal price and in the equal volumes with the gas delivery from the Karachaganak field to the Orenburg GPP and the Russian gas exports to the international markets.

JSC NC "KazMunayGas" holds leading positions in Kazakhstan's oil and gas sector.

## Share of JSC NC "KazMunayGas" in Kazakhstan's oil-and-gas industry

		2015	2014	2013	2012	2011	2010	2009	2008								
			%	%	%	%	%	%	%								
<b>Reserves</b>	Year-end A, B, C, (proven) oil and gas condensate reserves, mn tons	801,2	21	818,3	21	811,3	21	822,7	21	793,4	20	806,3	15	795,4	15	706	13
	A, B, C1 natural gas residual reserves at year-end, bcm	486,2	32	487,6	33	475,5	32	481,6	37	394,9	21	395,6	22	374,6	21	343,2	19
<b>Production</b>	Oil and gas condensate production, thousand tons	22 670	28,6	22 490	27,8	22 630	27,7	21 390	26,9	21 105	26	21 969	28	18 701	24,5	18 051	25,5
	Gas production (natural and associated), mn cub.m	7 255	16,0	7 025	16,4	6 924	16,4	5 528	13,8	4 850	12,0	4 912	13,1	4 332	12,0	3 786	11,2
<b>Oil transportation</b>	by trunk oil pipelines, mn tons	61,0	65	64,01	65	67,22	67	65,79	67	66,87	67	65,83	66	64,18	63	60,65	62
	marine oil transportation from the port of Aktau, mn tons	2,0	64	4,6	77	5,1	81	5,9	77	5,9	74	6,1	64	7,1	63	2,6 <sup>1)</sup>	58
Natural gas transportation by trunk gas pipelines, bcm		102,75	94	105,44	95	110,14	94	109,19	90,5	110,6	93,5	101,6	97,9	91,1	100	116,7	100
<b>Processing</b>	of oil, thousand tons	12 111	83,3	12 691	82	11 869	83,0	11 837	83,3	11 422	83,2	11 399	83,3	8 193	80,4	6 079	49,5
	of sour gas, mn cub.m <sup>2)</sup>	8 799	41	8 594	40	8 197	40	8 039	50	7 974	50	7 901	50	8 266	50	7 916	50
<b>Retail sales</b>	of petroleum products, '000 tons	1 293	16	1 464	16,7	1 266	13,3	1 002	12,3	917	13,6	543	9,0	295,7	9,0	361,7	10,0
	of natural gas, mn cub.m	12 113	100	12 943	100	10 564	100	10 023	95	8 045	83,6	5 989	100	5 008	100	5 465	100

<sup>2)</sup> - 50 % of JSC "NMSC "Kazmortalot" in the "Samruk-Kazyna" JSC

<sup>3)</sup> - processing of gas in the OGPP (Orenburg Gas-Processing Plant), carried out by the KazRosGas LLP (50% - KMG, 50% - Gazprom)



# Key financial indicators

	2015*	2014	2013	2012	2011	2010	2009	2008	2015/ 2014 %
Income, total including:	2 215 626	3 541 713	3 405 049	3 101 218	2 787 707	2 252 197	1 955 526	2 022 475	- 37
Income from sales of goods and rendering services	1 094 699	3 186 764	3 252 719	2 960 418	2 625 256	2 098 942	1 589 549	1 885 606	- 66
Costs, total including:	2 272 402	3 650 072	3 206 860	2 982 379	2 689 116	2 065 663	1 765 068	1 678 475	- 38
Cost price of sold products and rendered services	1 093 791	2 322 162	2 354 109	2 090 818	1 836 061	1 409 001	1 050 463	1 199 360	- 53
Corporate income tax expenses (including EPT)	232 149	117 101	193 396	177 131	153 147	132 675	178 603	200 287	98
Net income after minority interest	398 326	207 363	440 955	369 420	422 422	305 309	110 904	298 291	92

\* a significant deviation of data for 2015 is conditioned among other things by reclassification of revenues and expenses of KMG International to revenue/expenses of a discontinuing operation

## Government subsidies and guarantees

In 2015 the Company used, resorted to and had obligations in respect of no government subsidies, guarantee and/or security instruments similar thereto.

# Key production indicators\*

	2015	2014	2013	2012	2011	2010	2009	2008	2007
Oil and gas condensate production, thousand tons	22 670	22 490	22 630	21 390	21 105	21 969	18 701	18 052	16 689
Gas production (natural and associated), mn cub.m	7 255	7 025	6 924	5 528	4 850	4 912	4 332	3 786	3 532
Oil transportation by trunk oil pipelines 1), mn tons	61,0	64,01	67,22	65,79	66,87	65,83	64,19	60,63	50,8
Marine oil transportation 2), thousand tons	7 033	9 606	8 878	11 355	9 234	7 082	7 363	2 869	2 280
Gas transportation by trunk gas pipelines, bcm	102,75	105,44	110,14	109,19	110,6	101,65	91,1	116,7	114,2
Hydrocarbons refining, thousand tons	16 317	17 115	16 050	15 884	15 326	14 766	12 758	10 993	5 734
Year-end A, B, C1 (proven) oil and gas condensate reserves, mn tons	801,2	818,3	811,3	822,7	793,4	806,3	795,4	706	615,5
A, B, C1 natural gas residual reserves at year-end, bcm	486,2	487,5	475,5	481,6	394,9	395,6	374,6	343,2	62,4
Average headcount as of 31 December, pers.	76 591	84 085	84 411	84 349	83 302	64 660	57 087	54 768	52 829

<sup>1)</sup> Includes the volume of oil transportation through the trunklines of JSC "KazTransOil", MunaITas North-West Pipeline Company JSC (51%), Kazakhstan-China Pipeline LLP (50%), BTL terminal in Batumi (100%).

<sup>2)</sup> 2007-2008 – 50 % share of JSC "NMSK "Kazmortransflot".

## → Exploration

Among the top-priority areas for JSC NC "KazMunayGas" is reserves gain by means of geologic exploration works (GEWs).

In 2015 the JSC NC "KazMunayGas" obtained the subsoil use right on the following 5 areas:

- ▷ Joint exploration and production contracts on the Issatai and Ustyurt offshore areas.
- ▷ Exploration contracts on the onshore areas: Bekturly East, Samtyr and Pribrezhnoye.

In 2015 the Exploration Works Development Program of JSC NC "KazMunayGas" for 2015-2019 was developed, in which the major indicators of development of the key indicators for the entire period from 2016 to 2020 are determined. This Program was considered and adopted by KMG's Management Board on 10 December 2015.

In order to determine the area of exploration works in Kazakhstan, in 2015 JSC NC "KazMunayGas" initiated two regional projects on the Caspian and Ustyurt-Bozashi & Mangyshlak basins, designed to determine prospects and create an exploration block portfolio.

\* May insignificantly differ when the data of the production blocks are approximated







## → Reserves

During the year, a change in the volume of the remaining recoverable oil reserves occurs due to the supplementary exploration and re-estimation of field reserves, purchase of interests in other assets, and due to a reduction in the reserves in the course of hydrocarbons production.

As of 1 January 2016 the proven residual recoverable oil and gas condensate reserves of JSC NC "KazMunayGas" (taking into account the participatory interests) amounted to 755.07 mn tons and 46.2 mn tons, respectively. In this respect, the total oil reserves additions (taking into account interests) amounted to 4.8 MMt and gas condensate - 0.734 MMt.

## A, B, C<sub>1</sub> Category Consolidated (Proven) Hydrocarbon) Reserves of the KazMunayGas group\*

Oil, mn tons		772,528	4,812	22,27	755,07
Gas condensate, mn tons		45,789	0,734	0,364	46,15
Total oil and gas condensate, mn tons		818,3	5,55	22,6	801,2
Natural gas, bcm		487,5	5,99	7,29	486,2
		As of 1 Jan 2015	Total growth (+)	Production (-)	As at 1 Jan. 2016

## → Geological exploration projects at the Caspian shelf

JSC NC "KazMunayGas" associates further increment of the hydrocarbon crude with the resource potential of the Kazakhstan sector of the Caspian Sea.

Geological exploration projects in the Caspian Sea and offshore areas are one of the business priorities of JSC NC "KazMunayGas" and its subsidiaries – KazMunayTeniz OOC JSC, KMG-Ustyurt LLP, N Operating Company LLP, Satpayev Operating LLP, Atyraumunagas JSC, Zhambyl Petroleum LLP.

KazMunayGas in cooperation with foreign companies conduct exploration and research works on a group of blocks in the Kazakhstan sector of the Caspian Sea: Zhemchuzhiny, Zhambyl, N, Satpayev, Issatay and in the Russian sector of the Caspian Sea at Khvalynskiy and Tsentralnaya blocks.



JSC NC "KazMunayGas"

### Existing projects

#### N Project

In February 2015 drilling of the first appraisal well AR-1 was completed at Rakushechnoye Sea structure. Target depth – 1600 m. The well was abandoned.

On March 13, 2015 Supplement No.7 to the Contract on inclusion of appraisal works in the Working Program was signed.

On December 28, 2015 KMG and Mubadala Petroleum signed the Assignment and Assumption Agreement.

On December 28 Supplement No.8 to the Contract (Mubadala Petroleum exit from the project and release of obligations on drilling of the third exploration well), was signed as well as Supplement #9 to the Contract (exploration period prolongation for 2 years, till December, 29, 2017).

\* Calculated according to the Instruction on Qualification of Fields Reserves, Oil and Natural Hydrocarbon Gas Prospective and Forecast Resources (approved by Order of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan No. 283 of 27 October 2015), by Order of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan No. 283 of 27 October 2015).

### Ustyurt Project

On August, 2014 the UnionField Group was approved by the Ministry of Energy of RoK as KMG's strategic partner in this project. On October 14, 2014 KMG and UnionField Group signed the Heads of Agreement on Ustyurt Project.

On February 18, 2015 KMG's Board of Directors resolved to establish the operating company – KMG-Ustyurt LLP.

On June 2015, a Contract for Joint Exploration and HCS production at Mertviy Kultuk site (Ustyurt) was signed, reg.# 4159-УБС-МЭ as of 26.06.2015.

On November 2015, Supplement No.1 to the Contract of transfer of contractual mineral rights to KMG-Ustyurt LLP (100% PS) was signed.

Currently, the process of the strategic partner's entry into the project is in progress and a package of documents on the proposed transaction is under approval.

### Satpayev Project

In September 2015, drilling of exploration well STP-1 at Satpayev structure was completed with a total depth of 2915m in Kungurian sediments. The well was abandoned for geological reasons. Drilling showed the signs of HCS. In 2015 a comprehensive analysis of seismic data was conducted along with the analysis of the drilling data from STP-1 well.

Documents for the 1-st prolongation of an exploration period for 2 years (2016-2018) with the work program obligations, including drilling of the second exploration well, are being prepared and submitted.

### Issatay Project

On June 26, 2015 the Contract for combined exploration and production of crude hydrocarbons at Issatay site was concluded. On June 27, 2015 KMG and Eni signed the Agreement on transfer of 50% share in Issatay Contract.

RKMER IGC approvals and internal resolutions for alienation of 50% share of mineral rights in favor of ENI were received.

Approvals from IC, KMG's Management Board and Board of Directors and SWF IC for establishing a JV with ENI were received. It is expected to receive a resolution of SWF's Management Board on establishing Issatay Operating Company JV LLP as an operating company.

### Zhambyl Project

Field works of baseline environmental studies were conducted with regard to 4 climatic seasons at Zhambyl site. As for Zhambyl and Zhetsysu structures, the geological and geophysical data were comprehensively re-interpreted given the drilling of two wells ZB-1 и ZT-1; the block prospectivity was re-assessed. By the results of the geological exploration, seismic sections were reprocessed taking into account the VSP data.

Documents for the 2-nd prolongation of an exploration period for 2 years (2016-2018) with the work program obligations, including 3D seismic works in a volume of 400 km2, are being prepared and submitted.

## New Projects

### Tsentralnaya Project

The RoK's and RF's authorized organizations (JSC NC "KazMunayGas" and CentraCasneftgas LLC) established the Oil and Gas Company Tsentralnaya LLC which in December 2013 submitted an application to RF Rosnedra to receive a subsurface licence for conducting further exploration at Tsentralnaya field. To receive this license, it is necessary to amend the Intergovernmental Agreement as of 06.07.1998 as the Agreement stipulates the conclusion of the PSA.

On October 15, 2015 a Protocol on amending the Protocol as of May 13, 2002 to the Agreement on Tsentralnaya Project (provision of an extended exploration period for reserves update at the Russian party's expense) was signed under the RF President's visit to Kazakhstan.

On November 17, 2015 Oil and Gas Company Tsentralnaya LLC submitted an application to the Federal Agency for Subsoil Use (Rosnedra) to receive a Licence for detailed field appraisal at Tsentralnyi site.

The Ministry of Energy has developed and is now considering for approval a Bill on ratification of this Protocol.

The RF's Ministry of Energy is also taking similar measures.

### Khvalynskoye Project

Negotiations with state bodies of the Russian Federation at the level of the Inter-agency Committees and Working Groups are being held to elaborate the terms of subsoil use at the Khvalynskoye field and review the PSA text. The issue of providing an opportunity to sell the gas produced at the Khvalynskoye field for export to ensure the economic profitability of field development is being negotiated.

### Abai Project

Currently, KMG is taking measures on getting approval for the Contract with state bodies. RoK's ME extended the period of receiving mineral rights till 2016.



**KazMunaiTeniz OOC LLP (KMT)**

### Zhemchuzhiny Project

Pursuant to the Contractor's Resolution as of September 14, 2015, a letter on the third prolongation of the exploration period was sent to the Competent Body. Following the results of reviewing at a meeting of Expert Subsurface Management Committee attached to the Ministry, it was resolved to extend the exploration period for 2 years up to December 14, 2017 in order to develop the technological design documents and commercial proposals with regard to a program of Khazar and Auezov fields development. Currently, the efforts are underway to further process the prolongation of the Exploration Period.

Works on preparation of the Report on estimation of oil reserves and dissolved gas at Auezov field of the Zhemchuzhiny area and the Feasibility study of the oil recovery factor have been completed. Approval of reserves in the State Reserves Committee is planned for 2016.

Works on Voluntary return of a part of the license area (Naryn and Tulpar structures) have been completed. Geological allotment as of August 2015 with modified coordinates of a site has been received.

In accordance with the PSA conditions, in 2015 social infrastructure projects for shared-equity construction for a total amount of 500 000 US dollars were implemented – construction of childcare centers for 80 seats in Ushtagan and Zhyngyldy settlements.

In mid 2014 Shell, a project partner, informed on low economic attractiveness of independent development of the Khazar structure and proposed to consider a joint development with the Kalamkas-sea project. Due to this, independent development of the Zhemchuzhiny project has suspended.

After appraising the technical feasibility of joint development of the Zhemchuzhiny and Kalamkas-sea projects, VAR 2 decided that joint development is possible. However there are risks, which should be studied at the following stages of the joint development project.

The operating committee of the Zhemchuzhiny project approved the following Resolution: "Under joint development of the Khazar and Kalamkas-sea the Operator will apply a steel platform concept for the Khazar satellite field.

Based on the results of an economic and technical assessment (КЭТО-2) it was identified that developing the Auezov structure as an independent field would be inexpedient and it would be considered only as a satellite in future.

### Kurmangazy Project

The PSA obligations in terms of training Kazakh experts for the amount of 1 mln.US dollars have been fulfilled, abandoned wells have been monitored and the Joint Accounts and Oil Operations Accounts have been audited.

On December 3, 2014 the Intergovernmental Committee of the Republic of Kazakhstan and Russian Federation resolved to continue to implement the Kurmangazy Project under the PSA as of July 6, 1998 given the Russian party's proposals relating the change of the License Area acreage, setting the Exploration Period for 6 (six) years from the date of entry into force of the relevant supplementary agreement to the PSA with an option to extend the Exploration Period up to 4 years.

The approved Draft Protocol was submitted to the RF's MFA in December 2015 after being reviewed by the RoK's MFA and ME.

## AtyrauMunayGas

JOINT STOCK COMPANY

## AtyrauMunayGas JSC

### Makhambet and Bobek Projects

On May 2015 Supplements #3 to the Contracts extended the exploration periods for 2015-2016.

Due to a great drop in oil prices related to the global crisis, MangistauMunaigas JSC, a sole shareholder of Atyraumunaygas JSC, did not have free cash flow for financing geological exploration in 2015.

## ➔ Onshore exploration projects



## JSC NC "KazMunayGas"

### Regional projects on Prikaspiyskiy and Ustyurt-Bozashinskiy & Mangyshlakskiy basins

In 2015 JSC NC "KazMunayGas" initiated two regional projects on Prikaspiyskiy and Ustyurt-Bozashinskiy & Mangyshlakskiy basins to identify the routs of geological exploration in Kazakhstan, after which it was expected to identify perspective areas and create a portfolio of exploration blocks. Works on acquisition and loading of a large amount of seismic and well data have been completed: 2D seismic of more than 54000 of running km, 3D seismic of more than 8000 square km and over 350 wells. Analysis of geological and geophysical data, correlation of main seismic horizons and seismic control are being performed.

### Eurasia Project

Under executing the order of the President of the Republic of Kazakhstan on development of geological exploration works to compensate the hydrocarbon reserves of the country, in 2013 KazEnergy initiated an international project of the regional geological and geophysical researches within the Pre-Caspian basin, "Eurasia".

Since 2015 JSC NC "KazMunayGas" (hereinafter – KMG) has defrayed expenses for supporting the established Project Group.

The main goals of the Eurasia Project are as follows:

- ▶ survey of deepseated geological structure of the Pre-Caspian region to identify new and large deposits of hydrocarbons and the mechanism of their expansion in deep waters.
- ▶ analysis of tectonics, stratigraphy and sedimentology, paleogeography, paleoclimate, geochemistry of the earth crust in this region i.e. acquisition of advanced information on the earth formation history which will become a significant contribution to solving a fundamental scientific epoch-making challenge in geology;
- ▶ acquisition of a spatial-temporal model of the Caspian region for targeted and successful oil prospecting works;
- ▶ assessment of potential hydrocarbon resources of the region;
- ▶ analysis of structures and evolution of the Pre-Caspian basin.



During 2015 the Work Group continues meetings and consultations with concerned state bodies to elaborate a list of fiscal and non-fiscal benefits and preferences which could be proposed to potential participants of the Eurasia Project as a start-up negotiating position on creating of the International Consortium.

A draft resolution has been elaborated and submitted to the RoK's Ministry of Energy to be considered at the nearest meeting of the Intergovernmental Commission on Development of the Oil and Gas and Energy Industries:

- ▶ agree upon the submitted list of benefits and preferences as a start-up negotiating position with potential participants of the Eurasia Project;
- ▶ establish a specialized subsidiary Eurasia LLP being a part of JSC "National Company "KazMunayGas" as a limited liability partnership as a tool for implementing a state public and private partnership on the Eurasia Project.

## Existing projects

JSC NC "KazMunayGas" associates building-up of reserves with the resource potential of the Urrikhtau oil and gas condensate field. This project is one of the business priorities of JSC NC "KazMunayGas" and its subsidiary -Urrikhtau-Operating LLP.

### Urrikhtau Project

In 2015 the Project of "Technological scheme of development of the gas condensate reservoir with oil rim of the KT-I carbonate section" was submitted to the RoK's CCED (Central committee for exploration and development) and approved by the RoK's Committee of Geology (CG Letter No. 27-5-445-И as of February, 24 2015).

Due to an unfavorable economic situation and fall in oil prices, it was initiated to specify financial indicators and production volumes for 2015 and subsequent years. As a result, the expenditures related to the Urrikhtau Project were optimized to increase the project NPV. The implementation was supplemented by the Concept of "Development of a gascondensate reservoir KT-I at the Urrikhtau field (commencement of development with an oil rim)".

Meetings with CNPC proceeded with regard to considering the acquisition of 50% of a participatory share in the Urrikhtau Project based on a new Concept proposed to be implemented. Negotiations with CNPC-AMG continued on the issues of hydrocarbon crude preparation, price formation for commercial products at CNPC gas and oil refineries and provision of technical specifications for connection of gas and oil pipes from the Urrikhtau field to the Zhanazhol oil and gas complex of CNPC and to the sources of external power supply.

Construction of facilities for development of an oil rim has been resumed; construction works have been performed for 70%.

The conducted tests in the casing of 5 reserved facilities at KT-I and KT-II gave positive results. Well testing materials were submitted to Kaspiymunaigas RI LLP for further on-going estimate of hydrocarbon reserves at Vostochniy and Yuzhniy Urrikhtau structures in 2016.

3D field seismic surveys with a volume of 250 sq. km (full fold) and 355 sq.km (single fold) were conducted and completed, the related materials were delivered for processing. The second exploration stage was prolonged till December, 12 2017.

### Pribrezhnoye Project

In 2015 a Contract for Hydrocarbon Crude Exploration at the Pribrezhnoye field located in the Atyrau oblast was concluded between the RoK's ME and JSC NC "KazMunayGas". Registration No. 4216-YBC-MЭ as of November, 26 2015.

Conditions of sale of 100% of a participatory share in the contract in favour of a partner were agreed upon with Zhan and KS Company LLP.

A set of documents for IC was prepared and submitted to KMG for internal approval. A request to the RoK's ME with regard to transfer of 100% of mineral rights was prepared.

### Samtyr Project

On July, 29 2015 a Contract for Hydrocarbon Crude Exploration at the Samtyr site located in the Mangistau oblast was concluded between the RoK's ME and JSC NC "KazMunayGas". Registration No. 4177-YBC-MЭ. Approvals from IC, Management Board and KMG BoD on transfer of 50% of the mineral rights in favour of Meridian Petroleum LLP were received.

A set of documents related to a transaction with Meridian Petroleum LLP and draft supplements to the Contract were agreed upon.

A supplement to the Confidentiality Agreement between KMG, Meridian Petroleum LLP and Zapkaznedra was signed. KMG's Management Board approved Supplements to HOA.

### Kansu Project

On October, 1 2013 the RoK's Ministry of Oil and JSC NC "KazMunayGas" concluded a Contract for Exploration at Kansu #3949-YBC site.

In 2014 KMG-Kansu Operating LLP was established as an Operator with JSC NC "KazMunayGas" as its subsurfer user.

On 2015 3D field seismic works in the volume of 300 sq.km, 2D -1000 running km were conducted at the Kansu site.

Seismic data was processed and interpreted. Currently a geological and hydrodynamic model is being created.

### Bekturly Vostochniy Project

In 2015 a Contract for Hydrocarbon Crude Exploration at the Bekturly Vostochniy site located in the Mangistau oblast was concluded between the RoK's ME and JSC NC "KazMunayGas". Registration No. 4152-YBC-MЭ as of June 17, 2015.

Kokel Munai LLP has established an operating company Bekturly Energy Operating LLP (hereinafter- Operator) which will be defined as the Project Operator as from acquisition by KMG of 50% participatory share in its equity capital.

On December, 31 2015 a transaction on assignment of 50% of mineral rights in favour of Kokel Munai LLP was closed including a Supplement to the Contract concluded on December, 24 2015.

### Imashevskoye Project

KazRosGas was assigned as the project operator; a decree of the RoK's Government is anticipated.

## KMG's new onshore projects

### Korolevskoye Project

In 2015 a Project of Prospecting Works was prepared, expert findings from state bodies received, considered and approved by the RoK's CCED.

### Zhilanshik project

In 2015 the works on selecting a strategic partner on a commercial basis were conducted.

### Beineu Block Project

In 2014 KMG and Synergized Gas Technology Kazakhstan LLP signed a Memorandum of Understanding.

In 2015 the geological and geophysical parameters of the Beineu site were considered and negotiations on technical and commercial terms of SGT entering to the Beineu Project were conducted.

Synergized Gas Technology Kazakhstan LLP agrees to undertake the exploration risk and to finance the expenses including KMG's share in the project, during the exploration and appraisal.

KMG addressed the RoK's ME with request to consider and approve Synergized Gas Technology Kazakhstan LLP as a strategic partner in the Beineu Project.

### Mugodzhary Project

In 2015 a Project of Prospecting Works at the Mugodzhary site was developed and public hearings were held in Aktobe.

### Tabyl-Tazhigali

In 2015 geological and geophysical data was acquired and analyzed in relation to the Tabyl, Tazhigali sites. Negotiations with a strategic partner, Zhetysay Oil LLP, were conducted.

### Koskol Project

In 2015 a Project of Prospecting Works at the Koskol site was developed, public hearings were held and expert findings were received from the state bodies.

A set of documents was prepared and delivered for conducting direct negotiations with the RoK's Competent Body to receive a mineral right for geological exploration. Strategic partner – Zhan Oil LLP.

### Zaburuniye, Zhaiyk and Saraishik projects

In 2015 geological and geophysical data was acquired and analyzed in relation to pre-operation of the Zaburuniye, Zhaiyk and Saraishik sites in Atyrau oblast and geological conclusions for KMG IC were prepared.

### A site located at the Buzachi peninsula

In 2015 geological and geophysical data was acquired and analyzed in relation to pre-operation of the Buzachi site in Mangistau oblast and a geological conclusion for KMG IC was prepared.

### Karabulak

In 2015 geological and geophysical data was acquired and analyzed in relation to pre-operation of the Karabulak site in Aktubinsk oblast. Negotiations with a strategic partner, Zhan Oil LLP, were conducted.

### DataRoom

In 2015 works on attracting investors on a portfolio of geological projects were conducted with the following companies: Burisma Eurasia LLP, Anadarko International O&G Company, Statoil North Caspian AS, PetroResources Kazakhstan LLP, Chevron Europe, Eurasia, and Middle East Exploration & Production Ltd., Arawak Energy and Total E&P Kazakhstan.



## KazMunayGas EP JSC (Embamunaigas JSC, Ozenmunaigas JSC)

JSC NC "KazMunayGas" associates further build up of hydrocarbon reserves with supplementary exploration of license areas of its subsidiary KazMunayGas Exploration Production.

### Liman Project

In 2015 prospecting well ПР-3 was drilled at the Novobogat South-East site.

In accordance with the target depth, well ПР-3 has a total depth of 2500m, drilled horizon – subsalt Permo-Triassic.

After logging interpretation, 3 facilities were identified for testing. Current status: from January, 3 2015 testing of the 1-st facility in the interval of 2100-2115m.

In 2015 Supplements to the test production design of the Novobogat SE field, Liman Block, (suprasalt) were developed with pre-EIA.

### Akkuduk field

In 2015 exploration well #18 was drilled at the field to a depth of 2244m. Following the well logging, 5 facilities were identified and after testing of 2 facilities oil was produced to the well bore.

In 2015 oil and gas reserves at the Akkuduk field were re-estimated.

### Balgimbayev S. field

In 2015 current estimation of oil reserves and dissolved gas in the Triassic horizon of the northern flank of the S. Balgimbayev field was performed.

### Kissimbai field

In 2015 oil and gas reserves at the Kissimbai field were re-estimated.

### Novobogatinskoye South Eastern field

In 2015 exploration wells ## 31 and 32 were drilled at the Novobogatinskoye SE field to delineate the oil bearing capacity and transfer the reserves from C2 category to C1 category.

Exploration well #31, total depth 2205m, drilled horizon – subsalt Permo-Triassic. After well logging, 4 facilities were identified. As of December 31, 2015 two facilities were tested and oil flow was produced to the well bore.

Exploration well #32, drilled depth – 2200m, drilled horizon - subsalt Permo-Triassic. Production well logging identified 6 facilities.

### Taisogan Block

In 2015 exploration well # Y-21 was drilled, which was staked in accordance with the "Production test of the eastern area of the southern flank of the Uaz field" Project for the purpose of exploring the hydrocarbon reserves in the Lower Cretaceous, Jurassic and Middle Trias deposits, in the southern flank of the eastern area of the Uaz salt dome. Well # Y-21 was drilled to a depth of 1110m. Following the results of testing of 5 facilities, oil was produced to the well bore.

Testing was completed; the well was delivered to Kainarmunaygas OGPD.

In 2015 Supplements to the mining allotment design of the Uaz field were developed.

An appraisal work design of the Taisogan block was developed (Uaz area).



## The projects under control of KazMunaiGas Exploration Production JSC

KazMunaiGas Exploration Production JSC (hereinafter- Company) owns a mineral right on the following contracts:

- ▷ Contract #3577 as of 16.06.2010 for hydrocarbon crude exploration of the suprasalt and pre-salt sequences of the Karaton-Sarkamys block's sediments;
- ▷ Contract #3579 as of 16.06.2010 for hydrocarbon crude exploration within the territory adjacent to the Uzen and Karamandybas fields.

Contract #1817 as of 26/08/2005 for hydrocarbon crude exploration at Block P-9, the period of validity of which expired on August 26, 2013 is in the process of recovery.

### Block of the adjacent area Uzen-Karamandybas

Amendments were introduced to the Work Program of Contract #3579 as of 16.06.2010 based on the request to the RoK's ME CCED with regard to reschedule the prospecting surveys from 2014 to 2015 in terms of drilling of D-1 well at the Dautovskiy dome, C3T-2 dependent well at Tenge C3 and 3D seismic survey.

A draft Work Program was considered at the meeting of the RoK's ME Working Group (Minutes #4-ПГ/МЭ ПК as of 05.03.2015) on re-scheduling the actual volumes of prospecting surveys in terms of drilling of D-1 well at the Dautovskiy dome, C3T-2 dependent well at C3T-2 and 3D CDPM seismic survey from 2015 to 2016-2017.

Currently the Protocol of the Working Group is awaited and Supplement #3 is expected to be approved by the RoK's Ministry of Energy.

### Karaton-Sarkamys Block

Based on the Supplements to a project of the oil and gas prospecting works within the territory of the Karaton-Sarkamys block in the Atyrau oblast, a directional prospecting well # HCB-1 was drilled at the north-eastern flank of the S.Nurzhanov field.

Drilling of prospecting well HCB-1 commenced in December 2014 and finished on July, 23 2015. Total depth – 3819m, Triassic.

In 2015 a Report on prospecting surveys at the Karaton-Sarkamys block during 2010-2015 was developed and defended at the Council of Science and Engineering of Zapkaznedra TRTD.

### Rozhkovskaya (Fedorovskiy block)

In 2015 3D seismic surveys were conducted in a volume of 368 sq.km within the Yanvartsevskaya and Pavlovskaya areas. Seismic data was processed.

### Karpovskiy Severniy Block

In 2015 drilling of an additional interval in a volume of 296m and demobilization of well # CK-2 at the Orlovskaya structure were completed.

In 2015 a final report on interpretation of 3D/2D data of the Pogodayevo-Ostafyevskiy-Melovoy-Orlovskiy site within the Karpovskiy Severniy license area was developed.



## JSC Mangistaumunaigas

In 2015 a project of appraisal works of the Alatube, Atambai-Sartube, Ashiagar, Oimasha, Yuzhniy Zhetybai, Vostochniy Zhetybai, Pridorozhnoye, Burmasha, Bekturly, Kalamkas, Zhetybai fields was developed on the basis of the 3D seismic interpretations which were submitted to the RoK's state bodies.

Re-estimation of oil and dissolved gas reserves and ORF Feasibility Study of the Airantakyr field (RK SRC Protocol # 1513-15-Y as of 09.01.2015) and Severnoye Karagiye (RK SRC Protocol #1595-15-Y as of 01.10.2015) were conducted and approved.

Drilling and testing of appraisal-development well #40 of the Alatube field (commencement of drilling 10.12.2014, end of drilling 14.05.2015) was completed.

In the end 2015 design and estimate documentation was developed for geological survey of resources with regard to 11 structures combined into 5 blocks as follows: Araldy-more block (Araldy-more structure), Saurinskiy block (Saurinskaya and Baskumak structures), Kozhur block (Bortovaya and Ushoba structures), Ashisor Severniy block (Zhaga, Severniy Ashisor, Severniy Tashkum, Peschanomysskaya) and Kayasan block (Kayasan structure).



## Kazakhoil Aktobe LLP

### Kozhasai field

Oil, gas and condensate reserves and associated components were re-estimated and the feasibility study of the oil recovery factor "Estimation of reserves at the Kozhasai field" was conducted. On June 30, 2015 no defence was passed in the RoK's SRC for the reason that the reserves went beyond the mining allotment, outside the boundaries of Aktubemunaigas CNPC. The issue is being settled due to the initiated procedure of return of the Aktubemunaigas CNPC territory.

### Alibekmola field

Re-estimation of oil, gas and condensate reserves and associated components and the feasibility study of oil recovery factor of the Alibekmola field are conducted by Kaspiymunaigas RI LLP. Pursuant to Lukoil recommendations, re-estimation of reserves has been prolonged through 2016.



## Kazakhturkmunai LLP

In 2015 the works on increment of the oil and dissolved gas reserves at the Laktybai field of the Aktubinsk oblast, the Republic of Kazakhstan, were conducted as of 01.09.2015. The report was submitted to the PR SRC.



## AmangeldyGas LLP

In 2015 3D field seismic survey was conducted at the Airakty field in a volume of 93 sq.km and the data was processed and interpreted. Historical digital data (2D seismic, maps) was acquired, sections and maps were digitized and 2D seismic survey was processed. A comprehensive analysis of the Chu-Sarysuiskiy basin commenced for the purpose of assessing the prospectivity of the region and elaborating the area of geological exploration. Arrangements were made for drilling an exploration well at the Barkhannaya-Sultankuduk site.







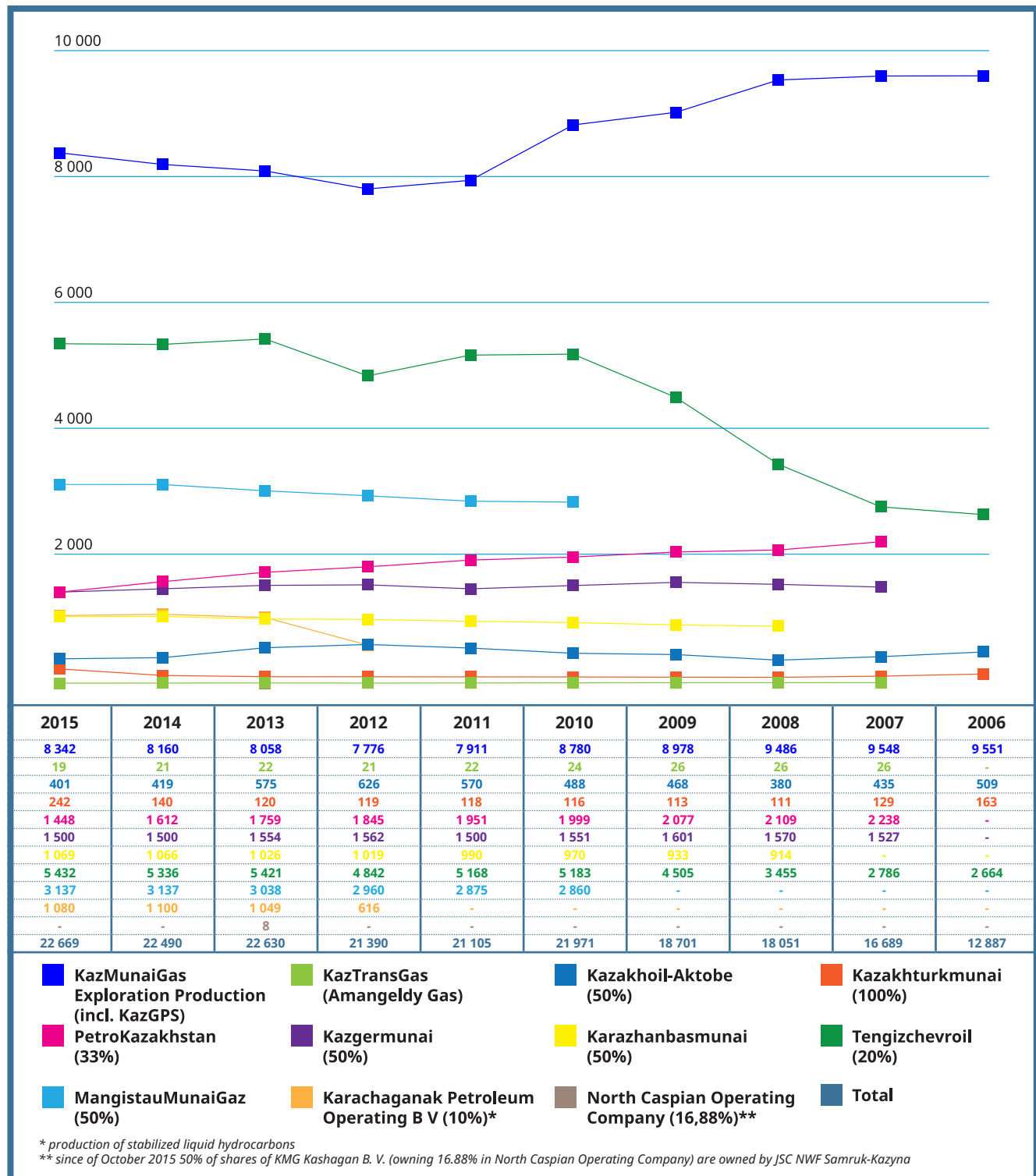
# Oil and gas production

## → Oil and Condensate Production

The consolidated volume of oil and condensate production in the JSC NC KazMunayGas group of companies for 2015 amounted to 22,669 thous tons with the planned 22,395 thous tons (exceeding by 274 thous tons) or 101.2 % of the plan. Compared to 2014 the consolidated production of oil and condensate by the companies in 2015, taking into consideration the share of JSC NC "KazMunayGas", increased by 179 thous tons or by 0.8%.

The share of JSC NC "KazMunayGas" in oil and condensate production countrywide amounted to 28.5%. A total of 79.5 mn tons of oil were produced in Kazakhstan in 2015.

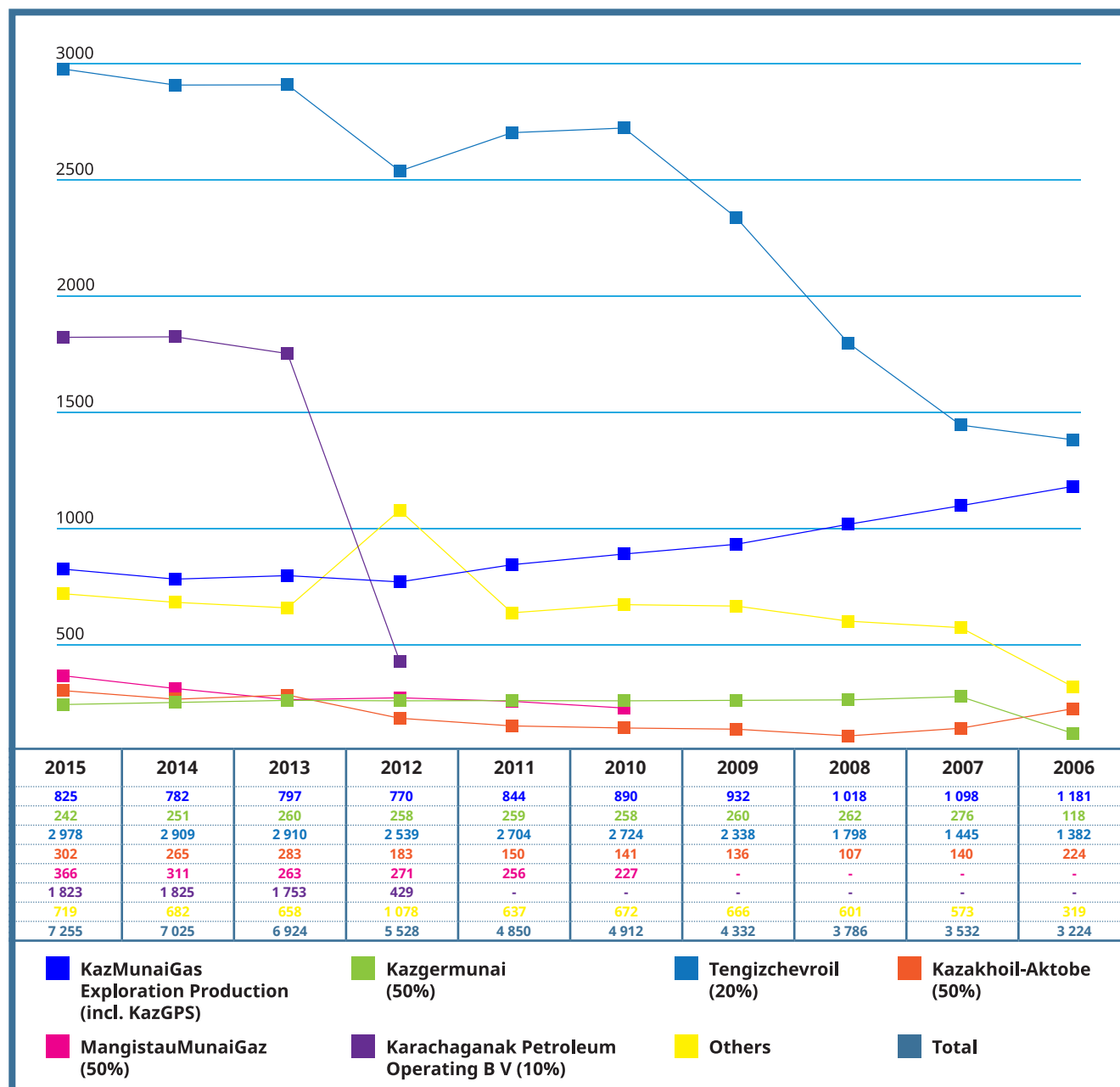
### Oil and Gas Condensate Production in Companies Taking into Account the Interest of JSC NC "KazMunayGas"



## → Gas Production

In 2015 consolidated production of natural gas and associated gas in the JSC NC KazMunayGas group of companies amounted to 7,255 mn cbm with the planned 7,161 mn cbm (+94 mn cbm) or 101.3% of the plan. In comparison to 2014 the consolidated production of natural gas and associated gas in the JSC NC KazMunayGas group of companies in 2015 increased by 230 mn cbm or by 3.3%. A total of 45.3 bn cbm of gas were produced in Kazakhstan in 2015.

Gas production in the entities taking into account the participatory interest of JSC NC "KazMunayGas"



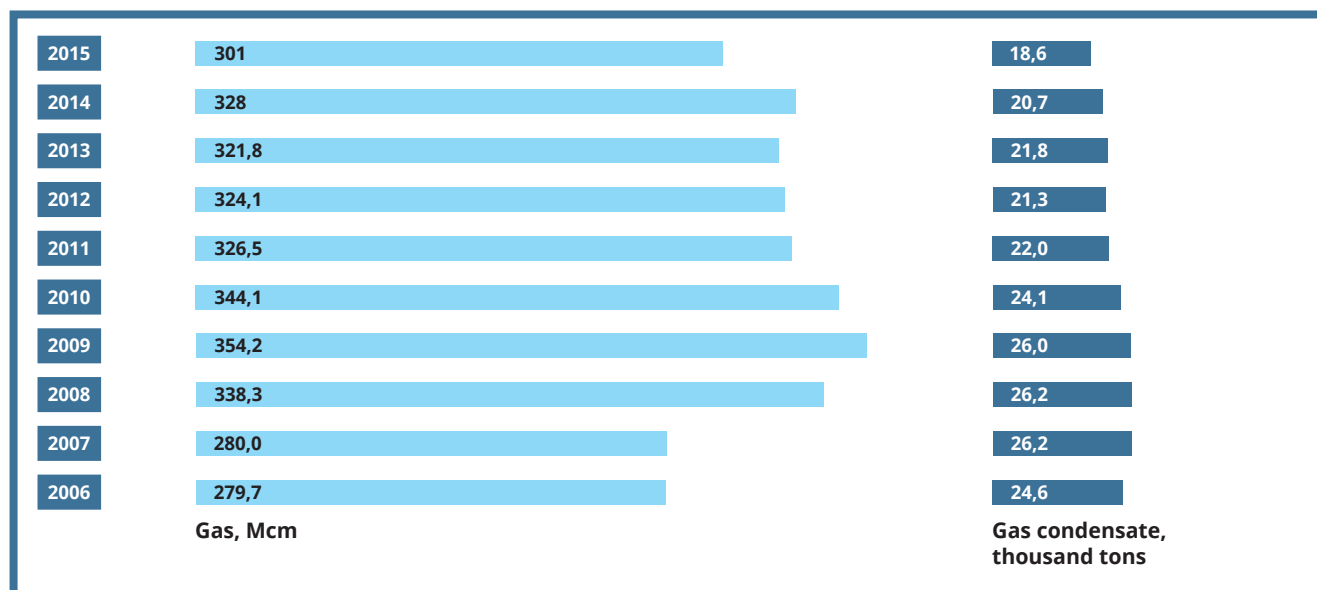
As of the current date the production volume from the date of commencement of the Amangeldy field operation amounted to 3,809,971.416 mn cbm of gas and 288,393.5 thous tons of condensate.

To provide the consumers of the South Kazakhstan region with gas and ensure energy security in 2000 JSC KazTransGas signed an agreement with the Republic of Kazakhstan on combined hydrocarbons exploration and production at the Amangeldy group of fields, including Amangeldy, Severnyi Ucharal, Ucharal-Kepirtjube, Anabai, Ayrakty, Zharkum and Kumarly field on the territory of Moyinkum and Talass regions of the Zhambyl oblast.

In August 2012 the contract was sold to a subsidiary – Amangeldy Gas, LLP.

As part of the agreement the commercial development of the Amangeldy field and test production at the Zharkum field is carried out, and a complex of exploration works is performed on the contract territory of the Amangeldy group of fields, including seismic operations, calculation of reserves, development of the projects for exploration works and construction of production wells, construction and testing of prospecting and appraisal wells.

## Production of natural gas and gas condensate at the Amangeldy field



## → Participation in Major Oil and Gas Projects

### Tengiz Project

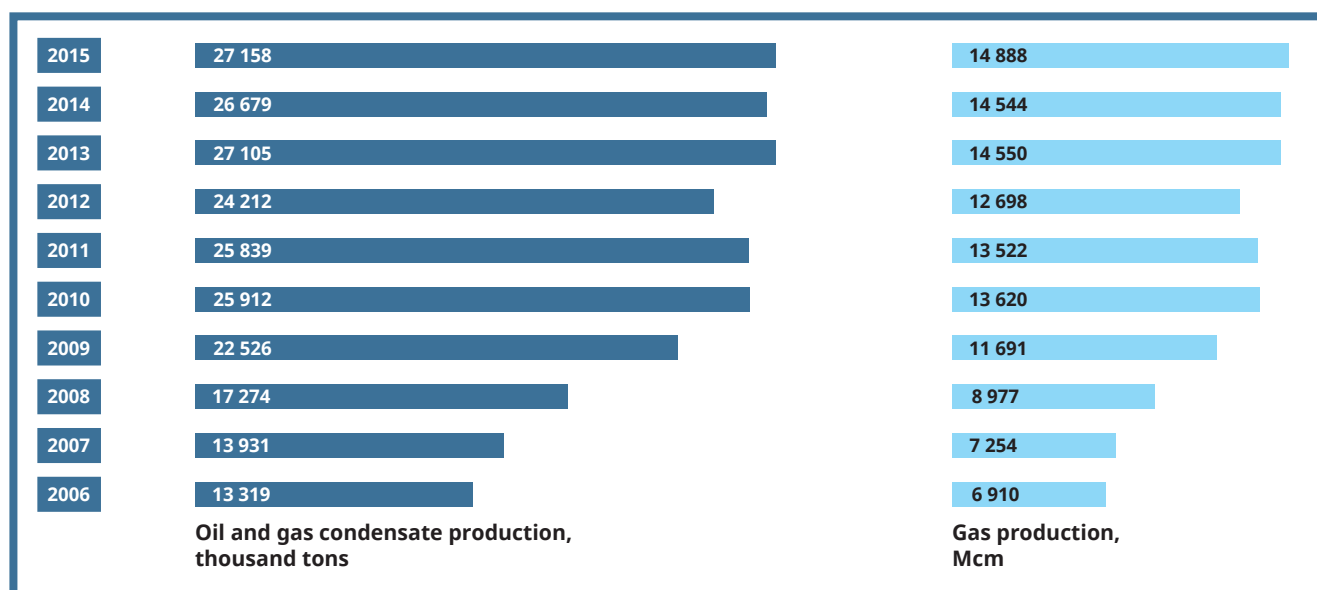
The Tengiz field, discovered in 1979, is the biggest in the world.

Agreement on the Tengiz Project was signed on 2 April 1993 between the Republic of Kazakhstan and the Chevron company. The hydrocarbon exploration and production licence was issued to the Tengizchevroil LLP in 1993 for a term of 40 years.

The core activity of TCO is exploration, production and sale of hydrocarbons from the fields of Tengiz and Korolevskoye in the Atyrau oblast.

TCO partners are: Chevron (50 %), ExxonMobil (25 %), JSC NC "KazMunayGas" (20 %) and LUKArco (5%).

### TCO Production



The actual production of oil and gas condensate in 2015 amounted to the record 27,158 mn tons with the plan of 26,704 mn tons, which exceeds the planned indicator by 454 thous tons. The production plan of TCO for 2016 is 26,466 mn tons.

At present TCO is planning implementation of the Wellhead Pressure Management Project/Future Growth Project (WPMP/FGP).



As part of the WPMP/FGP, the plans are to construct a new production stream gathering system, pressure increase facilities, infrastructure and auxiliary facilities, construct a new 12 MMtpa oil refinery and sour gas re-injection facilities with the capacity of 9.4 bcm/a. Implementation of the WPMP/FGP project will make it possible to bring the annual oil output by TCO to 39 mn tons.

The general contractor of the WPMP/FGP project is Kazakhstan Projects Joint Venture (KPJV), established by Fluor, WorleyParsons, the Kazakh Institute of Oil and Gas JSC and KazGiproNefteTrans LLP.

The front-end engineering and design (FEED) on the WPMP/FGP project was completed in November, 2014. Due to the steep fall in oil prices on the global market, in 2015 TCO focused on reducing the WPCP/FGP costs and implementing the WPMP/FGP Early Works programme (construction of a new rotation camp, contractors' construction base etc.) In this context, the plans are to make the Final Investment Decision on the project in 2016.

Within the framework of the WPCP/FGP, it is planned to create over 20,000 jobs in Kazakhstan, measures on personnel education and training are envisaged, and over 500 permanent jobs will be created for the operation of the new WPMP/FGP production facilities.

### North-Caspian Project

The North Caspian Production Sharing Agreement (NCP SA) was signed on 18 November 1997. The following companies are the parties to the NCP SA: JSC NC "KazMunayGas" - 16.88%, ENI, Total, ExxonMobil, Shell - 16.81% each, China National Petroleum Corporation - 8.33 %, Inpex - 7.56%.

On 13 June 2015 the merger into a sole Operator and transition to a new management operating model of the North-Caspian Project (NCP) was completed. The Operator's duties are performed by North Caspian Operating Company N.V., acting on behalf of the NCP-SA Partners.

The following fields are located on the NCP PSA contract area: Kashagan, Kalamkas-Offshore, Aktoty, Kairan, Kashagan South-West.

The Kashagan field, one of the biggest and most complex offshore fields discovered to date, is a single hydrocarbon accumulation with the in-place reserves estimated at 4.6 bn tons and takes up the area of about 820 km<sup>2</sup>. Development of the Kashagan field is at the stage of Pilot Commercial Development (PCD).

The total progress of the PCD facilities works as of December, 2015 was 97.9%, with the plan of 98.55%. During 2015 engineering, procurement and fabrication of the topside facilities of the drilling islands EPC-2, EPC-3 and EPC-4 of the offshore complex was carried out, works for construction and completion of the wells in these drilling centres were performed. Works on procurement and construction of the Yeskene West Railroad Complex Project and construction of facilities not related to the railroad (sulphur storage site, rail loading facility, marshalling terminal), and works on the Offshore Complex Waste Water Disposal Project were performed.

In 2015 the Operator performed works on replacement of the oil pipeline and gas pipeline between the "D" island and the "Bolashak" onshore complex, a package of measures on conservation, modernization and maintenance of the production facilities (FIMPR) was implemented. A total of 61.3 km were run in 2015 at the offshore and transition sections by the Castoro-12 and Yersai-1 barges. 16.5 km and 8.6 km were run at the shallow water and onshore sections, respectively. As at 31 December 2015, the status of the Kashagan field production facilities had not changed, pipe laying at the onshore section and implementation of a package of measures on preparation for smooth resumption of production after a lengthy suspension of the production operations are underway.

On the Kalamkas-Sea, Aktoty and Kairan fields studies and research works on determining their development concepts were carried out in 2015. In respect to the Kashagan South-West, the NCP Partners have resolved to return the structure territory to the state in view of the unprofitability of its development based on the survey results.

### Karachaganak Project

The Karachaganak field was discovered in 1979.

The Karachaganak Project is being implemented under the Final Production Sharing Agreement (FPSA). The Agreement was signed on 18 November 1997 for a period of 40 years, and became effective on 27 January 1998.

The participatory interests are distributed among the contracting companies as follows: British Gas (29.25%), Agip (29.25%), Chevron (18%), Lukoil (13.5%) and JSC NC "KazMunayGas" - 10%.

Currently, the 2M Commercial Development Stage is being implemented at the Karachaganak field, as part of which about 11 mn tons of hydrocarbon liquids and 17 bcm of gas are annually produced. The primary goal of the 2M Stage is to maintain the hydrocarbon liquids production plateau at around 11 mn tons annually through drilling new wells, increasing the gas capacity and modernizing the process units for hydrocarbons treatment.

As at 1 Feb. 2016, since the FPSA became effective, 146 mn tons of HC liquids and 207 bcm of gas had been produced at the field. Gas re-injection since 2003 has amounted to 78 bcm.

Upon completion of the 2M phase projects, for further maintenance of the hydrocarbon liquids plateau, implementation of the Karachaganak Growth Project (KGP) is planned. In order to ensure efficient completion of the project, the plans are to implement it in several stages.

The first stage contemplates drilling of new and workover of the existing wells, construction of gas treatment facilities and installation of additional compressors for increasing the gas re-injection volumes, construction of the necessary ancillary facilities etc.

Decisions on the following stages will be made based on the results of additional studies and the external factors (incl. cost efficiency and reasonableness, current state of the global economy and Kazakhstan's domestic economy, the condition of the hydrocarbons market, obligations on gas deliveries to the Orenburg Gas-processing Plant etc.).

## Total production of HC liquids (stabilized) at the Karachaganak field

	2015	2014	2013	2012	2011	2010	2009	2008	2007
Production of stabilized hydrocarbon liquids, thousand tons	10,795	11,004	10,492	11,013	10,854	10,247	10,695	10,450	10,429
Gas production, Mcm	18,234	18,248	17,531	17,519	16,868	15,009	15,564	15,004	14,233
of which are used for re-injection, Mcm	8,652	8,818	8,570	8,667	8,129	6,437	6,589	6,372	6,016

# Oil and gas transportation

## → Oil transportation by main oil pipelines

Oil transportation via trunk oil pipelines is carried out by a subsidiary, JSC "KazTransOil".

Furthermore, JSC NC "KazMunayGas" owns a 20.75% shareholder's equity in the Caspian Pipeline Consortium oil pipeline, which includes the RoK Government's share - 19% and KPV's - 1.75%.

As of today, the main existing export routes of the Kazakh oil transportation are:

- ▶ Atyrau-Samara pipeline (JSC "KazTransOil" - 100%);
- ▶ CPC pipeline (JSC NC "KazMunayGas" - 20.75%);
- ▶ Atasu-Alashankou pipeline (JSC "KazTransOil" - 50%);
- ▶ Aktau sea port;
- ▶ Batumi sea port.

The largest volume of the Kazakh oil in 2015 was exported via the CPC oil pipeline - 38 mn tons. Oil transportation via the Atyrau-Samara oil pipeline amounted to 15.7 mn tons, in the Chinese direction - 11.8 mn tons of oil.

## → Development of oil export directions

Diversification of the Kazakhstan oil transportation directions is of particular concern to KMG, since it enables the company to select the most cost-effective routes of hydrocarbon resources transportation to the world markets and serves as a safeguard to ensure energy security.



### Atyrau-Samara oil pipeline

The Atyrau-Samara oil pipeline is among the major existing export routes, along which the Kazakh oil is transported further through the "Transneft" system to the ports of Ust-Luga and Novorossiysk.

Following the results of 2015, the volume of oil transportation through the Atyrau-Samara oil pipeline amounted to 15.7 mn tons.



### Caspian Pipeline Consortium

The CPC oil pipeline with the total length of 1,510 km (of them 452 km constitute the Kazakhstan section) connects Kazakh oil field "Tengiz" to the oil terminal "South Ozereyevka" on the Black Sea, next to the port of Novorossiysk.

42.7 mn tons of oil were transported by the CPC oil pipeline in 2015, of which 38.0 mn tons is the Kazakh oil.

The CPC members are: the Russian Federation (Oil-Transporting JSC Transneft - 24% and CPC-K - 7%) - 31%; Republic of Kazakhstan (JSC NC "KazMunayGas" - 19% and Kazakhstan Pipeline Ventures LLC - 1.75%) - 20.75%, producing companies: Chevron Caspian Pipeline Consortium Company - 15%, Lukarco B.V. - 12.5%, Mobil Caspian Pipeline Company - 7.5%, Rosneft-Shell Caspian Ventures Ltd. - 7.5%, Eni International N.A. N.V. - 2%, BG Overseas Holdings Ltd. - 2% and Oryx Caspian Pipeline Ltd. - 1.75%.

The CPC Pipeline Expansion Project contemplates replacement of 88 km of the pipeline on the territory of the RoK, reconstruction of the five existing PSs (two on the RoK's territory and three in the RF), construction of ten new PSs (two in the RoK and eight in the RF), and construction of the third single point mooring and six 100,000 m<sup>3</sup> tanks at the offshore terminal.

The plans are to complete the project for expansion of the CPC oil pipeline throughput in 2016.



### Kazakhstan-China Oil Pipeline

The Kazakhstan-China Oil Pipeline Project is being implemented within the framework of the diversification of the oil transportation directions and creation of a multiple-vector hydrocarbons transportation system of the Republic of Kazakhstan.

Following the 2015 results, 11.8 mn tons were transported in the direction of China.

Under the terms of the agreements signed, the Kazakhstan-China oil pipeline construction project is implemented in two stages:

**Stage I:**

the "Atasu-Alashankou" oil pipeline with the length of 962.2 km, diameter - 813 mm. The throughput capacity at the first stage will be 10 mn tons annually, with further expansion to 20 mn tons annually. Transportation of oil through the Atasu-Alashankou oil pipeline commenced in 2006.

**Stage II is being implemented in two trains:**

First train: the "Kenkiyak-Kumkol" oil pipeline with the length of 794.1 km, diameter - 813 mm. The throughput capacity of the oil pipeline's first train is 10 mn tons annually, expandable to 20 mn tons annually. Transportation of oil through the Kenkiyak-Kumkol oil pipeline commenced in 2009.

Second train: increasing the capacity of the Kazakhstan-China transportation system at all sections from Atyrau to Alashankou to 20 mn tons annually in accordance with the growth in the export capacity demand and the domestic market.

The second train includes:

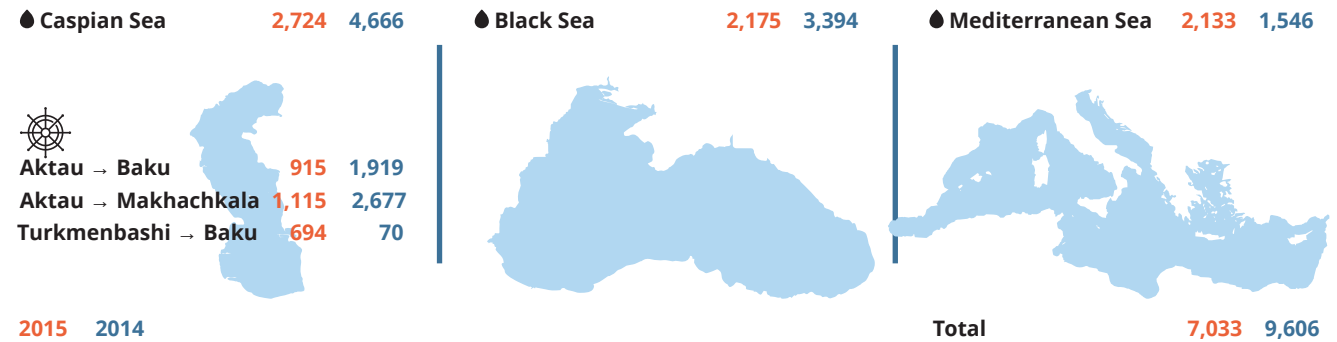
1. Expansion of the Atasu-Alashankou oil pipeline capacity to 20 mn tons annually - completed in December, 2013.
2. Reversal and expansion of the Kenkiyak-Atyrau oil pipeline to 12 mn tons annually.
3. Expansion of the Kenkiyak-Kumkol oil pipeline to 20 mn tons annually.
4. Reconstruction and expansion of the Kumkol-Atasu oil pipeline section.

## → Marine oil transportation

As of today, the main existing routes of marine oil transportation are:

- ▷ Routes in the Caspian Sea area.
- ▷ Routes in the Black and Mediterranean Sea areas.

### Oil Transportation by Marine Fleet, '000 tons



## → Transportation and delivery of natural gas

JSC "KazTransGas" is a member of the group of companies of JSC "National Company "KazMunayGas", and controls the main network of gas transportation pipelines with the length of over 17,000 km and the annual capacity up to 160 bcm, a network of gas-distributing gas pipelines with the length of over 40,000 km; it ensures uninterrupted operation of 31 compressor stations, where 322 gas compressor units are installed, and maintains 3 underground gas storage facilities.

### Main gas pipeline gas transportation volumes, bcm

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
International transit	75.	79.1	85.3	84.7	89.04	79.7	73.2	97.7	97.9	107.6
Kazakh gas transportation for exports	12.7	11.2	12.0	11.9	11.89	13.5	10.0	9.6	8.3	7.8
Gas transportation for domestic consumers	15	15.1	12.9	12.6	9.6	8.5	7.9	9.4	8.0	6.5
<b>Total</b>	<b>102.8</b>	<b>105.4</b>	<b>110.2</b>	<b>109.2</b>	<b>110.6</b>	<b>101.7</b>	<b>91.1</b>	<b>116.7</b>	<b>114.2</b>	<b>121.9</b>

Transit of natural gas from Turkmenistan and Uzbekistan to China and Russian Federation is carried out across Kazakhstan. Natural gas transportation by trunk gas pipelines was 102.8 bcm in 2015.

The RoK's southern regions and Kostanai Province are supplied with gas by means of SWAP operations with the Gazprom PJSC, out of the Uzbek gas resources via the BGR-TBA and Gazli-Shymkent gas pipelines, Uzbek or Turkmen gas via the Turkmenistan-China TGP, Kazakh gas via the Bozoi-Shymkent gas pipeline, and the Russian gas via the Bozoi-Shymkent gas pipeline.

Gas supply to Kazakhstan's western regions is covered by the gas resources of Kazakhstan subsoil users.

Export gas deliveries are made to the RF and Kyrgyzstan.

## → Export gas pipelines projects

### Increasing the capacity of the Kazakhstan-China TGP (section 1)

On 27 July 2011 Protocol No. 2 "On amending the Agreement between the Governments of the RoK and PRC on cooperation in construction and operation of the Kazakhstan-China gas pipeline of 18 August 2007" was signed, under which the Parties agreed to carry out an increase in the capacity of the first section of the "Kazakhstan-China" TGP by 25 bcm annually, of which 20 bcm annually are intended to be used by the China party for the purposes of transit of the Turkmen and Uzbek gas to the PRC, and 5 bcm annually - for the Kazakhstan party, for the purposes of satisfying the requirement for gas of the RoK's domestic market, and possible gas exports to the PRC. The Project contemplates construction of a 1,304 km trunk gas pipeline with the capacity up to 25 bcm annually.

Project implementation period: 2012-2017.

On 26 September 2011 Heads of Agreement on Organizing Engineering, Finance, Construction and Operation of "C" Line of the First Section of the Kazakhstan-China Gas Pipeline were signed by and between KMG, KTG and TAP Line (China).

As at 31 December 2015, the linear part of the gas pipeline, and compressor stations No.2 and No. 6 were put into operation.

Currently, the designed capacity of up to 12 bcm annually has been reached; taking into account further construction of six compressor stations during 2016-2017, stage-by-stage increase in the gas pipeline capacity to 25 bcm annually is in the works.

Since the gas pipeline was commenced, 5.9 bcm of gas have been transported as at 31 December 2015.

In 2016, according to the approved construction schedule, the plans are to complete construction of and commission compressor stations No.4 and No.8, with reaching the gas pipeline capacity of 19 bcm.

### Construction of the Beineu-Bozoi-Shymkent Trunk Gas Pipeline

For the purposes of sustainable satisfaction of the requirement for gas of the RoK's southern regions, lowering the dependence on the imported gas and ensuring the RoK's energy security, the "Beineu-Bozoi-Shymkent" trunk gas pipeline construction" project is continued.

The gas pipeline route (length - 1,477 km, diameter - 1,067 mm in the single-line design) runs across the territories of Mangistau, Ak-tobe, Kyzylorda and South-Kazakhstan Provinces and has the following technical specifications:

Stage I - 2012-2017, the capacity up to 6 bcm annually;

Stage I - 2013-2017, the capacity up to 10 bcm annually.

On 27 December 2013 gas transportation via the Beineu-Bozoi-Shymkent TGP at the Bozoi-Shymkent section (311-1,453 km) with the capacity up to 2.5 bcm of gas annually was commenced. The "Beineu-Bozoi" section (0-311 km) was commissioned in fall of 2015. On 15 December 2015 the agreement on outsourced multi-discipline expert review of the Project adjustment in order to increase its capacity was made with the State Expert Review Board RSE.



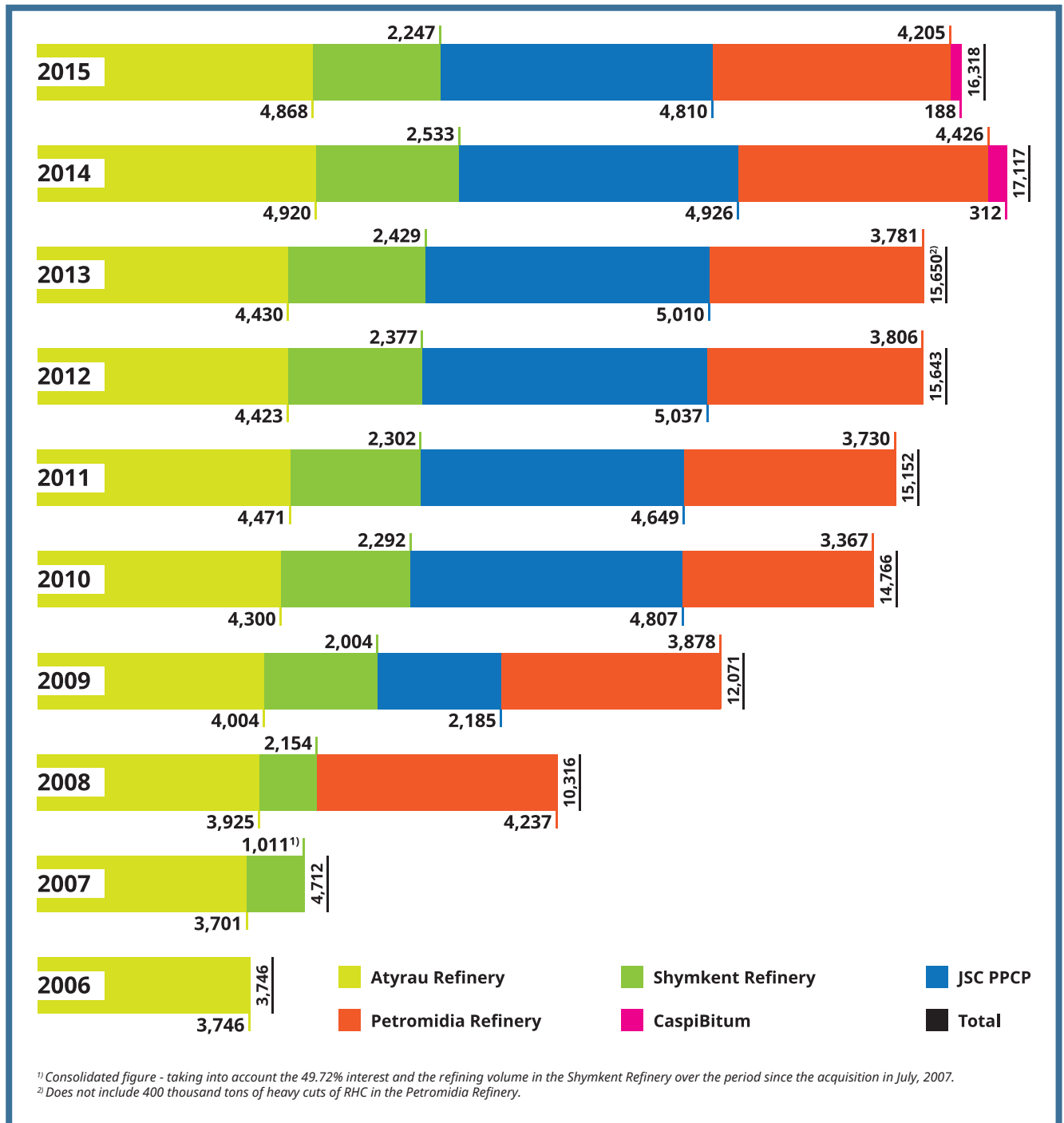
Since the beginning of transportation in late 2013 and as at 31 December 2015, the Beineu-Bozoi-Shymkent gas pipeline had transported 2.6 bcm of natural gas.

Works on construction of line service roads, operation-and-maintenance departments and the “Shornak”, “Karaozek”, “Aksuat” and “Saksaulsk” rotation camps, and the “Bozoi” rotation camp and compressor station are underway.

# Refining

## Oil Refining

Oil Refining Volumes in the Refineries of the KazMunayGas Group





## Atyrau Refinery

Atyrau refinery (AR) was commissioned in 1945. Its designed oil refining capacity makes up 5,0 mln.tons per year.

99,49% of a participatory share in AR is owned by JSC "KazMunayGas – refining and marketing".

In 2006 the first stage of AR reconstruction was completed, which rendered it possible to replace obsolescent and worn-out equipment, improve the quality of gasolines and diesel in terms of sulfur content, increase output of jet fuel and lower the adverse environmental impact.

In 2015 AR refining depth made up 59.17% which is 3.6% less than in 2014. This reduction is explained by the reduction of a share of light oil in the mineral pool. Besides, the first half year 2015 showed oil products glut in the domestic market. The plant had to increase mazut output (export product) in comparison with 2014 by decreasing the diesel fuel output.

### Production of basic oil products, thousand tons

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Gasoline	605	614	505	507	568	601	553	493	470	493	509
Diesel	1 207	1 344	1 222	1 217	1 330	1 259	1 191	1 175	1 019	995	958
Jet fuel	21	23	38	54	46	66	51	47	21	5	21
Fuel oil	1 650	1 510	1 512	1 585	1 786	1 953	1 698	1 566	1 096	1 343	1 345
Other products	1 044	1 113	893	847	489	254	205	330	747	569	466
<b>Total</b>	<b>4 525</b>	<b>4 604</b>	<b>4 170</b>	<b>4 210</b>	<b>4 220</b>	<b>4 133</b>	<b>3 698</b>	<b>3 611</b>	<b>3 353</b>	<b>3 405</b>	<b>3 299</b>

Currently, under implementation of the State Program of Industrial and Innovative Development, the Project of Reconstruction and Modernization of the Atyrau Refinery is implemented in two stages:

▷ Stage 1 – the Project of Construction of the Aromatic Hydrocarbons Production Complex is intended for enhancing the environmental parameters of motor petrol by extracting benzene and aromatic hydrocarbons from naphtha.

▷ Stage 2 – the Project of Construction of Advanced Oil Refining Complex. This project is intended for increasing the efficiency of the Atyrau Refinery up to 5,5 mln. tons per year and allows refining residual heavy oil products into high quality motor fuel meeting the requirements of the K4, K5 environmental class and increases the oil refining depth.

## Shymkent Refinery

Shimkent Refinery was commissioned in 1985. Shimkent Refinery is controlled by PetroKazakhstan Oil Products 49.73 % of which has been owned by JSC NC "KazMunayGas-Refining and Marketing" since July 2007.

The refinery's designed oil refining capacity is 6 mn tons annually.

Currently the balanced plant capacity makes up 5.25 mtpa.

PKOP refining depth in 2015 made up 74.98%, which is 0.79% higher than in 2014.

### Production of basic oil products, thousand tons

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Gasoline	988	1 126	1 038	1 046	996	978	811	843	853	837	843
Diesel	1 192	1 346	1 376	1 336	1 338	1 337	1 276	1 408	1 381	1 287	1 276
Jet fuel	254	279	231	275	218	234	240	275	159	183	133
Fuel oil	889	1 013	968	977	989	931	694	635	552	565	767
Other products	939	1 026	975	943	888	947	765	886	853	905	656
<b>Total</b>	<b>4 263</b>	<b>4 790</b>	<b>4 588</b>	<b>4 577</b>	<b>4 348</b>	<b>4 343</b>	<b>3 785</b>	<b>4 047</b>	<b>3 798</b>	<b>3 777</b>	<b>3 675</b>

Currently, under implementation of the State Program of Industrial and Innovative Development, the project of reconstruction and modernization of Shymkent Refinery is being implemented; its main goals are to recover the design oil refining capacity up to 6 mln. tons per year, enhance the quality and environmental indicators of motor fuels meeting the K4 and K5 ecological class and increase the oil refining depth.

## Pavlodar PCP

Pavlodar PC Plant was commissioned in 1978.

Currently the balanced plant capacity makes up 5.1 mtpa.

The refinery processes the blend of the Urals crude delivered by means of the Omsk-Pavlodar oil pipeline.

100% of shares are owned by JSC NC "KazMunayGas-Refining and Marketing".

PPCP refining depth in 2015 made up 72.46% which is 3.81% less than in 2014. It is explained by reduction in the quality of supplied oil (increase in mercaptan oil, increase in density, decrease in potential of light oil products yield) as well as late commissioning of DCU after reconstruction.

\* discrepancy in sums upon round-off is possible

## Production of main oil products, thousand tons

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Gasoline	1 249	1 259	1 117	1 302	1 194	1 314	1 225	1 155	1 287	1 015	996
Diesel	1 457	1 509	1 473	1 576	1 395	1 478	1 328	1 314	1 425	1 107	1 056
Jet fuel	11	125	133	92	123	190	82	80	77	80	90
Fuel oil	822	668	763	977	885	887	747	794	752	1 242	1 251
Other products	788	852	1 003	701	635	598	438	392	371	218	316
<b>Total</b>	<b>4 327</b>	<b>4 413</b>	<b>4 489</b>	<b>4 648</b>	<b>4 232</b>	<b>4 467</b>	<b>3 820</b>	<b>3 735</b>	<b>3 912</b>	<b>3 662</b>	<b>3 709</b>

Currently, under implementation of the State Program of Industrial and Innovative Development, the project of reconstruction and modernization of Pavlodar PCP is being implemented; its main goal is to ensure the production of motor fuels of K4 class in accordance with the Technical Regulations of the Customs Union.

### CaspiBitum (Road Bitumen Production Plant at APMP\*)

The Road Bitumen Production Plant was commissioned in the end 2013. The oil refining capacity is 1.0 mn tons annually.

50% of the participatory share in CaspiBitum is owned by JSC "KazMunayGas-Refining and Marketing" (via JSC "Kazakhstan Petrochemical Industries").

In August 2014 the plant reached design target values (daily load - 3 thou.tons).

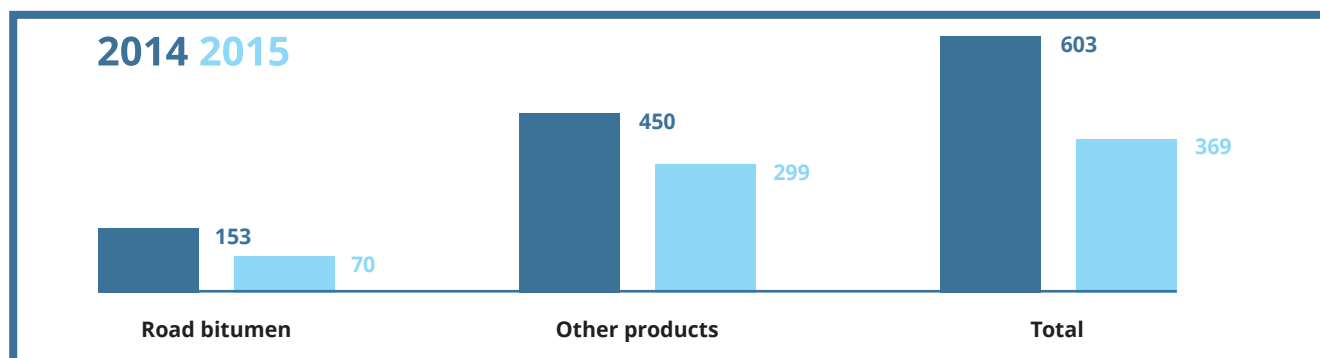
On October 22, 2015 an official production lot of the polymer-modified bitumen was produced at Caspi Bitumen JV LLP at the Chinese SBS polymer with the participation of Chinese experts.

From January 2016 a new standard for the polymer-modified bitumen is put in force instead of the existing one.

The document implementation and its content were performed by Caspi Bitumen JV LLP together with KazDorNII JSC.

As of today the document has received all approvals. The new standard does not include the indicator of "Penetration at 0°C". After implementation of a new standard, Caspi Bitumen JV LLP will be able to certify the produced polymer-modified bitumen.

## Production of main oil products, thousand tons



\* Aktau Plastic Mass Plant

## → International Operations in the Oil Refining Sector

In 2007, KMG acquired the controlling interest (75%) of The Rompetrol Group, a Romanian oil company. In 2009 the rest 25% of The Rompetrol Group were acquired.



KazMunayGas  
International



rompetrol

KazMunayGas  
Group  
Member

In 2014, to strengthen the position of KMG at the market the group of companies was renamed into KMG International N.V. The activity under a unified brand contributes to the recognition of the trademark of all the companies of the group of JSC NC "KazMunayGas" and allows focusing on the promotion of a unified national brand and the country on the whole.

The new shareholder of the Company has forwarded significant investments to the reconstruction of the oil refining capacity, development of logistics infrastructure and expansion of the retail network, which allowed the group of companies to get the status of "Energy Bridge", connecting resources of the Central Asia and with perspective European markets. After acquisition of KMG International the shareholder in the name of JSC NC "KazMunayGas" received access to the European market, comprising about 300 mln of potential customers.

At the present moment the group of companies performs operations in the oil refining sector and oil products sales at 11 markets. The number of employees is about 7,000. The core KMG International's activity is centralized in the Black sea region, in Romania in particular, where the company possesses high technology oil refineries (Refineries) – "Petromidia". The capacity of Petromidia Refinery is 5 mtpa. The strategic location on the Black Sea enables fast oil delivery and shipment of oil products, making "Petromidia" Refinery a significant regional fuel center, and KMG International – one of the major players at the market of oil and oil products.

In Europe KMG International possesses more than 1,100 points of sales at the main markets – Romania, Moldova, Bulgaria, Georgia, France and Spain – that operate under the brand names of "Rompetrol" and "Dyneff".

KMG International performs its trading operations at the international markets through its subsidiaries Dyneff and KMG Trading AG, operating in France, Spain and Singapore. The KMG Trading AG subsidiary is the sole exclusive operator of the crude export from the resources of JSC NC KazMunayGas and jointly-controlled entities.

KMG International, besides its activities in Europe, plays an important role in development of the refining industry of Kazakhstan as well. The engineering units of the subsidiary – KMG Engineering (Rominserv) – actively participate in reconstruction of refineries in the country: Atyrau, Shymkent and Pavlodar Refineries.

KMG International's aim is to secure maximum economic value added for JSC NC "KazMunayGas" from oil refinery, oil and oil products sales at the foreign markets:

- ▶ Ensure access to JSC NC "KazMunayGas" to the international markets by means of development of locations in Europe and promotion of the Kazakh national oil brand name;
- ▶ Increase of operational efficiency and technological equipment to make maximum use of the internal resources of JSC NC "KazMunayGas" in oil refinery and oil chemistry;
- ▶ KMG International's establishment as an integral and diversified oil company at the international markets, competitive in the segment of oil and oil products sales;
- ▶ Providing the consumers with high quality oil products and services by means of an effective supply chain and development of controlled sales channels.

Following the results of 2015, KMG International has achieved the highest results since the acquisition. EBITDA reached the point of USD 162 mn, and the net profit excluding one-time provisions and deferred tax profits amounted to USD 4.7 mn. Improvement of financial indicators in 2015 was possible owing to implemented investments into modernization of the main assets of KMG International, development of the whole business chain and also to the transformational initiatives, aimed at increasing of operational efficiency and decreasing of operational costs in the whole group of companies.

Rompetrol Rafinare – KMG International's subsidiary – consists of two refineries, Petromidia and Vega, and petrochemical complex Petrochemicals.

**Petromidia Refinery** is the key asset within KMG International, the largest and most advanced refinery in Romania. It is situated on the Black Sea, 225 km from the capital of the country and 20 km from the largest port of Romania - Constanta. The refinery capacity is 5mtpa – it is about 40% of the capacity of all the refineries in the country. The refinery, built in 1974-1979, updated in the 90-s, 2005, 2010, nowadays can refine high-sulphur and heavy Urals crude. The last update of Petromidia Refinery, accomplished in 2013, secures the base for the next stage of the European strategy of JSC NC "KazMunayGas" by means of significant technological updates and improvement of economic indicators of the refinery's activity. Owing to the investments in the refinery updating, and also to the initiatives of the transformation programme – Change for Good, today Petromidia Refinery has mastered production according to the standards of the European Union. 100% of the diesel fuel and motor gasoline produced by the refinery corresponds to the Euro-5 norm. Among other technical characteristics of the refinery, it should be noted that its energy efficiency indicator is at the level of 99.8%, light (white) products output – 85.7% and the record daily indicator of the refined raw materials is at the level of 15.2 thousand tons in 2015. Herewith the cost of the refining per ton has been reduced up to USD 16.7.

In 2015 with the help of KMG International's subsidiary – Rominserv, the total overhaul of the refining capacities, situated in the territory of Romania, was successfully accomplished. All the works have been performed within the scheduled time (40 days), and also economy has been achieved in comparison to the initial budget amounting to about 10% from the initially approved budget.

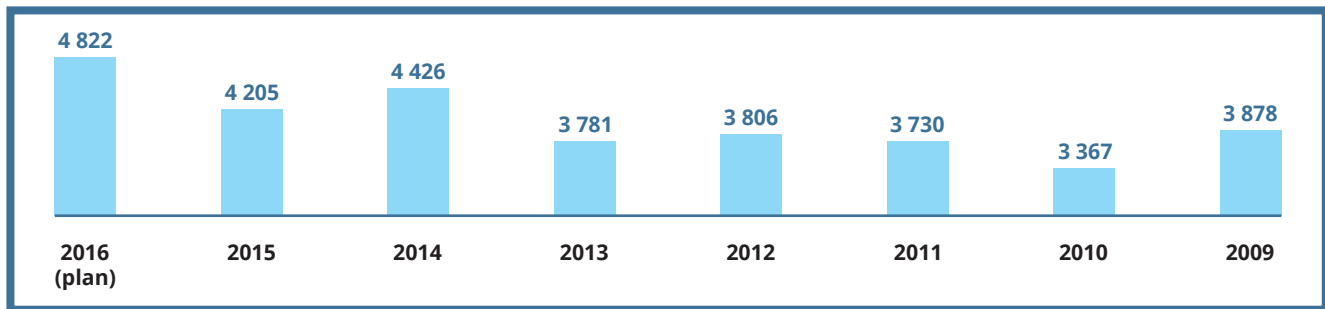


As the result of the efforts of Rominserv specialists and introduction of modern approaches to maintenance, the mechanical availability of Petromidia Refinery increased from 95.87% in 2014 to 96.87% in 2015. This indicator exceeds the initially scheduled level by 96.2%. Such a level of mechanical availability puts Petromidia Refinery on a par with the leading analogous entities in Europe.

**Vega Refinery** is a specialized refinery, situated in the area of 70 ha in Ploesti. The refinery was built in 1905 and updated in 1970-s. The estimated refining capacity amounts to 500 thous tpa. Vega Refinery is the only entity in Romania specializing in refining alternative raw materials (naphtha, heavy hydrocarbons cuts, mazut). The technologies allow the refinery producing a wide range of dissolvent according to the specified data, various bitumen and other specific production. Bitumen production at Vega Refinery is the only one of its kind in the country.

In 2015 the throughput performance amounted to 328 thous tons. The output production is used in chemical, petrochemical, rubber-processing, textile and foot wear industry.

### Refining volumes



**Petrochemical complex (PCC)** – has been integrated with Petromidia Refinery. The existing production of the complex with the initial capacity of 220 thous tons produce polypropylene and polyethylene of high and low pressure of various trademarks. Propylene, produced at the refinery is a source of raw materials. Some ethylene for the production is procured from other suppliers. PCC's throughput in 2015 amounted to 174 thous tons.

### Retail sector

KMGI by virtue of its Rompetrol brand is an affluent trade mark of the national chain of filling stations and fuel distribution stations of other type, known for the high quality of the fuel product suite, complementary services, chain of restaurants HEI and a convenient filling system using Fill&Go cards. The Efix fuel (Euro-5) produced at Petromidia Refinery is the most famous and well-proven brand in the Black Sea region.

Romania is the key market for KMGI, with good sales profitability. The retail market in Romania features not only a high level of fuel sales, but also a significant margin in comparison to other markets of the Black Sea region. The economic growth and rapidly changing infrastructure offer opportunities for quick and profitable expansion.

The KMGI's strategy is to strengthen the company's positions as a major player, making the top of three in the Black Sea region, through seamless development of all sales channels, including further development of its own network of filling stations and rebranding of the existing stations. Consolidation of the positions near Bucharest is the key point of this strategy. Besides, the commercial activity of KMGI in distribution of liquefied petroleum gas will be expanded.

Thus, at the year-end 2015, the company has performed rebranding at its 121 existing Rompetrol filling stations according to the COCO system and at 36 filling stations of the CODO system, placed a number of its own filling stations into dealer operation (CODO), and also completed construction and commissioning of 4 new filling stations, which allowed achieving increase in sales up to 2%.

### Company expected future development

KMGI's business development strategy is based on the idea of vertical integration – "well-to-wheel". Using the resources of the parent company in crude oil production, the KMGI group flows organically from the chain, which realizes oil refining and further sales of oil products with value added.

Geographically extensive business development of KMGI is focused in the regions of the Black Sea and the Mediterranean Sea. The logistic potential gives an opportunity to penetrate in the Black Sea market, where the market of the Republic of Turkey is the largest one. Therefore KMGI is studying the penetration way to the Turkey oil products market.

Also, as part of the KMGI business development, all penetration ways to the perspective markets of Europe, including the markets of Greece, Italy and Spain are being intensively analyzed.

### Process improvement and costs optimization

In short and mid-term KMGI will continue working on the operational costs reduction at Petromidia Refinery. In this regard the projects aimed at cost saving and improving the operational energy efficiency will be implemented. To reduce the electric power and steam consumption cost and to secure uninterrupted supply of electric power for Petromidia refinery, the company considers a possibility of constructing a cogeneration electric station at the facilities of Petromidia refinery with the capacity of 75 MW.

At the same time, within the framework of the programme on increasing the efficiency and optimization of operational units, in 2015 the refining costs were reduced by 27%, and the capacity of Petromidia refinery increased to 98%.

## Company's share in the key markets of presence

	Unit of measure	2015	2014	2013	2012	2011	2010
<b>Downstream Romania</b>	<b>thous tons</b>	<b>1486</b>	<b>1653</b>	<b>1568</b>	<b>1426</b>	<b>1486</b>	<b>1398</b>
Market share	%	25%	27,4%	27%	24%	25%	24%
<b>GAS Romania</b>	<b>thous tons</b>	<b>274</b>	<b>282</b>	<b>260</b>	<b>289</b>	<b>274</b>	<b>263</b>
Market share	%	34%	39%	37%	41%	34%	41%
<b>Georgia</b>	<b>thous tons</b>	<b>151</b>	<b>206</b>	<b>158</b>	<b>145</b>	<b>151</b>	<b>140</b>
Market share	%	18%	23,43%	19%	15%	18%	18%
<b>Moldova</b>	<b>thous tons</b>	<b>58</b>	<b>188</b>	<b>128</b>	<b>76</b>	<b>58</b>	<b>56</b>
Market share	%	7,3%	29%	20%	10%	7,3%	7,2%
<b>Bulgaria</b>	<b>thous tons</b>	<b>206</b>	<b>206</b>	<b>156</b>	<b>165</b>	<b>206</b>	<b>180</b>
Market share	%	6%	8,75%	6%	6%	6%	5%
<b>France and Spain</b>	<b>thous tons</b>	<b>2082</b>	<b>2026</b>	<b>2101</b>	<b>1936</b>	<b>2082</b>	<b>2208</b>
Market share France	%	3,2%	3,14%	3,1%	3,0%	3,2%	3,3%
Market share Spain	%	1,0%	1,21%	1,4%	1,0%	1,0%	1,1%

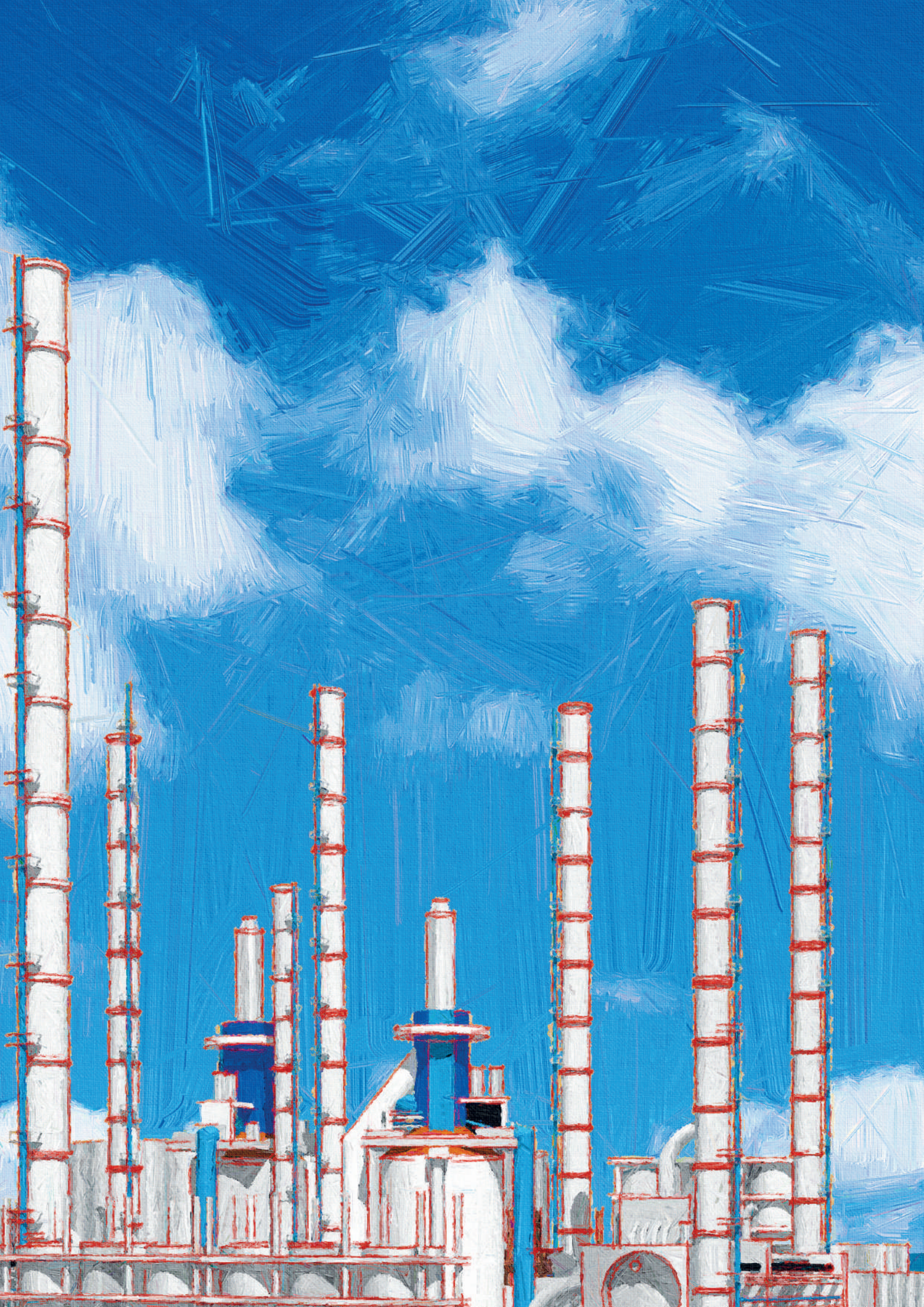
### KMG International Ltd. Activity in Kazakhstan

Rominserv is a general contractor of KMG and provides services on industry maintenance, project management, technical and technological development. In August 2011 the company completed two projects at the Atyrau Refinery: reconstruction and modernization of the ADU unit and reconstruction and modernization of the Delayed Cocker Unit.

In 2013 Pavlodar Petrochemical Plant, LLP announced transition of the reconstruction works to the new stage after signing an agreement on master list development with Rominserv. Modernization of the plant in Pavlodar is in the implementation phase, the existing agreement provides for completion of all the works aimed at the achievement of ensured performance indicators of the entity.

In 2015 Rominserv entered into its first agreement on consulting services in occupational safety with 5 Kazakhstan entities. After completion of this project it is scheduled that the security standards applied will be conforming to the best world practice.





## → Investment Projects to Develop the Refineries

Following the Government programme on industry and innovation development of the Republic of Kazakhstan investment modernization and reconstruction projects are being implemented at all the three refineries of the Republic.

Updating of the refineries will allow replacing obsolete and worn out equipment, improving oil products quality according to the requirements of emission standards K4, K5, increasing secondary processes capacity and oil refining depth, reducing environmental impact.

As a result of the projects implementation the oil refining capacity of Kazakhstan will make 16.6 mtpa. Such basic production for petro chemistry as benzene and paraxelene will appear.

### Modernization and Reconstruction of the Atyrau Refinery

In 2009 a turnkey EPC-contract was entered into with Sinopec Engineering Company (China) on the project of "Construction of a Complex for production of aromatic hydrocarbons".

Aims of the project:

- Output of products with high added value – benzene (up to 133 thous tpa) and paraxelene (up to 496 thous tpa).
- Ensuring of the output of K3 motor fuels, in accordance with the requirements of the Technical Regulation of the Customs Union.
- Increasing of the refinery balanced capacity up to 5.5 mtpa.
- Reducing environmental impact due to the decreasing environmental emissions.

The first start-up complex (catalytic reforming unit with continuous catalyst regeneration with the benzene extraction block):

- In July 2015 a pilot batch of benzene was produced.
- In December 2015 the first start-up complex was brought into production (catalytic reforming unit with continuous catalyst regeneration with a benzene extraction block).

Second start-up complex (aromatic hydrocarbons unit):

- In October 2015 a pilot batch of paraxelene was produced;
- The works on bringing the object into production are carried out.

In 2011 a turnkey EPC-contract was entered into with the contractors' consortium Sinopec Engineering /Marubeni/KazStroyService OGCC JSC (CPR/Japan/Kazakhstan) on the project of "Construction of an Advanced oil refining complex".

Aims of the project:

- Increase of oil refining depth.
- Ensuring of the output of K4 and K5 motor fuels, in accordance with the requirements of the Technical Regulation of the Customs Union;
- Increase of the refinery capacity from 5.0 to 5.5 mtpa.

Preparation of designs and construction and assembly works are carried out. The works on concrete piles driving, foundation, and mounting of the equipment, underground pipelines and reservoirs are executed. The orders for the supply of large-size equipment with long lead time are placed in full, the equipment delivery and mounting is carried out.

The scheduled term of the mechanical Project completion is 2016.

### Modernization and Reconstruction of the Shymkent Refinery (PKOP, LLP)

Italian company Technip S.p.A. together with EC Kazgipronefttrans LLP have developed Feasibility study of the project of modernization and reconstruction of Shymkent Refinery. Design and estimate documentation for the units of sulphur regeneration, dizel hydro-treater, isomerization and main phase as well is being developed.

Aims of the project:

- Increase in efficiency up to 6 mtpa of oil;
- Output of K4 and K5 motor fuels, in accordance with the requirements of the Technical Regulation of the Customs Union;
- Increase of oil refining depth.

According to Phase I:

Dizel hydrotreatment and sulphur units have been put into operation.

In 2014 a turnkey EPC-contract for construction of the isomerization unit was signed. Construction and assembling operations, order and delivery of technological equipment are carried out now.

According to Phase II:

On January 16, 2015 an EPC-contract was signed. Development of designs, placement of orders for production and delivery of equipment, preparation to construction and assembling works are performed.

Project deadline: 2011-2017.

### Modernization and Reconstruction of the Pavlodar PC Plant

Aim of the project: Ensuring of the output of K4 motor fuels, in accordance with the requirements of the Technical Regulation of the Customs Union.



The contractors of the project are Rominserv S.R.L. (Romania) и NFC (CPR).

In May 2015 project optimization was performed, reducing work scope and cost of the project. 26.05.2015 – the decision was coordinated with the Intergovernmental commission for development of the oil and gas and energy industry.

03.12.2015 – a positive conclusion on DED for Start-up complex 1 was received.

DED for Start-up complex 2, 3 is being considered by PLT Gosexpertiza.

At the units of Start-up complex 1 construction and assembling works are carried out: foundation, mounting of equipment and steel constructions.

The works on development of designs, placement of orders for production and delivery of equipment are carried out on the sulphur unit, forming part of Start-up complex 2.

The project deadline: 2011-2017.

## → Operations in Gas Refining

Under the Agreement between KazRosGas LLP and GasProm Dobycha LLC processing of crude gas at Karachaganak field in a volume of about 8 bln. cbm is performed at Orenburg gas processing plant. The commercial gas is transported to the internal market of Kazakhstan and for export as well.

Orenburg gas processing plant of Gasprom OJSC was founded on the basis of Orenburg gas condensate field, discovered in 1966. Stripped gas, stable condensate and stabilized crude, industrial sulphur, broad fraction of light hydrocarbons, odorant, liquid petroleum gas and fuel gas are main processing products.

## Marketing and sales

### → Oil and Oil Products

KazMunayGas – refining and marketing, JSC (KMG-RM) sells a broad range of products, both for export and to the internal market of the RoK (wholesale and retail).



Retail sales of oil products in the market of Kazakhstan is carried through the net of gas filling stations under the brand name “KazMunayGas” (KazMunayGasOnimderi LLP), situated in all the regions of Kazakhstan, in Astana and Almaty.

The Company's share in the retail market of oil products of Kazakhstan as of 01.01.2016 is 16%. By 2018 it is scheduled to increase the market share not less than by 20%, and by 2022 – up to 32%.

The expansion programme of personal network sales under the brand name KazMunayGas is carried out both due to construction of new filling stations and acquisition and re-equipment of existing filling stations. By the construction of filling stations of KMG the best world practices are used, module constructions, up-to-date fuel-dispensing units and progressive software are installed. As of December 31, 2015 KMG-RM owned 321 filling stations, 305 of them – were own, 1 – leased, 3 – combined (fuel filling stations/gas filling stations), 12 gas filling stations, including 1 ACSGF, and also 11 petroleum depots and 2 camping grounds. In addition, in the fourth decade of 2015 implementation of the CODO program was started – outsourcing of management in 151 filling stations to sole proprietors.

KMG, as a national operator in the oil and oil products segment, makes shipment of socially important oil products at a reduced price in accordance with the schedules of the Ministry of Energy. Annually KMG RM at sowing and harvesting times supplies diesel fuel at a reduced price to the agricultural producers, and as heating season sets in, makes shipment for heating of social and production facilities and institutes. In 2015 for the need of agriculture 120 thous tons of diesel fuel, and 24 thous tons of mazut were offloaded.

Besides, following Decree of the Government of the RoK as of 12.12.2014 No. 1304 sole oil supplies operators to the Military Establishment of the Republic of Kazakhstan, the Frontier Service of the National Security Committee, the National Guard of the Republic of Kazakhstan, an authorized body in civil protection and an authorized body in state material reserve have been determined:

1. Benzene and diesel fuel – KazMunayGasOnimderi LLP;
2. Aircraft fuel – KazMunayGas-Aero LLP;
3. Mazut – JSC KazMunayGas – Refining and Marketing.



KMG RM in 2015 supplied 22 thousand tons of railroad and auto mazut to the Frontier Service of the National Security Committee and National Guard of the Republic of Kazakhstan.

As part of one of the strategic aims of its activity in the sector of oil products marketing a competitive entity is being developed in the market of aircraft fuel supplies to aircraft operations in the RoK – KMG-Aero, founded in 2014. At year-end 2015 KMG-Aero has sufficiently expanded its geographical footprint. Filling of aircrafts was performed in all the airports of the RoK. To the contractors of the Partnership belong such airline companies as SCAT, Air Astana, Zhetysu, Berkut, Bek Air, Kaz Air jet and airports: Aktau, Atyrau, Karaganda, Kyzylorda, Taraz, Kostanay, Pavlodar, Uralsk and Kokshetau. The sales volume if compared to 2014 has increased almost nine-fold and amounted to 61.5 thousand tons. The market share of KMG-Aero at the year-end 2015 made about 10%.

Besides, in accordance with the Agreement between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on trade and economic cooperation in oil and oil products supply to the Republic of Kazakhstan as of December 9, 2010 (the Agreement) and to the Procedure of oil counter-delivery to the Russian Federation for imported oil products from the Russian Federation to the Republic of Kazakhstan, which is an integral part of the Agreement, KazMunayGas – Refining and Marketing JSC has been determined as a company-operator for counter-delivery of oil to the Russian Federation.

Pursuant to the Agreement KMG-RM has sold crude oil of the Kazakhstan oil producing organizations to the Russian oil companies from August 2014 to August 2015 (inclusive) to the total volume of 2.95 million tons.



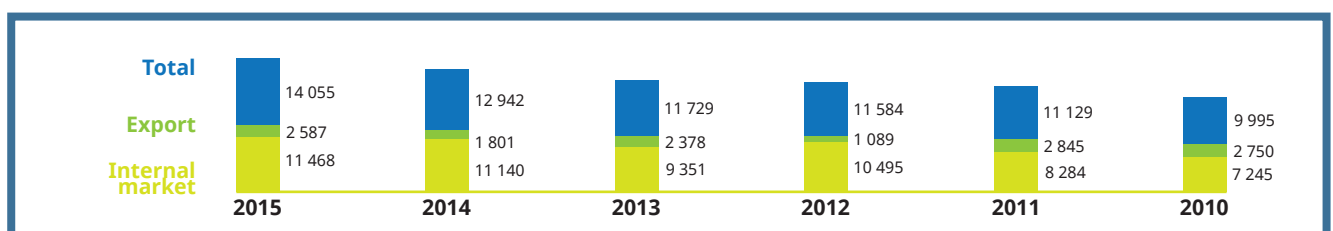
## → Gas

Natural gas marketing in the internal market is done by the subsidiaries of KazTransGas JSC – KazTransGas Aymak JSC and KazTransGas-Almaty JSC. The functions of these companies include wholesale of natural gas for the internal market, gas transportation along the regional gas distribution objects and networks and natural gas sale in the internal market.

Gas export to the external markets and gas sales for the needs of Kazakhstan internal markets, including mutual deliveries (SWAP-operations), is performed by KazRosGas LLP founded in 2002. On the priority base of JSC NC "KazMunayGas" and Gazprom OJSC. KazRosGas LLP gets the volumes for sales under the terms of the "Agreement of purchase and sale of Karachaganak crude gas for a term of 15 years".

Gas supply of the south regions of the RoK and Kostanay region is realized within the SWAP-operations with Gazprom OJSC due to the resources of Uzbek gas over the gas pipelines of BGA-TBA and Gazli-Shymkent, and the Uzbek and/ or Turkmen gas over the Turkmenistan-China MGP the Kazakh gas over the Bozoy-Shymkent gas pipeline and also the Russian gas over the Bozoy-Shymkent gas pipeline. Gas supply of the western region of Kazakhstan is carried out by means of the gas resources of the Kazakh subsoil users.

### Natural gas sales, mln cbm



## ➔ Development of support-sector projects

### The “Jack-up Drilling Rig Construction” Project

KMG Drilling & Services is implementing the “Jack-up Drilling Rig Construction” (JUR) project. Within the framework of this project, the agreement on construction of the JUR with the consortium of the Keppel Kazakhstan LLP and the Ersai Caspian Contractor LLP was signed on 5 July 2012. The plans are to complete the JUR's construction and acceptance in 2016.

### KMG Drilling & Services LLP's project for implementation of the Tengizchevroil LLP's drilling programme, performed jointly with Nabors Drilling International Ltd.

Implementation of the project was initiated within the framework of the Memorandum between the RoK's Government and the Tengizchevroil LLP “On cooperation for the purpose of promoting investment, education and training, and employment in the RoK through implementation of the Tengizchevroil LLP's Future Growth Project and Wellhead Pressure Control Project” of 14 November 2013.

On 21 April 2015, the agreement on establishment of the KMG Nabors Drilling Company LLP joint venture was signed by the KMG Drilling & Services LLP and Nabors Drilling International Ltd. Creation of a centre of competences on the premises of the KMG Nabors Drilling Company LLP will make it possible to adopt Nabors' experience, technology and management system, train highly-knowledgeable staff in drilling services in compliance with the world's best practice. In the long-term, efficient operations on major oil-and-gas projects in the RoK as a drilling contractor.

Since October, 2015 the KMG Nabors Drilling Company LLP has been performing drilling work at the Tengiz field within the framework of the service order signed with the Tengizchevroil LLP.

### Industrial infrastructure projects implemented jointly with Eni S.p.A. (Italy)

On 16 May 2014 the Heads of Agreement on the Issatai Project and the Cooperation Agreement on the Shipyard Project Phase 2 were signed between JSC NC “KazMunayGas” and Eni, under which both companies agreed on the basic technical and commercial terms of these projects.

On 26 May 2014 the contract for front-end engineering and design (FEED) and development of the design-and-estimate documentation on the “Shipyard” project was made.

Public consultations on the “Shipyard” project (EIA) were held in Kuryk on 26 August 2015 with the involvement of governmental agencies and mass media.

### KMG's Innovation-and-Technological Development

#### Implementation of the 2014-2018 Innovation-based-and-technological Development Strategy

In 2015 KMG continued gradual implementation of the 2014-2018 Innovation-based-and-technological Development Strategy of JSC NC “KazMunayGas”. As a result of the works performed, during 2014-15 we managed to ensure growth in the ITD indicators determined by the Industrial-and-Innovation Policy of the Samruk-Kazyna SWF.

In December, 2015 the design-and-estimate documentation package on the Shipyard was sent to the State Expert Review Board RSE for obtaining an appropriate opinion.

### “Cargo Transportation Route” Project

On 11 March 2014 KMG's Investment Committee resolved to approve the implementation of the “Cargo Transportation Route” investment project. The principal objective of the project is development of the marine transportation hub in the Northern part of the Caspian Sea in order to satisfy the Tengizchevroil LLP's (TCO) requirement for transshipment of large-size modules and other cargoes required as part of the future growth project (FGP).

The contract for construction and operation of the facility was signed between the TenizService LLP and TCO on 15 May 2014.

In October, 2014 the works on dredging of the Sea Channel were commenced and are underway as of today. Within the scope of the preparatory works on the onshore facilities, quarrying, construction of access roads and the construction workers' rotation camp are in progress. Development of the design-and-estimate documentation on the onshore facilities has been completed and now engineering documentation for construction of the onshore facilities is being developed.

Positive opinions from the State Expert Review Board on the design-and-estimate documentation for construction of the onshore and offshore parts of the project have been obtained.

### AktauOilMash LLP JV establishment project

Within the framework of creating new oil and gas equipment production facilities, in 2013 KMG entered into a Memorandum of Cooperation with the Russian company Sputnik-Integratsia Ltd., under which the AktauOilMash LLP (AOM) joint venture was established. AOM is specialized in producing various types of equipment, including the following: oil/gas fiscal metering units, liquid/gas rate measurement units, modular cluster pump stations, oil/gas treatment facilities, pump and compressor unit oil supply systems, integrated power supply systems and some others. A 10 ha land plot in sub-zone No. 1 of the Aktau Seaport SEZ has been registered for construction of the plant, AOM has also leased out production shops on the APP's territory, owned by the KPI JSC, with the total area of 17.5 thousand m<sup>2</sup>, around 200 engineering employees and blue-collar job workers are employed, the administrative and management personnel has been formed, CT-KZ certificates for all types of output products obtained. Currently, agreements on production and delivery of various types of oil and gas equipment are in place between the AktauOilMash LLP and KMG's subsidiaries for the amount of around 6 bn KZT. The JV should reach its full capacity and range of products by 2018.

ITD's KPIs	units	2013	2015
Infrastructure expenses share in the company's proceeds	%	0.51	11
Share of staff engaged in innovations, in the total headcount	%	0.29	1.14
Number of projects / rationalization proposals introduced after approval by the STC	units	28	39
R&D expenses share in the company's proceeds	%	0.01	0.72
Share of investment in innovation-based projects in the company's proceeds	%	0.06	2.44



An innovation-oriented infrastructure has been created in the Company, whose basis is formed by the subsidiaries – Research and Development Institute of Production and Drilling Technology LLP (KMG RDI PDT) and the Scientific-and-Technical Center of KazMunayGas Joint-Stock Company (KTO STC).

The “Center of Competences” has been established on the premises of KMG RDI PDT, which is fit with the state-of-the-art equipment and software for carrying out space visualization, real-time support to well drilling, operations with data bases and geologic-and-hydrodynamic models of the Company’s fields.

In the upstream sector works on creating the smart field system, GPS monitoring system, intelligent well management station etc. have been continued. The company is implementing the technologies of polymer and cyclic flooding, lateral drilling, oil-contaminated soil disposal, radioactive scrap metal decontamination etc. Works on construction of the unit for desulphurization of the associated petroleum gas of KMG’s Prorva group of fields are in progress.

In the oil and gas transportation, the technologies of increasing pipeline corrosion protection, automation of the remote control of the electrochemical protection means parameters of trunk gas pipelines are being implemented. Works on upgrading the gas-distributing grids in the South Kazakhstan Province and Taraz are underway. Modern systems of oil treatment and heating during transportation have been introduced.

In the refining sector, modernization of the three Kazakhstan refineries is underway, projects for installation of equipment based on membrane bioreactors for waste water treatment, stationary system for vibration monitoring of the pump and compressor equipment of the refineries etc. are being implemented.

In 2015 exploration works on the project for extraction of the coal-bed methane of the Karagandy Coal Basin were started (exploratory drilling, core sampling and analysis, reserves estimation).

### ITD corporate culture development

In an effort to develop the corporate innovation-oriented culture of JSC NC “KazMunayGas”, the Rationalization and Inventive Activity Policy in the KMG Group of Companies was developed, which stimulates development in the SDEs of the rationalization activity support mechanisms.

Following the 2015 results, the most efficient rationalization activity support system was implemented in JSC “KazMunayGas - Refining & Marketing”, which was given the 2nd place of honour at the Republic-wide contest “Ratsionalizator.kz”.

Within the existing Youth Policy, in 2015 KMG launched the Competition for the Best Innovative Projects of the Company’s Young Employees, where 30 young employees took part in. A.S. Kozhash, Geo-Technician of the Reservoir Engineering Department of the Karazhanbasmunai JSC who came up with the idea of using a screen pipe for protection of oil well pumping units and the gathering and treatment system against the impact of mechanical impurities was declared the winner of the Competition. The second place was taken by R.O. Akmukhanov, Senior Well Survey Engineer of the Karazhanbasmunai JSC, with the proposal concerning integrated treatment of the bottomhole formation zone (surfactants), the third place was given to A.M. Izuyeva, Grade 3 Lab Assistant of the Control Lab of the Pavlodar Petrochemical Plant LLP with the idea of using oil sludge in brick making, which will make it possible to reduce energy costs and improve the quality of output products. The winners were awarded training certificates and letters of appreciation. A number of projects was recommended for consideration at the Science-and-Engineering Councils of the SDEs for possible transition to the phase of production tests at proving grounds with further rollout across the KMG group of companies.

Kazmunaygas intends to further continue the work on stimulating and supporting innovations. In 2015, the intranet portal pilot platform (idea fund) was created, based on which it is planned to carry out search for and selection of the best innovative ideas and rationalization proposals in the KMG group of companies on a regular basis.

## → Sustainable development

Since 7 February 2006 JSC NC “KazMunayGas” has been the member of the UN’s Global Compact and has consistently supported its system of universal values.

For KMG this means striving for production, transportation and refining of oil and gas with minimum environment impact and without harm to the employees, contractors and people, inhabiting the regions, where KMG performs its operating activities.

The main directions in the area of sustainable development in 2015 were determined:

- development of the integrated management system in the area of quality;
- environmental protection;
- occupational health and safety;
- energy-saving;
- introduction of the sustainable development principles;
- ensuring security at the work place;
- development of human capital;
- Investments into development of the Company’s presence areas;
- Cooperation with the interested parties.

The Concept in the area of sustainable development of JSC NC “KazMunayGas” was placed on KMG’s corporate web site [www.kmg.kz](http://www.kmg.kz) in the section “Sustainable Development” and is available to all stakeholders of the Company. In order to implement the Concept, KMG’s Management Board on an annual basis considers the matter of execution of the actions adopted for its implementation. To one of the main events belongs the annual publication of the report on sustainable development in accordance with the international reporting standard GRI-G4 (Global Reporting Initiative Version 4).

A report of KMG International (Rompetrol), a KMG’s subsidiary, deserved a title of “the best report on the sustainable development in Romania for 2013-2014”, awarded by Deloitte, and was one of the nominees for the title of “The best report on the sustainable development in Europe for 2014”.

Within the framework of the sustainable development concept, KMG is implementing the programs on the three main directions: economic, environmental and social.

KMG has been compiling reporting on its activity in the area of corporate social responsibility on an annual basis since 2008.

To improve social well-being of each company's employee and strengthen the responsibility of the employer and employees for the results of production and economic activity, and also to achieve an appropriate balance of parties interests within the framework of social partnership, there are collective employment agreements in the KMG entities. In 2015 the quantity of SDEs where the employees entered the collective employment agreement amounted to 37. In the entities of the KMG group of companies a warranted social package is implemented, including 10 types of material aid, social benefits and compensation, social warranties. Besides, the employees are granted an additional social package in accordance with the collective employment agreements. In 2015 the employees of the main SDEs of KMG, being a part of the consolidation of KMG, were granted social aid to the amount of about 26 bln KZT.

The Block of Human Resources and Remuneration continually takes measures to prevent labor disputes and conflicts in the KMG SDEs. Constant monitoring and actions to prevent social strain in 2015 allowed saving stability and reducing social strain in KMG SDEs. In 2015 the number of requests (complaints) substantially decreased as compared to 2014 (2014 – 52 requests, 2015 - 29).

In accordance to the “Model rules of the integrated system of interior communication lines of the KMG SDEs” (the Rules) the work on implementation of the tools of interior communication lines is continued. At present the Rules have been implemented at 25 KMG SDEs. Pursuant to the Rules requirements twice a year summary meetings of the chief executive officers of the KMG SDEs with the staff take place, quarterly meetings of the line managers with the staff and also meeting of the chief executive officers with trade unions or representatives of other collectives are held.

In 2015 81 summary meetings of the chief executive officers of SDEs on the results of 2014 were held. In 2015 the employees of the Social Policy Department of KMG participated in 11 summary meetings of the chief executive officers and more than 30 meetings of the line managers with the staff of the enterprises of the JSC “KMG Exploration and Production” group of companies, JSC Mangistau-munaygas (MMG) and SDE Aktaunefteservice, LLP (ANS) as well.

Besides, the employees of the Social Policy Department during 2015 have separately held 25 meetings with the employees, explaining application of the Employment law of the RoK, the Model rules of the integrated system of the interior communications, the order of holding meetings (conferences) in the territory of KMG's SDEs and answering the questions submitted.

At the same time, the Rules provide a number of other tools for information sharing: corporate sites, trust lines, suggestion boxes for the employees and others. By means of the feedback tools constant information sharing between the managers and employees is secured.

The Block of Human Resources and Remuneration along with the Corporate Security Department of KMG permanently hold real time conferences with the deputies of the KMG SDEs on social issues in the mode of audio conferences to monitor the current local situation and taking corresponding measures, if necessary.

In December 2015 in Aktau there was a meeting with the deputies of chief executive officers and subdivisions managers for social issues from all the KMG SDEs, where the year work was summed up, recommendations were given and the main 2016 objectives were determined.

The work on pilot implementation of an automated system of social climate monitoring in MMG and the subsidiaries of ANS is carried on. These tools will allow gathering information on each SDE, forming a single database and centralizing information transfer on the social





climate in KMG. The tools stipulate preliminary following of any factors of social tension and development of measures to prevent it. In the current year it is planned to implement such new tools for consolidation of collectives as corporate Spartakiada and a professional competition "The best in the occupation" among the employees of blue-collar jobs.

To develop potential of young specialists a "Youth Policy of JSC NC "KazMunayGas" has been worked out and approved, unified directions of its activity have been defined. As part of this work various subject meetings, discussions, master classes, trainings and a number of intellectual and other events are held (in 2015 5 events were arranged at the KMG level, 65 at the level of the KMG SDEs). At the present time the Youth Boards function in 28 enterprises of KMG.

KMG is focused on training of young specialists. The agreements with specialized HEIs of the country (KBTU, KazNTU after K. Satpaev, Atyrau Institute of oil and gas, Aktau State University after Sh. Yessenova, KIMEP, ENU after L. Gumilev, etc.) on practical training of students. Annually in the KMG group of companies about 3.5 thous of students do practical training or predegree practice both in central offices of enterprises, and in manufacturing subsidiaries. For transfer of experience and sophistication a key worker from the experienced workers is assigned to every student.

Within the framework of the Transformation Programme and the Assignment of the Chairman of the Management Board of KMG on improvement of the procedure of personnel recruitment the Rules of competitive selection for vacant administrative positions were amended and supplemented in 2015, on the basis of which the Corporate Centre of KMG has completely crossed over to the system of "transparent" competitive selection.

Thus, at year-end 2015 for 60 vacant positions in KMG out of 3,447 CVs 188 have been selected, 159 candidates were referred for a testing. According to the tests results 72 candidates were considered by the Contest Committee, out of which 41 persons were employed. The procedures of competitive selection were implemented in the corporate centers of such SDEs as KMG Exploration and Production, KazMunayGas-Refining and Marketing, KazTransOil and KazTransGas.

In 2015 on the basis of the existing training system of the KMG personnel and reporting of Kazakhstan-Britain Technical University a New Training Model Concept for the KMG personnel was developed and approved. It supposes 70% of training at working place, 20% - internal training and 10% - external training.

To implement the new training model the following actions have been taken:

- access to the information base and library of KBTU for self-education of the KMG employees and succession pool members;
- a Regulation on internal KMG trainers was developed and approved;
- translation of the received knowledge by the employees, who completed trainings;
- development of a questionnaire for the managers and employees on evaluation of the trainings taken;
- a plan of obligatory training events on implementation of external training was approved. This plan includes training events according to the requirements of the law of the RoK, Instructions of the Government of the RoK, execution of decisions of the Board of Directors, Management Board of KMG, development of an Integrated Succession Pool, development of managerial competences of executives and managers, directors of departments.

To secure a common and system approach to training of the personnel of the KMG group of companies and effective application of funds allocated for training as part of contractual obligations on subsoil usage, where KMG is a subsoil user, a "Procedure of training the employees of the JSC NC "KazMunayGas" group of companies under the funds specified by the contracts for subsoil use" was developed and approved. This procedure prescribes the order of placing for training the employees, executing subsoil use obligations, and also citizens of the Republic of Kazakhstan, according to the list of popular professions in the oil and gas industry.

Thus, in 2015 within the framework of contractual subsoil use obligations 146 persons completed training for the total amount of 191,582,866 KZT, 59 of them being the KMG employees for the total amount of 68,565 thous KZT, 42 employees of the contractor for the total amount of 82,986 thous KZT and 45 citizens of the Republic of Kazakhstan for the total amount of 40,031 thous KZT.

As display of the KMG group of companies' adherence to the development of human capital assets pilot projects of dual training were launched in the regions of presence: "Pavlodar Petrochemical Plant" LLP, JSC "Intergas Central Asia" and JSC "Embamunaygas". The main principles of dual training organization are as follows: 60% training time at an enterprise and 40% training time at a college.

In 2015 at the Pavlodar Petrochemical Plant 79 students of the Pavlodar chemical and technical college did practical training, 40 of them are the students in the specialty of "Technology of oil and gas refining" and 39 in the specialty of "Equipment maintenance and repair".

Following the results of the practical training on dual training form at the Pavlodar Petrochemical Plant 31 alumni of the college were employed in 2015 for the working positions.

On the basis of JSC "Embamunaygas" according to the decision of the KMG Management Board as of August 13, 2015 a pilot project on organization of dual training for 34 students of Atyrau Institute of oil and gas in the specialty of "Development and operation of oil and gas fields" (19 students of 3 course and 15 students of 4 course) and for 5 students in the specialty of "Operation of oil and gas fields" of High school APEC Petrotechnic» (3 course) was launched in 2015.

According to the accepted international practice of efficient human resource management the procedure of evaluation is based on the evaluation of business and leadership qualities of employees considering the performance assessment acquired by employees during the reporting year.

Thus in 2015 a Typical model of personal (business) competencies of executives, managerial and administrative personnel of the KMG group of companies was developed and approved.

In accordance with the approved competencies model the first phase of the project of evaluation of the managers of the KMG group of companies was implemented. As part of the first phase in 2015 71 top managers of KMG and SDEs and 36 directors of departments were assessed. The second phase is scheduled to be implemented in 2016. According to the results of the evaluation Individual Development Plans (IDP) and a Plan of succession to the key positions of the KMG SDEs will be formed.

Within the framework of implementation of the Road map of the Transformation Programme in 2015 an Integrated Succession Pool (ISP) was formed in the KMG group of companies. It consists of 30 employees, 12 of them are the employees of the SDEs and 18 are the KMG employees. 5 of the 30 reservists have the results of career progression. To implement an individual development plan special module training programmes have been developed together with the KBTU for the reservists of the KMG group of companies. At year end 2015 10 seminars were held for 29 reservists, and also the training was arranged for the 6 reservists according to the Dual Degree Executive MBA programme.

As part of the events on improvement of the remuneration scheme the best global practice is applied in positions evaluation (from administrative employees of the Corporate center to top-management of the operational SDEs) according to the methodology of HAY Group. The results of this project are as follows:

- analysis and description of more than 300 positions of the Corporate center and Top-managers of the SDEs;
- evaluation of the positions according to the international methodology and distribution of all the positions by levels (Grades);
- analysis and recommendations on improvement of the remuneration system;
- analysis and suggestions for improvement of the organization structure.

To enhance efficiency of transport subdivisions the "Procedure of determination of personal number of the KMG group of companies, necessary for the maintenance and repair" (the Procedure) was tested. The aim of the Procedure is to provide the enterprises with the corresponding approaches and basic data, that enable planning the costs for attraction of transport services in the oil production enterprises. In the course of the Procedure testing the transport enterprises/ subdivisions with the number of staff more than 9 thous employees were considered.

### Health, Safety and Environment (HSE)

To achieve high results in HSE (level of the companies in the top quartile of the International Association of Oil and Gas Producers (IOGP)), it is necessary to change the approaches and define priorities in HSE according to the global practices, namely:

- Priority of human life and health over the results of the production activity;
- Leadership of the managers of all the levels in HSE;
- Personal liability of employees for observance of the safety rules;
- Safety culture development (safety culture improvement), focused on avoidance of accidents and incidents;
- Effective communication between all the interested parties;
- Rational utilization of energy resources and energy efficiency;
- Increase of the environmental safety level of the producing enterprises of the Company to the level corresponding to the best international standards.

Thus, within the framework of the Transformation programme the issues of HSE management were prioritized as business-lines to be transformed primarily, and this choice was made not without reason. Activity of any company and its contractors is potentially hazardous for people and environment and may cause injuries and assets loss, underperformance, financial losses and have negative impact on the company's reputation.

### Advances in HSE

2015 was a year of organizational changes, start point of changes in the cultural behavior of the employees, determination of the current state of HSE, setting of short-term and long-term goals and development of plans by the best way towards these goals.

The first steps on HSE transformation in the Company were connected with the creation of a multidisciplinary organizational structure, including the specialists in the following areas:

- Health safety;
- Labor safety;
- Industrial safety;
- Fire protection and extraordinary situations (ES);
- Transport safety;
- Emissions management;
- Energy management;
- Sustainable development.

A Functional committee for HSE has been constituted. The functions of the committee are as follows:

- Representation of the interests of the chief executives, and not only the HSE interests;
- Determination of the Company's strategy in health, safety and environment and preparation of recommendations and events;
- Managing of the purpose-oriented HSE programs and resources supply to complete the five-year plan;
- Development of recommendations on risks and opportunities in HSE.

At the next stage it is planned to implement a system of HSE committees in the KMG group of companies. The key indicators of HSE activities were implemented into corporate KPIs of the Company and cascaded to the chief executive officers in all the subsidiaries of the Company. Open and transparent reporting requirements (with encouragement for full information instead of punishments for unsatisfactory indicators) were implemented.

A contest of the chairman of the Management Board for the best innovative HSE idea was held. The goal of the contest is to show the Company's employees the importance of their personal involvement in improving working conditions and environment, and also to demonstrate the Company's adherence to improvement of the HSE indicators by the following implementation of the proposed ideas.

For the first time in the history of the Company in 2015 by the HSE leadership training the main focus was on the executive officers of the subsidiaries. The Forum of general managers held in November 2015 with participation of more than 70 managers of the Company, received positive feedback. This forum helped every manager to realize importance of their role in improvement of the occupational safety culture. Based on the event success, such forums are planned to be held annually.



Developed and approved are: the Golden HSE Rules, the Rules on the procedure of informing and accident investigation and the Regulation of safe operation of surface vehicles, the HSE Policy, Transport policy and Policy in relation to alcohol, drugs, psychotropic substances and their analogues. All this measures will secure an integrated, successive and widespread approach to the HSE issues in the whole KMG group of companies.

The Company has started high level seminars for the managers on the HSE leadership training, and also an initiative on safety in high risk area (the most important of them is – transport safety).

The Company works effectively on utilization of associated petroleum gas. Remarkable achievements have been accomplished in this area: in 2015 the gas utilization level made 88%, and this indicator is expected to achieve 95% by the end of 2016.

The Company intends to liquidate all the historical residues until 2020, and also fully comply with the legislative regulation with regard to associated gas utilization by 2017. These initiatives also have been reflected in the business plans of the subsidiaries.

By means of the exact distribution of liabilities between the HSE experts at the corporate level a control group has been created to control the compliance to the HSE regulations. It is now possible to carry out independent inspections concerning the compliance to the legal and corporate HSE regulations, and also participate in accidents and events investigations to analyze their root cause.

An information exchange system on the lessons learned from all the accidents in the subsidiaries was implemented. There is an increase in quality and volume of the HSE reporting.

The industrial safety (including facilities and pipelines continuity management, and also industrial safety) became the core aspect of the HSE work.

The programme on increasing awareness about the safety issues has been developed and brought to the notice of all the employees.

This programme consisted of the following events:

- 10-minutes video on “Chronic frustration”, developed in cooperation with Shell;
- 3-4 month report on accidents and learned lessons, brought to the notice of the employees;
- Quarterly informing of all the employees on significant accidents by mailing “Accidents Review” bulletins;
- Corporate intranet – a portal with the links to the necessary HSE information;
- Informative material on implementation of the Golden Rules (presentations, calendars, booklets and cards) for all the employees;
- 24 safety audits carried out by the HSE Department in 2015;
- Creation of working groups for every HSE area to gather expert data in the KMG group of companies and concentration of pooled experience, accumulated in the subdivisions of the Company;
- Development of a mobile application for smartphones to get immediate accident reporting.







## → Development of Kazakhstan content

Following the results of 2015, the total amount of procurements in the KazMunayGas group of companies amounted to KZT 1,669 bn. The local content in the procurement made 77%, of which goods - 81%, works and services - 74%.

### Procurements of goods, works and services in the KMG group of companies

	Goods		Works/services		Total	
	bn KZT	Kazakhstan content%	bn KZT	Kazakhstan content %	bn KZT	Kazakhstan content %
2013	506	67	753	66	1 259	66
2014	636	73	937	78	1 573	76
2015	621	81	1 048	74	1 669	77

JSC NC "KazMunayGas" in cooperation with the subsidiaries has done significant work on analysis and transfer of the scheduled purchases of goods, works and services from annual plan to the long-term purchase plans.

Thus, as of December 31, 2015, taking into account the agreements entered into since 2012, 1,677 long-term agreements with the local producers of goods, works and service for the total amount of KZT 1 trn KZT 174 bn are still in force.

### Agreements with the local producers of goods, works and services

Goods	803	95,5
Works	113	584,6
Services	761	493,7
<b>Total</b>	<b>1 677</b>	<b>1 173,8</b>
	<b>Number of Agreements</b>	<b>bn KZT</b>

Since the beginning of 2015 the chief executives officers of KMG have made business trips to 13 regions of the Republic to sign 158 memoranda with the Akimats and Kazakhstan producers of goods for the total amount of KZT 365 bn. These agreements stipulate procurement of goods, works and services for the needs of the national Oil and Gas Company by the local producers. As part of implementation of the memoranda at year-end 2015 1,155 agreements for the total amount of KZT 392 bn have been entered into. All the memoranda are fully performed.

### Memoranda with the regional Akimats

	Total in JSC NC KMG and SDEs		
	Amount of procurements mln KZT	Performance mln KZT	%
Akmolinsk region	530	737	139%
Aktobe region	5 218	5 251	101%
Almaty region	3 000	3 604	120%
Atyrau region	71 099	74 370	105%
East-Kazakhstan region	2 000	2 060	103%
West-Kazakhstan region	3 522	3 567	101%
Karagandy region	2 323	2 557	110%
Kyzylorda region	-	957	-
Mangistau region	258 682	274 552	106%
Pavlodar region	12 061	15 091	125%
North-Kazakhstan region	4 586	6 973	152%
South-Kazakhstan region	1 026	1 205	117%
Astana city	1 216	1 224	101%
<b>Total</b>	<b>365 263</b>	<b>392 149</b>	<b>107%</b>

Notwithstanding the significant decrease in global oil prices, which caused reduction of a number of budget and investment programs of the government and the subsoil users, KazMunayGas as a national operator in the oil and gas industry continues supporting the local producers, and also participates in the industrialization of the country through establishment of enterprises.

In cooperation with the international company Schneider Electric an enterprise KMG Automation has been created to maintain and produce automated systems of technological processes management and control as well as control and measurement units. The main task of the joint venture is to develop local human resources and branching of local system integration in Kazakhstan in industrial automation, software and energy management. KMG Automation is expected to provide the local industry with the innovative solutions to increase production efficiency and safety. Not unimportant is that the JV will allow creating more than 150 of highly skilled workplaces.

## Kazakhstan content in the major oil and gas projects

### Payments for procurement of Kazakhstan goods and services on the Tengiz projects, mn USD

2015	Total	Kazakhstan content	Kazakhstan content, %
<b>Total procurement</b>	4,698	2,387	51
<b>Goods</b>	602	34	6
<b>Services</b>	4,096	2,353	58

### Payments for procurement of Kazakhstan goods and services on the Karachaganak project, mn USD

2015	Total	Kazakhstan content	Kazakhstan content, %
<b>Total procurement</b>	1,191	581	49
<b>Goods</b>	265	34	13
<b>Works</b>	445	184	41
<b>Services</b>	482	362	75

### Payments for procurement of Kazakhstan goods and services on the North-Caspian project, mn USD

2015	Total	Kazakhstan content	Kazakhstan content, %
<b>Total procurement</b>	708.4	196.2	27.7
<b>Goods</b>	156.3	3.8	2.4
<b>Works</b>	403.7	125.1	31
<b>Services</b>	148.4	67.3	45.4

## → Corporate security

To ensure physical, information, economic and internal security of the KMG group of companies a number of organization and practical and legal measures are being implemented. They are to solve the following issues:

- ◆ Formation of an integrated corporate security of KMG, increase in efficiency of functional cooperation with the SDEs to protect staff, property, economical and other legal interests;
- ◆ Development of unified documents, regulating the issues of enterprises, management and control in corporate security;
- ◆ Experts evaluation and implementation of innovations, focused on prevention and timely identification of real and potential threat for stable business development of KMG;
- ◆ Arrangement of cooperation with law-enforcing and control and supervision government bodies to prevent and repress any law offences, directed against the interests of KMG and its subdivisions, implementation of joint and mutually agreeable events on prevention and repression of security threat, their mitigation with regards to KMG and SDEs;
- ◆ Organizational and methodical support and expert coordination of the activity of the corporate security subdivisions of the SDEs, coordination of the activity with the security providers, protecting the KMG objects according to the agreements;
- ◆ Improvement and support of information security procedures on the basis of implementation and support of the specialized government and international standards in KMG;
- ◆ Monitoring of potential threat to the stable and effective development of KMG;
- ◆ Analyses of the measures and means applied to ensure corporate security;
- ◆ Development of expert suggestions on improvement of the KMG's security system.

During 2015 as additional measures for increasing coordination level of cooperation with the SDEs regular meetings of the executive officers with the managers of the SDEs and law-enforcement authorities on various issues of corporate security, prevention of potential security threats and information exchange were introduced. In cooperation with the SDEs special and law-enforcement authorities ensured systematic monitoring of the conditions and obtaining preventive information on potential criminal threat and abnormal situations in the KMG group of companies, including labor conflicts. On some isolated incidents intrusive inspections have been ar-



ranged. Due to the cautionary measures any illegal actions were prevented.

The situation on illegal occurrences response and abnormal situations in the KMG group of companies is efficiently controlled 24-hours a day by a Security Management Center, established in 2015.

Some consequent organizational and practical events have been held for further improvement of the information security system. Analysis of functioning of the information security management system (ISMS) was performed within the framework of the Council on the integrated management system and information security management system, some scheduled events on ISMS development were implemented. During the year more than 20 documents of ISMS were revised in accordance with Standard ISO/IEC 27001:2013, including the Instruction on confidential information and trade secrets.

A new Policy on informational security has been developed. According to the Policy a work on amendment of the regulations on structural subdivisions and position descriptions of KMG employees in the part concerning informational security was started. Measures have been taken on economical and internal security.

A regular 24 hours' work of Information Trust System (ITS) has been set. During the year more than 60 claims and messages on various violations of the law and internal documents of the KMG group of companies were received. On all the claims and messages the corresponding inspections were arranged and carried out, restoring the infringed rights of the addressing persons and explaining the order of the solution to the issues.

Within the framework of the Policy of economic security to prevent facts of any harm to the interests of KMG and the state inspections of civil sustainability of the contractors and potential partners, including non-residents were carried out.

The analogous work has been carried out in KMG to reveal conflicts of interests and interrelated transactions on the concluded agreements by the procedures of goods, works and services procurement.

Besides, inspections of employees and candidates to the vacant positions in KMG and SDEs on involvement and commitment of corruption and other violations of law are introduced into practice now.

Seminars on anticorruption are held for the KMG employees with participation of the representatives of the Nur-Otan Party, specialized ministries and authorities as a precaution.





# → Key events of the year

## JANUARY

The EPC Contract was concluded for implementation of the 2-nd stage of the Modernization and Reconstruction of Shymkent Refinery Project.

On January 19, 2015 KMG made the sixth partial repurchase of indexed coupon bonds of the second issue in the amount of 8 mln. coupons in accordance with the conditions of the bond issuance prospectus to the total amount of KZT 19,7 bln.

On January 23, 2015 JSC "National Company "KazMunayGas" fully redeemed its Eurobonds in the amount of USD 1,5 bln. issued in April 2009. Redemption was made as per schedule.

## FEBRUARY

The Reengineering Program of Business Processes of KazMunayGas Onimderi" was approved.

On February 16, 2015 Standard & Poor's announced that it downgraded a credit rating of JSC NC "KazMunayGas" from "BBB-" to "BB+" with a negative outlook. Ratings were reconsidered as a result of a change in the sovereign credit rating of Kazakhstan on February 9, 2015 from "BBB+" до "BBB".

## MARCH

The Decree of the RK Government #147 as of March 19, 2015 established quotas for attracting the expat workforce for the priority project "Reconstruction and Modernization of the Atyrau Refinery" for 2015-2016.

Acquisition by KMG-PM of 50% of a participatory share in CASPI BITUM JV LLP.

## MAY

In the course of the IGC meeting for development of the RoK oil and gas and energy industry as of 26.05.2015, the optimization of the Pavlodar Petrochemical Plant Modernization Project with reducing the volume of work and project cost was approved.

## JULY

Pilot batch of benzene was obtained at the catalytic reforming unit with the benzene extraction section of the Atyrau Refinery.

On July 12, 2015 KMG made a full payment on the loan agreement with contracting companies of the Karachaganak project (total contract price is USD 1 bln.).

On July 19, 2015 KMG made the seventh partial repurchase of the indexed coupon bonds of the second issue in the amount of 8 mln. coupons in accordance with the conditions of the bond issuance prospectus to the total amount of KZT 19,7 bln.

In July 2015 KMG received a waiver of rights to claim and the consent of the Eurobonds holders to change the conditions of Eurobond issue in terms of determining of the Consolidated Net Debt of KMG from June 30, 2015 to December 31, 2018.

## AUGUST

JSC "Samruk-Kazyna" and the National Bank of the Republic of Kazakhstan completed the transaction on sale of 10% plus one ordinary share of JSC NC "KazMunayGas" in favor of the National Bank of the Republic of Kazakhstan. Transaction price – KZT 750 bln.

In accordance with Decree #280 of the Government of the Republic of Kazakhstan as of March 31, 2014 "On Approval of the Comprehensive Privatization Plan for 2014-2016" and resolution of the Management Board of JSC "Samruk-Kazyna", 100% of stock of shares of JSC "Kazakh Institute of Oil and Gas" was sold to SAES ENERGOSTROY LLP.

On August 31, 2015 JSC NC "KazMunayGas- Refining and Marketing" and «China Kingho Energy Group» signed the Articles of Association on Establishment of a Joint Venture - Karagandy CCI LLP.

## SEPTEMBER

Cancellation of the state regulation of prices for retail trade of RON-92 petrol.

Under implementation of the 1-st stage of the Modernization and Reconstruction of Shymkent Refinery Project, a diesel hydro-treater with a capacity of 1,5 mln. per year was put into commission.

CODO Program Implementation- transfer the management of 151 KMG FFS to private traders.

## OCTOBER

On October 16 KMG and JSC "Samruk-Kazyna" closed the transaction on sale of 50% of the Kashagan B.V. shares (KMG subsidiary, one of the participants of a consortium for the Kashagan field development) in favor of JSC "Samruk-Kazyna". Transaction price – USD 4,7 bln.

A pilot batch of paraxelene was obtained at the aromatic hydrocarbon production unit of the Atyrau Refinery.

CASPI BITUM JV LLP commenced the production of modified bitumen.

## NOVEMBER

Signing in Paris of the Shareholders' Agreement between KMG-PM JSC and Air Liquide on establishment of JV for industrial gas production.

The Innovation Support System in KMG-RM JSC was awarded 2-nd place in the Republican competition "Innovator. kz"

Agreement on cooperation in supporting the innovative activity was signed in Moscow between KMG-RM JSC and the Scolkovo Center Development Fund.

Benzene and KazMunayGas FFS were recognized as the best in the "Choice of the Year in Kazakhstan" competition.

On November 4, 2015 JSC NC "KazMunayGas" attracted a loan in the amount of KZT 1bln. for a period of 5 years at a interest of 12% per annum under the credit line opened in JSC "Kazkommertsbank" in 22.10.2015.

On November 25, 2015 JSC "Intergas Central Asia" closed a transaction on a partial repurchase of the obligations issued in 2007 with maturity through 2017. Repurchase was made for a total nominal volume of USD 270 mln.

## DECEMBER

The first start-up facility (catalytic reforming unit with the continuous catalyst re-

generation and benzene extraction sector) of the Aromatics Complex at Atyrau Refinery was put into commission.

Under implementation of the 1-st stage of the Modernization and Reconstruction of Shymkent Refinery Project, a sulfur recovery unit with a capacity of 4 thou.tons per year was put into commission.

On December 10, 2015 KMG redeemed Eurobonds with a total nominal volume of USD 3,7 bln. prior to maturity. This trans-

action became the largest transaction with securities in the territory of the Republic of Kazakhstan.

On December 14, 2015 KazTransGas JSC made a partial redemption of a syndicated loan to the amount of USD 400bln. received from the international investment banks - Citibank, ING Bank и Natixis.

## ➔ Interested-party transactions

In accordance with subitem 19) of Item 2 of Article 53 of the RK Law "On joint stock companies (hereinafter – JSC Law) unless otherwise provided by Law and (or) company's Charter, adoption of a decision on conclusion of interested –party transactions falls within the exclusive competence of the Board of Directors.

Besides, article 21 of the RK Law "On the Sovereign Welfare Fund" establishes that the transactions between entities entering the Fund's group in relation of which the JSC Law set up the special terms are concluded without their observance in accordance with the procedure specified by the Fund's Board of Directors.

Thus, pursuant to Item 3 of the Rules of conclusion of transactions between the entities entering the Samruk-Kazyna JSC

Group in relation of which the JSC Law set up the special terms approved by the resolution of the Fund's Board of Directors as of April 27, 2009 (Rules), the resolution on conclusion of interested-party transactions between the entities entering the Fund's group, are adopted by collegial executive bodies of the relevant entities at the meeting in presentia.

That is the resolutions on conclusion of the considered transactions, may be adopted by:

1. The KMG Board of Directors (with other entities, which do not enter the Fund's group);
2. KMG Management Board (with the entities entering the Fund's group).

Besides, Item 9 of the Rules stipulates the right of the Board of Directors, on its dis-

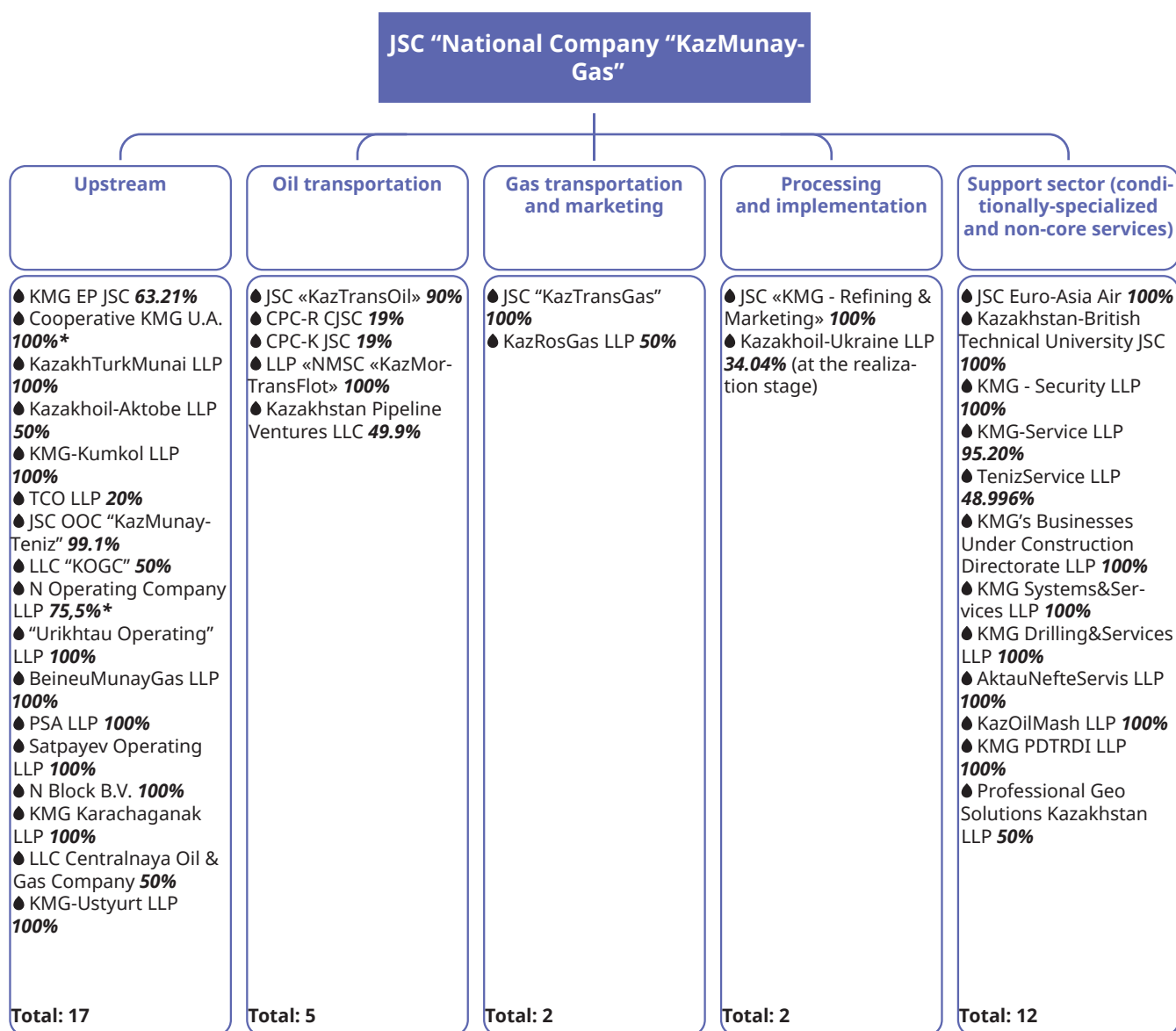
cretion, to adopt a resolution on conclusion of the interested-party transactions between the entities entering the Fund's group.

In accordance with the Rules of conclusion of transactions between the entities entering the Samruk-Kazyna JSC Group in relation of which the JSC Law set up the special terms, 57 resolutions were adopted within the reporting period with regard to the interested-party transactions.

Besides, in 2015 the Management Board submitted to the Board of Directors 8 issues on conclusion of the KMG interested-party transactions and/or those which are of strategic nature.

## ➔ Asset structure as at 31 December 2015

The KMG group is comprised of 201 companies, including the corporate centre JSC NC "KazMunayGas".



\* Consolidated size of the block of shares/participatory interest of JSC NC "KazMunayGas"



## → List of subsidiary and dependent entities of JSC NC “KazMunayGas”

Entity	First and second-tier subsidiary, dependent and other entities	Entity in relation to the parent (SE, DE, JCE, ME) *	Ownership %
<b>KazMunayGas EP JSC</b>		SE	61,47 %
	Embamunaygas JSC	SE	100%
	Ozenmunaygas JSC	SE	100%
	Embaokuortalygy LLP	SE	100%
	KRUZ LLP	SE	100%
	Zhondeu LLP	SE	100%
	Ken-Kurylysservice LLP	SE	100%
	KMG EP Catering LLP	SE	100%
	KazGPZ LLP	SE	100%
	UDTV LLP	SE	100%
	KMG-Service	DE	4,80 %
	JV Kazgermunay LLP	JCE	50%
	APP JSC	Financial investment	2,2%
	COÖPERATIEF KMG EP U.A.	SE	95,10%
	KMG EP NETHERLANDS ENERGY COÖPERATIEF U.A.	SE	95,1%
	KMG EP Exploration Assets LLP	SE	100%
	Support Service Vehicles and Well Servicing Administration LLP (UTTIOS)	SE	100%
	Drilling Works and Well Servicing Administration LLP (UBRiOS)	SE	100%
<b>JSC “KazTransGas”</b>		SE	100%
	JSC KTG Aimak	SE	100%
	JSC “Intergas Central Asia”	SE	100%
	KazTransGas-Almaty JSC	SE	100%
	KazTransGas Onimderi LLP	SE	100%
	Beineu-Shymkent Gas Pipeline LLP	JCE	50%
	Asia Gas Pipeline LLP	JCE	50%
	KazTransGas-Bishkek OsOO	SE	100%
	KazTransGas-Tbilisi OOO	SE	100%
	Amangeldy Gas LLP	SE	100%
	Intergas Finance B.V.	SE	100%
	Saryarka Gaz Damu LLP	SE	60%
	AstanaGas KMG JSC	SE	100%
	KMG-Kansu Operating LLP	SE	100%
<b>JSC “KazTransOil”</b>		SE	90%
	MunaiTas North-West Pipeline Company JSC	JCE	51%
	Kazakhstan-China Pipeline LLP	JCE	50%
	Batumi Terminals Limited	SE	100%
<b>JSC “KazMunayGas - Refining &amp; Marketing”</b>		SE	100%
	KazMunayGas-Onimderi JSC	SE	100%
	Atyrau Refinery LLP	SE	99,53 %
	TH KazMunayGas N.V.	SE	100%
	TH KazMunaiGaz A.G (Lugano)	SE	100%

Entity	First and second-tier subsidiary, dependent and other entities	Entity in relation to the parent (SE, DE, JCE, ME) *	Ownership %
	JSC Kaskor-Transservice	SE	12,87%
	KazMunayGas-Aero LLP	SE	100%
	PPCP JSC	SE	100%
	Karagandy CCI LLP	DE	25%
	APP LLP	SE	97,80%
	JV "Caspi Bitum" LLP	JV	50%
<b>LLP NMSC "KazMorTransFlot"</b>		SE	100%
	Kazmortransflot UK LTD	SE	100%
	Kazmortransflot LTD	SE	100%
	Alatau Shipping Ltd	SE	100%
	Altai Shipping Ltd	SE	100%
<b>KazMunayTeniz JSOOC</b>		SE	99,1%
	Kurmangazy Petroleum LLP	SE	100%
	Caspi Meruerty Operating Company B.V. Branch	JCE	40%
	Zhambyl Petroleum LLP	SE	100%
<b>KazRosGas LLP</b>		JCE	50%
	Kairat Football Club LLP	SE	70%
<b>Kazakhoil-Ukraine LLP</b>		JSC	34,04%
<b>KMG-Service LLP</b>		SE	95,20%
	KMG-Service Georgia LLC	SE	100%
	Altyn Tolkyn LLC	SE	100%
	JSC "Aysir Turizm ve Insaat A.S."	SE	75%
	KazMunayGas-Service Compass LLP	JCE	40%
	KazMunayGas-service NS JSC	SE	100%
<b>JSC "Kazakh-British Technical University"</b>		SE	100%
	KBTU's Institute of Petroleum Engineering and Information Technology LLP	SE	100%
	D.V. Sokolsky Institute of Organic Catalysis and Electrochemistry JSC	SE	100%
	A.B. Bekturov Institute of Chemical Science JSC	SE	100%
<b>KMG - Security LLP</b>		SE	100%
	Semser ort sondirushi LLP	SE	99,80%
<b>Teniz Service LLP</b>		JCE	48,996%
	Kaz M-I LLP	JCE	51,004%
<b>JSC "Euro-Asia Air" Airlines</b>		SE	100%
<b>KMG Drilling&amp;Services LLP</b>		SE	99%
	KMG Nabors Drilling Company LLP	JV	49%
<b>KMG Systems&amp;Services LLP</b>		SE	100%
	KMG Automation LLP	JV	49%
<b>"KMG's Businesses under Construction Directorate" LLP</b>		SE	100%
<b>KazOilMash LLP</b>		SE	100%
<b>Kazakhoil-Aktobe LLP</b>		JV	50%
<b>Kazakhturmunay LLP</b>		SE	100%
<b>KMG Kumkol LLP</b>		SE	100%
	KMG Drilling&Services LLP	SE	1%

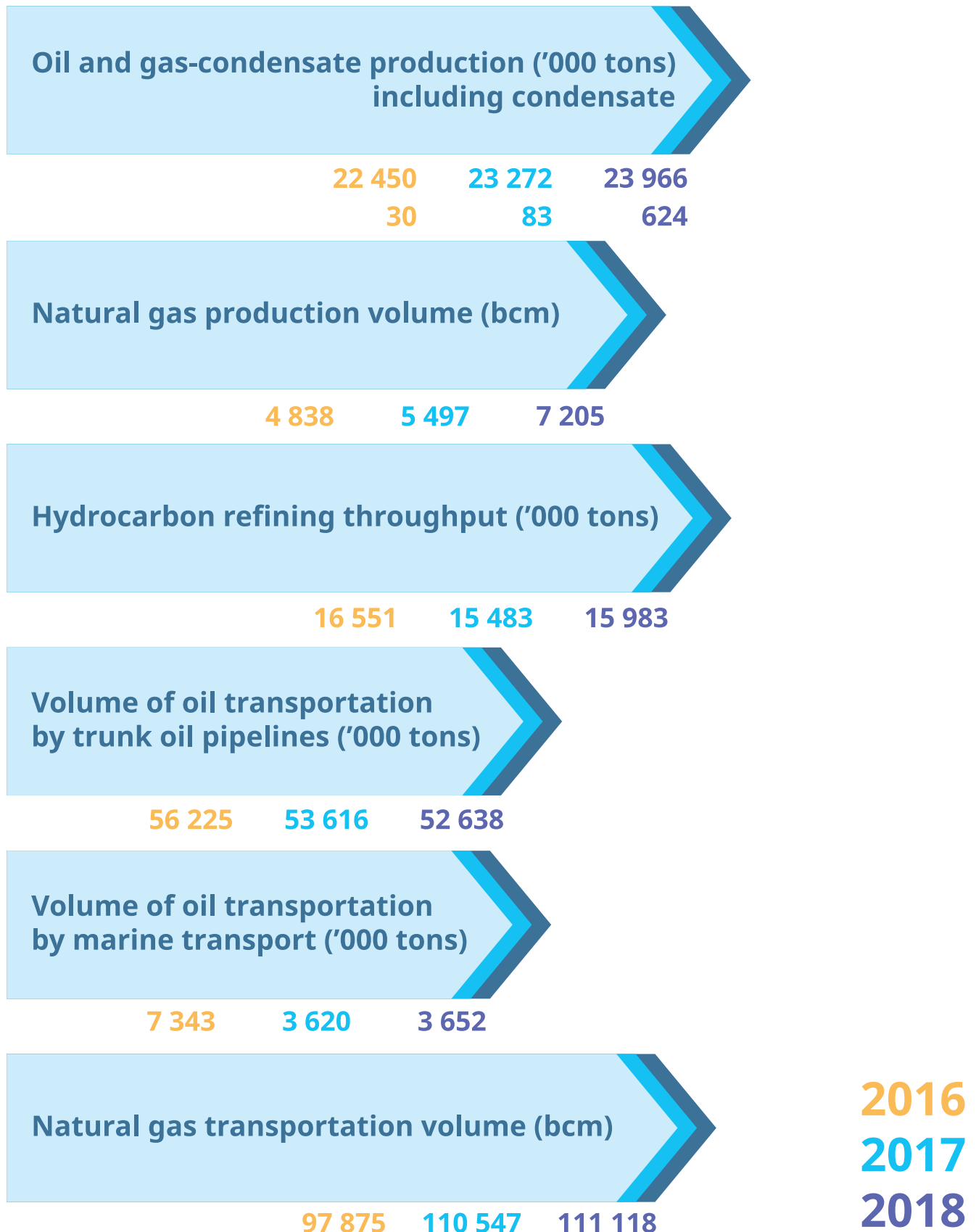
Entity	First and second-tier subsidiary, dependent and other entities	Entity in relation to the parent (SE, DE, JCE, ME) *	Ownership %
<b>Cooperative KazMunaiGaz U.A.</b>		SE	99,88%
	KMG Finance Sub B.V.	SE	100%
	KMG Global Solutions B.V.	SE	100%
	KMG Hvalynskoye Finance B.V.	SE	100%
	Kazakhstan Energy Reinsurance Company LTD	SE	100%
	Mangistau Investment B.V.	JV	50%
	Kazakhstan Pipeline Ventures LLC	JV	50,1%
	KMG International N.V.	SE	100%
	KMG Kashagan B.V. plc	JV	50%
	TH KMG UK Ltd.	SE	100%
<b>Caspian Pipeline Ventures LLC</b>		JV	49,9%
<b>CPC-K JSC</b>		Financial investment	19%
<b>CPC-R CJSC</b>		Financial investment	19%
<b>Caspian Oil and Gas Company LLC</b>		JV	50%
<b>Tengizchevroil LLP</b>		JV	20%
	Tengizchevroil Finance Company S.ar.L	SE	100%
	Tengizchevroil International Bermuda Limited	SE	100%
	Tengizchevroil Finance Company International Ltd	SE	100%
<b>N Operating Company LLP</b>		SE	75,5%
<b>AktauNefteServis LLP</b>		SE	100%
	Oil Services Company LLP	SE	100%
	Oil Construction Company LLP	SE	100%
	Oil Transport Corporation LLP	SE	100%
	Mangistauenergomunai LLP	SE	100%
	Munaitelecom LLP	SE	100%
	AktauOilMash LLP	JSC	25%
	Aktau Oil-and-Gas Equipment Plant LLP	SE	49%
<b>Urikhtau Operating LLP</b>		SE	100%
<b>PSA LLP</b>		SE	100%
<b>BeineuMunayGas LLP</b>		SE	100%
<b>Satpayev Operating LLP</b>		SE	100%
<b>KazMunayGas Research and Development Institute of Production and Drilling Technology LLP</b>		SE	100%
	KazNIPImunaigaz JSC	SE	100%
	"Caspimunaigas" RI LLP	SE	100%
<b>Professional Geo Solutions Kazakhstan LLP</b>		SE	50%
<b>KMG-Ustyurt LLP</b>		SE	100%
<b>KMG Karachaganak LLP</b>		SE	100%
	Karachaganak Petroleum Operating B.V.	ME	10%

SE – subsidiary entity  
DE – dependent entity  
JV – joint venture  
JCE – jointly-controlled entity  
ME – miscellaneous entity  
AC – associated company

# Key areas of development

## → Company's plans for 2016

Under KMG's Development Plan, KMG's key production performance indicators for the medium-term were approved:



# ➔ Investment portfolio

## Projects under development by areas of activity

	Project	Forecasted period of implementation	Project description overview	Sources of funds
Major projects	North-Caspian Project	1993–2017 (investment period prior to commercial production at Kashagan)	Implementation based on the Consortium Agreement as of 03.12.1993 and North-Caspian PSA as of 18.11.1997 Group of fields: Kashagan, Kalamkas-more, South-Western Kashagan, Aktoty, Kairan, South-Western Kashagan (this structure is at the stage of return in favor of RK). Development of the Kashagan field is at the stage of pilot commercial development (PCD). Pursuant to Amendment 5 to the Plan and Budget of Kashagan development, the nominal volume of oil production under PCD will make up 370 thou.bar/per day.	Partners' and own funds
Exploration and Production	N Project	2007-2023	Build-up of the resource base and increment of crude hydrocarbon reserves.	Partners' funds
	Urikhtau	2008–2018		Own funds
	Satpayev	2010–2025		Partners' funds
	Zhambyl	2008–2023		Partners' funds
	Zhemchuzhiny	2005–2025		Partners' funds
	Development of gas fields of the Amangeldy group	2012-2020		Own funds
Refining and marketing	Reconstruction and modernization of Atyrau Refinery including:			
	Stage 1: Construction of the aromatic hydrocarbon production complex at Atyrau Refinery.	2010–2015	Production of products with high-added value – benzene and paraxelene. Production of motor fuel meeting the requirements of the K-3 emission standard. Increase in plant capacity up to 5,0 mln. tons of oil per year.	Borrowed funds
	Stage 2: Construction of the Advanced Oil Processing Center at Atyrau Refinery	2011–2016	Expansion of secondary processes up to 84%. Yielding more light products up to 77%. Enhancement of motor fuels meeting the requirements of the K-5 emission standard. Increase in plant capacity up to 5,5 mln.tons per year.	Borrowed funds
	Modernization and reconstruction of the Shymkent Refinery	2009–2017	Yield of gasoline and diesel fuel meeting the requirements of the Euro-4,5 emission standard. Refining capacity increase up to 6 mln. tons per year. Increase in the oil refining depth up to 90%.	Borrowed funds
	Modernization of the Pavlodar Petrochemical Plant	2011–2017	Provision of the K4 motor fuel output in accordance with the requirements of the Technical Regulations of the Customs union.	Borrowed funds
	Retail chain development in the Black Sea region. Stage I – Romania (16 fuel filling stations)	2013-2016	Increase in the retail market volume of KMG International N.V. from 832,6 thou. m3 in 2013 up to 1 346,9 thou.m3 in 2017.	Borrowed and own funds
	Construction of the oil-dissolved gas desulphurization unit of the Prorvinskiy group of fields	2012-2016	For the purpose of implementing the Program of the associated gas utilization and avoidance of associated gas flaring developed in accordance with the requirements of the RK legislation.	Own funds
Gas projects	Constntruction of the Beineu-Bozoi-Shymkent gas pipeline	2011–2017	Provision of natural gas to the RK southern regions, export gas supplies to China and RK energy security provision.	Borrowed and own funds
	Capacity increase of the "BGA-TBA) gas pipeline and construction of the boosting compressor station at TIP-02 bulkhead for gas supply to the Kazakhstan-China main gas pipeline	2015–2016	Increase in the volumes of natural gas transportation from Uzbekistan to the RK southern regions and provision of gas supply from the Kazakhstan –China main gas pipeline.	Borrowed funds
	Kazakhstan-China gas pipeline construction (C line)	2012–2016	Provision of natural gas transportation from Turkmenistan to China via RK	Borrowed and own funds

	Project	Forecasted period of implementation	Project description overview	Sources of funds
	Gas supply to settlements and modernization of gas distribution nets of the Aktubinsk oblast	2015-2017	Expansion of transportation and gas marketing and arrangement of conditions for connecting new consumers	Borrowed funds
	Gas supply to settlements of the Kyzylorda oblast	2015	Expansion of market places, transportation volumes and gas sale and arrangement of conditions for connecting new consumers	Borrowed funds
	Modernization of gas distribution nets (1 line – 1,2 PC) Taraz	2011-2019	Provision of interrupted gas supply, increase in transportation and marketing volumes, decrease in gas loss and extension of gas pipelines life	Borrowed and own funds
	Modernization of gas distribution nets SKO(Stage I) Shymkent	2010-2016	Provision of interrupted gas supply, increase in transportation and marketing volumes, decrease in gas loss, extension of gas pipelines life and increase in the system's refining capacity.	Borrowed and own funds
Transport infrastructure	Reconstruction of racks for enhancing the efficiency of fuel oil draining from railway vehicles	2015-2016	Provision of a technical capability to transfer additional volumes of dark oil products via Batumi Oil Terminal LLC.	Own funds
	Increase in carrying capacity of Batumi Sea Port LLC on transloading of general cargo up to 2,5 mln.tons per year. Batumi, Georgia.	2012-2016	Increase in production capacity of Batumi Sea Port LLC up to 2,5 mln.tons of general cargo per year.	Own funds
	The second line of the second stage of the Kazakhstan-China oil pipeline construction. Increase in capacity up to 20 mln. per year.	2013-2016	Reconstruction and expansion of the Kazakhstan-China oil pipeline system from Atyrau to Alashankou using own resources of the relevant sites: MunaiTas NWTC JSC - Kenkiyak-Atyrau Oil Pipeline, Kazakhstan-China Pipeline LLP - Kenkiyak-Atyrau Oil Pipeline and Atasu-Alashankou; KazTransOil JSC – oil pipelines at Kumkol-Karakoin-Atasu.	Own funds
Service Projects	Project of KMG Drilling & Services LLP on implementation of the drilling program of Tengizshevroil LLP in cooperation with Nabors Drilling International Ltd.	2014-2015	Under the Memorandum between the RK Government and Tengizshevroil LLP "On Cooperation for investment promotion, training and development as well as employment in RK through implementing the Future Expansion Project and Wellhead Pressure Management Project of Tengizshevroil LLP as of November 14, 2013, a joint venture- Nabors Drilling Company OGP LLP was established between KMG Drilling & Services LLP and Nabors Drilling International Ltd.	Own funds and partners' funds
	Cargo transport rout	2012-2018 (construction to be completed in 2018)	Main purpose of the project is to develop a sea transport node in the Northern part of the Caspian Sea for ensuring future need of Tengizshevroil LLP in a throughput of heavy modules and other cargoes required under the future expansion project.	Own funds and partners' funds
	Shipbuilding/ship repair facility Kuryk village, Mangistau oblast	2014–2019	A dockyard is designed and suitable for construction and technical maintenance of sea crafts with DWT up to 15 000 tons.	Own funds and partners' funds

## Promising investment projects by areas of activity

	Project	Forecasted period of implementation	Project description overview	Sources of funds
Gas projects	Coalbed methane production at the Karaganda coal basin	2014-2018	Carrying out exploration and production of coalbed methane of the Karagandy Coal Basin. Forecast recoverable reserves of gas without taking into account the geological exploration risks are 62 bcm. Project objectives: - provision of gas supply to the southern and central regions of the republic; - development of a new alternative energy source; - replenishment of the resource base of JSC "KazTransGas".	Own and borrowed funds

## Socially important projects

	Project	Forecasted period of implementation	Project description overview	Sources of funds
Socially important projects	Museum of History of Kazakhstan, Astana	2011-2015	One-of-a-kind facility with a total area of more than 73 thou. m2 representing a cultural site of Astana, was created for arranging outstanding historical exhibits at the modern technological level of visualization as well as centralized expositional storage of objects and documents of historical and cultural values. Includes office premises, laboratories and museum depositories of the Research and Development Institute of History of Kazakhstan. This is a foundation for effective work of historians (RD of History of Kazakhstan) and other scientists.	Own funds
	Golf club construction, Shuchinsk	2013-2017	Construction of the 18-hole golf course (Championship class, PGA standard), practice green, club-house and administrative and technical infrastructure. The Project is implemented under the Plan of Development of the Shuchinsk-Borovoye resort zone, Akmolinskaya oblast.	Contribution to the equity capital, own funds and financial support
	Day care center construction, Astana	2014-2017	Day care center for 240 seats in Astana. The project is implemented at the instruction of the RK President.	Own funds







# ➔ Risk management

JSC NC "KazMunayGas" implements risk management system on a consolidated basis taking into account covering risks in its subsidiary and dependent entities, by means of creating a corporate risk management system (CRMS).

The methodology of CRMS corresponds to the recognized international practice of oil industry risk management, which is based on the methodology of the Committee of Sponsoring Organizations of the Treadway Commission.

Implementation of an effective CRMS which allows identifying, forecasting and managing material risks implies staged realization of measures, as well as regular implementation of the process of corporate risk management, which includes:

- development of the internal environment of the corporate risk management system;
- integration of risk management in other business processes;
- identification and assessment of risks;
- development of effective measures for risk management;
- implementation of measures for risk management and risk monitoring;
- ongoing improvement of the CRMS procedures.

In 2015, the Company implemented a number of measures for improvement of the corporate system of insurance protection, implementation of the internal control system, risk identification and assessment. Measures to increase employee awareness of the risk management system and internal control system are implemented in the Company on an ongoing basis.

## Main Measures for Implementation of CRMS and Internal Control in 2015

### February

Workshops on the internal control system and enterprise risk management system for structural subdivisions of KMG and SDEs were held.

### May

Corporate Level Risk and Control Matrix was approved by an order of Chairman of KMG's Management Board on 26 May.

### October

A new approach to management of industrial risks was outlined at the Audit Committee of KMG's Board of Directors on 19 October. Independent Directors, members of the Audit Committee of KMG's Board of Directors approved the new approach and follow-up measures required for preparation of the documents.

### January-December

During the period, quarterly monitoring of risks was carried out, with participation of KMG's risk owners in the identification and assessment of risks, implementation of the risk management measures was monitored, statistical database of the realized risks was maintained, with recording the results of monitoring in the quarterly risk reports. Quarterly risk reports were submitted in accordance with established procedure to consideration of KMG's Management Board and the Board of Directors.

Below is the open-ended list of risks with significant influence on the Company's operations. The company carries out periodic valuation of risks in accordance with the internal methodological documents on risk management.

### Interest rate risk

The Company's activity is exposed to the interest rate risk, which may negatively impact the cost of placing temporarily free cash (TFC) and, accordingly, the Company's financial performance. To minimize this risk, the Company carries out diversification of placement of the treasury investment portfolio in financial instruments within the set parameters, and regular monitoring of TFC placement in the KMG group of companies. As a result of risk management, the Company ensures the required return on TFC.

The principal source of borrowings is the international lending market. The bulk of the Company's debt portfolio is US dollar-denominated loans. The interest rate for servicing a portion of these loans is based on the LIBOR and EURIBOR interbank lending rates. An increase in these interest rates may lead to appreciation in the Company's debt servicing cost. Growth in the cost of the Company's borrowings may have an adverse effect on its solvency and liquidity ratios. In 2015 the Company did not take measure to minimize the risk.

### Market risks

The company is sensitive to the volatility of the market prices of oil, exchange rates and floating interest rates on loans. A reduction in the oil prices will considerably deteriorate the Company's financial performance. KMG carries out mathematical simulation of the price risk and benchmarking of the obtained results against the figures planned. The company is capable of prompt optimization of costs and capital expenditures to fulfill its obligations when the oil price reduces, and does not exclude the possibility of acquiring financial instruments for protection against a material fall in oil prices.

### Tax risks

The basic tax risk factor is varying interpretation of the RoK's tax legislation. The company cannot influence resolutions of tax authorities in respect of additional charge of taxes, penalties and fines based on unlawful interpretation of the tax legislation. In order to minimize tax risks, the Company improves the tax administration processes.

### Geologic risks

The company actively makes efforts in the main strategic business area – buildup of the hydrocarbon reserves and production. In carrying out exploration works there is always the risk of non-commercial discovery of hydrocarbon deposits and/or drilling of carrying a 'dry' hole. Wildcat drilling bears the risks of additional unforeseen costs due to complex geological environment, abnormal reservoir pressure, unfavourable weather conditions, lack and late delivery of drilling rigs and equipment. To reduce the exploration risk, KMG is using new technology in processing and interpretation of seismic data. Liaising with the world's leading companies makes it possible to actively introduce the modern exploration and oil production technology.



### Governmental regulation

A number of KMG's subsidiaries hold the dominant and monopolistic position on the corresponding commodity market: oil products market, gas market. Changes in the sphere of anti-monopoly regulation, and recognition of the Company's actions as violation of the antimonopoly laws, and further application by an anti-monopoly authority of punitive sanctions may negatively affect the results of the financial and economic activities. The company performs continuous monitoring of changes in the anti-monopoly laws, and on a timely basis files applications to the RoK's ARNM on the regulated tariffs and prices.

### Country risks

The company conducts operations in foreign states, such as placement of cash on current/correspondent, and deposit accounts in financial entities of foreign states, acquisition of foreign state issuers' securities, implementation of investment projects overseas through creation of affiliated legal entities, joint ventures, acquisition of participatory interest in foreign companies. Any changes in the economic and political situation of a recipient country (a foreign state KMG (or) its subsidiary and dependent entities cooperate or plan to cooperate with), military actions or interstate conflicts, may negatively affect the Company's financial performance. The company limits the level of country risks through setting country limits based on analysis of the recipient country (from the economic, political, strategic, social and other perspectives).

### Employee strikes

The Company carries out its production operations in the regions with high social and economic risks exerting material effect on the Company's operations. The risk of employees' strike has been repeatedly realized in the Company's production assets in the past and exerted significant influence on the Company's production performance. The company makes consistent efforts on the matters of corporate social responsibility, including: annual meetings of the chief executive officers with the production teams, ensuring feedback between the management and the team, public awareness efforts at the places of production, meetings of KMG's management with the staff of production facilities.

### Safety, Health and Environment

The Company's production operations bear the risks of damage to the life and health of the employees, and exerting of impact on the environment. The following can fit into such risks: the risk of industrial accidents, emergency situations, oil spills during offshore operations, oil spills in case of illegal tapplings in oil pipelines, imposition of punitive sanctions for exceeding the standards of associated gas flaring, exceeding the emission and discharge limits, and imposition of punitive sanctions for late disposal of the accumulated historical waste. Consequences of such risks may negatively affect the Company's reputation, and financial and operating activities. In order to mitigate these risks, the Company employs a number of measures, such as implementation of corporate standards and policies for safe conduct of employees at an industrial site, safe vehicle driving, development and implementation of the strategy for greenhouse gases, waste and water resources management.

### Fraud risks

Distribution of resources not in the Company's best interests, inflicting damage on the Company for the purposes of obtaining personal benefit, any instances of fraud are entirely unacceptable in the Company's activities irrespective of the amount of financial harm. As part of the implementation of the 2013-2017 Security Program of JSC NC "KazMunayGas", the Company makes consistent efforts on the implementation of and strengthening internal control systems, establishment of a common policy for preventing unlawful acts, both on the part of third parties, and on the part of the Company's employees, establishment of the procedure for conducting internal investigations on instances of unlawful acts on the part of the Company's employees. There is a hotline operating in the Company for messages about threats to KMG's facilities.

The Company is a subject of the RoK's Corrupt Practices Act. A subsidiary, KMG EP, is a subject of the UK's Bribery Act which entered into force in July, 2011.

## → Corporate governance

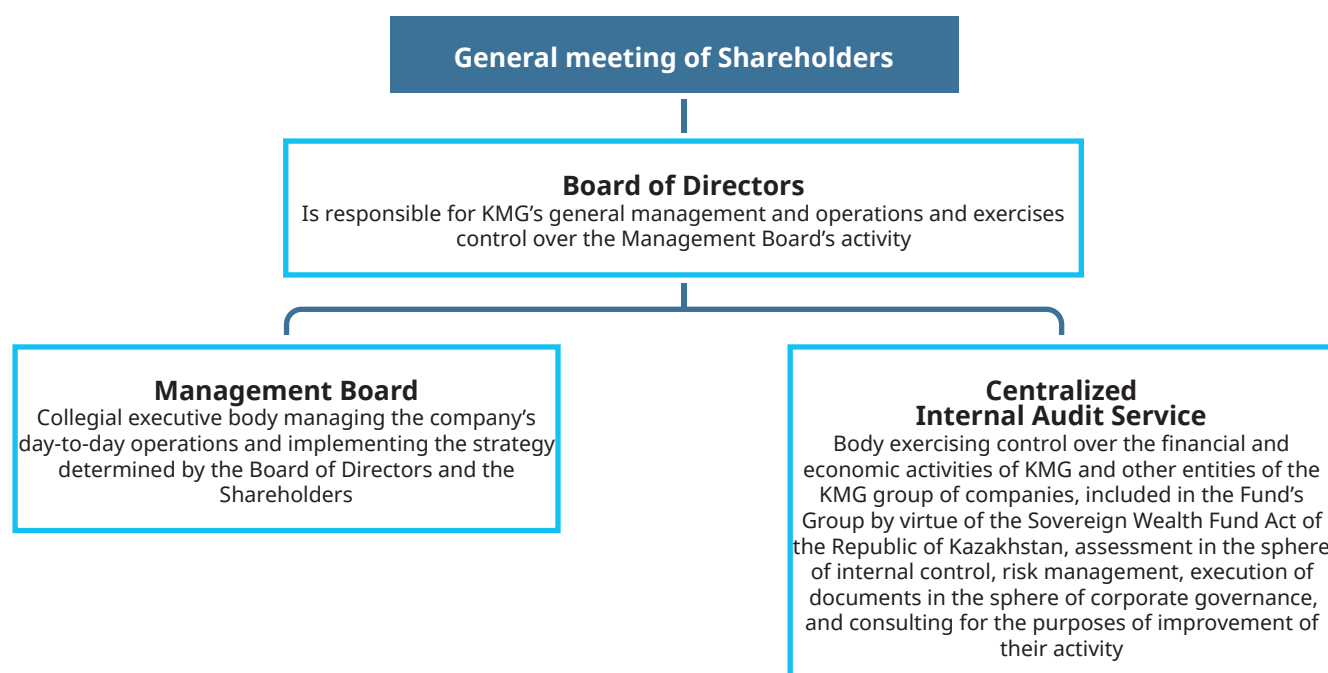
The system of corporate governance of JSC NC "KazMunayGas" is based on the respect to the rights and legitimate interests of the shareholders and the key stakeholders - the state, strategic partners, employees of KMG, and is oriented to lowering investment risks, increasing investment attractiveness, decreasing the cost of debt and own capital and increasing the Company's value.

The corporate governance structure existing in KMG is continuously improving in light of the achievements of the Kazakh and international corporate governance practice. Diagnostics of KMG's corporate governance arrangements is carried out on an annual basis by outside companies and the Internal Audit Service (IAS), in rotation.

In 2015 the diagnostics of KMG's corporate governance was carried out on the instruction of the Sovereign Wealth Fund "Samruk-Kazyna" JSC (the Fund) by the external consultant, the PricewaterhouseCoopers LLP.

Based on the results of the diagnostics, KMG's corporate governance score in 2015 was 79.0% (4.0% more vs 2014), achieved thanks to the purposeful efforts made since the introduction of the diagnostics in 2009 by the Company's Board of Directors, Management Board, Corporate Secretary and IAS. Furthermore, the Asset Management Department and the Corporate Secretary carried out work for the company's self-assessment for compliance of the current practices with the provisions of the new Corporate Governance Code of the Fund, developed with due regard to the best corporate governance practices.

### Bodies of JSC NC "KazMunayGas"



### Distribution of competence between KMG's Board of Directors and Management Board

- ◆ The Board of Directors performs general management of KMG's activities, and exercises control over the efficiency of the corporate governance practices in the company; in addition, it tracks and, when possible, eliminates potential conflicts of interest at the level of officials and the shareholder, including misuse of KMG's property and abusive practices in interested-party transactions.
- ◆ The Management Board performs management of KMG's day-to-day operations.

**Board of Directors** of JSC NC "KazMunayGas" is responsible to the Shareholders for effective management and proper control over the activity of the company and for ensuring a proper dialog with the Shareholders. The Board of Directors, in accordance with KMG's Charter, determines the priority areas of KMG's development and approves KMG's Development Strategy, considered and adopts resolutions on the matters of potential acquisitions and other important matters of financial nature, including terms and conditions of KMG's bonds and derivatives, adopts the resolution on making material transactions and interested-party transactions for obtainment, transfer (assignment) of a subsoil use right (after obtaining approval from the Competent Authority in conformity with the laws), making joint operation contracts (agreements) with the strategic partners for joint implementation of subsoil use contract projects and other matters, stipulated by the legislative acts of the Republic of Kazakhstan and/or KMG's Charter.

The Board of Directors of JSC NC "KazMunayGas" does not only make management decisions, but keeps track of the development dynamics of corporate governance processes as well. For example, the Transparency Report and Report on Following Corporate Governance Principles shall be submitted for consideration of the Board of Directors of JSC NC "KazMunayGas".

**Corporate Secretary** is directly subordinate and accountable to KMG's Board of Directors in the Company's organizational structure and corporate governance system. In accordance with its status, the Corporate Secretary is:

1. a person responsible for implementing the corporate governance procedures established by the laws of the Republic of Kazakhstan, and for implementing recommendations of the 'corporate governance best practices' adopted by the Company and recognized in its internal documents approved by the Board of Directors or the Shareholder;
2. a person responsible for implementing the corporate governance procedures established by the laws of the Republic of Kazakhstan,



and for implementing recommendations of the 'corporate governance best practices' adopted by the Company and recognized in its internal documents approved by the Board of Directors or the Shareholders;

3. a person performing systematic monitoring of the laws of the Republic of Kazakhstan in the sphere of corporate governance (corporate legislation), and the trends of 'the corporate governance best practices'.

**The Management Board** is responsible for the implementation of the strategy and for the current activity of KMG. The Management Board reports to the Board of Directors about the performed work for the achievement of KMG's objectives.

In compliance with clause 94 of the Charter of JSC NC "KazMunayGas", Chairman of Management Board makes decision on the matters of KMG's direct activities, in particular, on purchases of services, creation of working groups and committees on KMG's projects, hospitality, staff appointments and penalties, social support to employees, corporate governance, and other matters of the production, administrative and regulatory nature.

The Management Board of JSC NC KazMunayGas has five following Committees: Investment Committee, Committee on Major Oil-and-gas Projects, Planning Committee, Credit Committee. The Committees preliminarily consider and analyze the issues within the competence of business directions and SDEs, which are to be submitted for consideration of the Company's Management Board, in order to make justifiable and effective decisions on business planning, investment projects, on the matters of asset management, on major oil-and-gas projects, on SDEs' matters etc.

**Centralized internal audit service (IAS)** reports and is accountable to the Board of Directors of JSC NC "KazMunayGas" and is supervised by the Audit Committee of the Board of Directors of JSC NC "KazMunayGas".

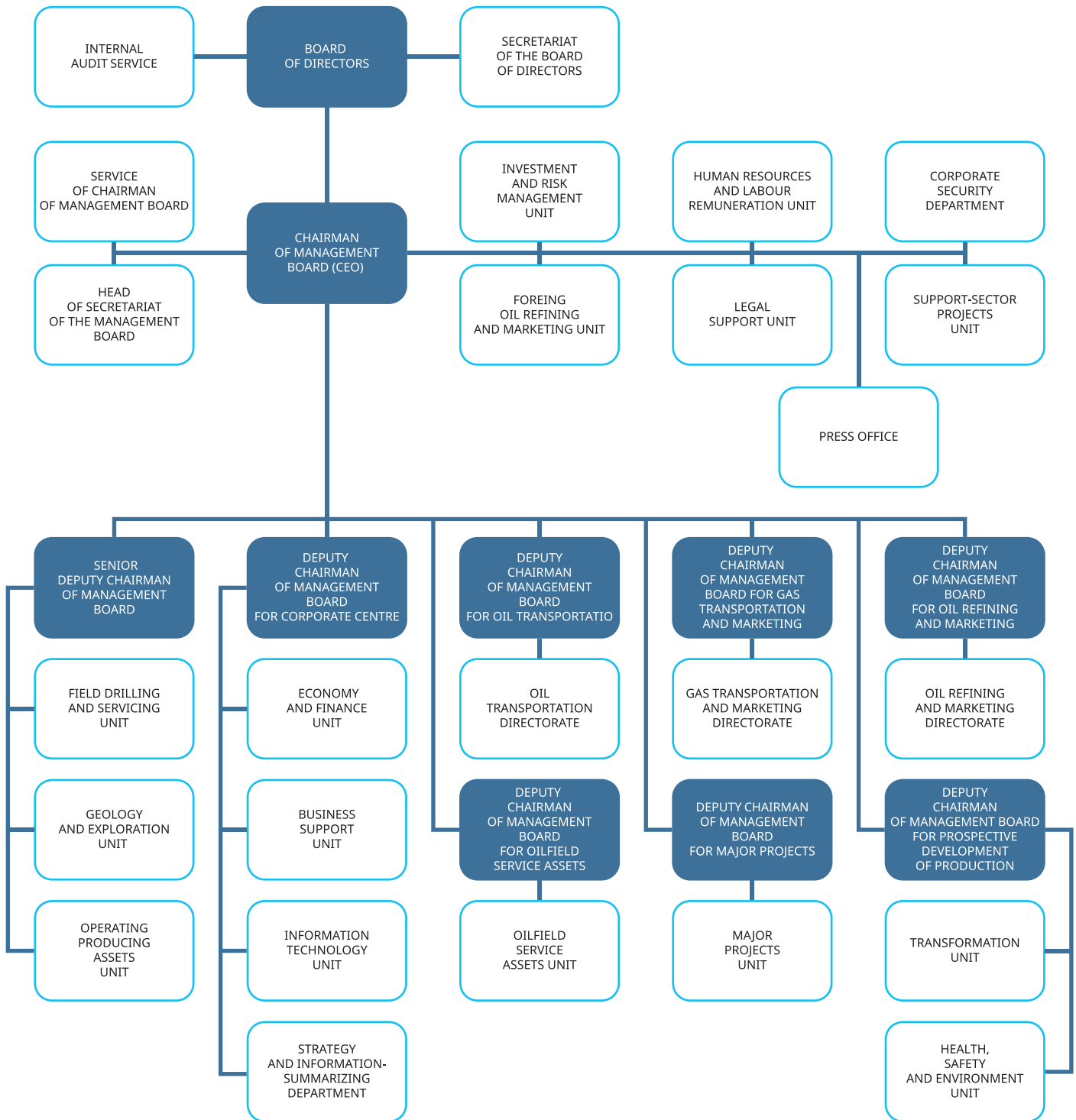
In its operations, the IAS relies on the laws of the Republic of Kazakhstan, KMG's internal documents and the International Standards for the Professional Practice of Internal Auditing.

Among the 29 employees of the IAS, 23 employees have certificates and diplomas, including: Certified Internal Auditor (CIA) – 7; Diploma in International Financial Reporting (DipIFR) – 5; Diploma Professional Internal Auditor (DipPIA) – 14; RoK's Professional Accountant – 8; Certified Accounting Practitioner/Certified International Professional Accountant (CAP/CIPA) – 5; Diploma Certified Professional Internal Auditor (DipCPIA) – 1; Certified Fraud Examiner (CFE) – 1.

The main goal of the IAS is to provide to the Board of Directors independent and objective information, intended for ensuring effective management of JSC NC "KazMunayGas" and its SDEs, by means of employing a systemic approach to the improvement of the risk management, internal control and corporate governance processes.



# → Company's organizational structure as of 31 December 2015



## → Interaction with the Shareholders

KMG's shareholders are the Fund (90%) and the National Bank of the Republic of Kazakhstan (10% + 1 share).

KMG's shares have been placed in trust of the Fund under trust agreement No. 505-NB/529-i of 12 October 2015.

The Fund plays an active role in formation and establishment of corporate governance in KMG. In order to develop a uniform approach to management of the Fund's subsidiaries, working groups on improvement of corporate governance with participation of representatives of the Fund's material subsidiaries are created. The Fund facilitates the development of corporate governance in the Company through:

- introduction of the Corporate Governance Code in 2007 and development of a new Corporate Governance Code approved by the RoK's Government in April, 2015;
- rendering methodological support to the implementation of corporate governance standards, including performance of the corporate governance level diagnostics.

## → Interaction with Subsidiary and Dependent Entities

Interaction with subsidiary and dependent entities is done using approved corporate procedures through corresponding bodies of KMG and SDEs.

The main objectives of KMG's interaction with subsidiary and dependent entities are:

- ensuring sustainable financial development, profitability, improvement of investment attractiveness of KMG and its SDEs;
- ensuring the protection of rights and legally protected interests of the Shareholders and the Shareholders of the SDEs;
- harmonization of relations between the shareholders, officials and employees of KMG and its SDEs, taking systemic measures to prevent any conflicts between them and inside the said groups;
- development and implementation of a well coordinated and effective strategy and investment policy of KMG and its SDEs.

### Corporate Governance Mechanisms in the KMG Group of Companies.

building a vertical system of management of subsidiary and dependent entities by means of organizing corporate governance via the divisional system;

- implementation of common corporate standards in SDEs;
- providing nominees to the administration bodies of SDEs;
- ensuring fair voting for the representatives on discussed issues on the basis of recommendations given to the representatives of JSC NC "KazMunayGas" in the boards of directors of SDEs on agenda items;
- organization of control over the activities of SDEs via representatives in management bodies and champions, revision of the financial and economic activities, selection of auditors etc.

## → Dividends

Subject to resolution No.22/15 of 27 May 2015 of the Management Board of the SWF "Samruk-Kazyna" JSC, an amount of 31,104,442,350 (thirty-one billion one hundred and four million four hundred and forty-two thousand three hundred and fifty) KZT, or 15% of the 2014 consolidated total profit of JSC NC "KazMunayGas", has been directed for distribution of dividends.

The approved dividend amount per one ordinary share of JSC NC "KazMunayGas" amounted to 53 (fifty-three) tenge 24 (twenty-four) tiyns.



## → Board of Directors of JSC NC “KazMunayGas” as at 31 December 2015



**Frank C.W. Kuijlaars**  
Chairman of the Board of Directors

**Year of birth** – 1958

**Nationality:** The Netherlands

**Education, line of profession (qualification):**

▷ University of Erasmus, Rotterdam, the Netherlands (1982), Diploma in Law.

**Post-graduate education:**

- ▷ Dutch Institute for Banks and Insurance Companies (1985);
- ▷ University of Cambridge (2005);
- ▷ London Business School (2008);
- ▷ Harvard Business School (2008).

**Work Experience:**

- ▷ A number of management posts in ABN AMRO and RBS;
- ▷ Head of Corporate and Investment Banking in Belgium;
- ▷ Regional Manager in Brazil;
- ▷ Country Manager in Russia and Brazil;
- ▷ Member of Supervisory Board in Russia, Kazakhstan and Uzbekistan;
- ▷ Global Head, Energy & Resources;
- ▷ Corporate Executive Vice President:
- ▷ Member of Executive Committees for Europe, Central and Eastern Europe, Middle East and Africa, Corporate & Investment Banking;
- ▷ Advisor in several international organizations;
- ▷ Member of Foreign Investors' Council under President of the Republic of Kazakhstan;
- ▷ Independent Director of the Halyk Bank of Kazakhstan JSC;
- ▷ Independent Director of Amsterdam Trade Bank (the Netherlands);
- ▷ Managing Director of Eureka (Energy) Ventures B.V.
- ▷ He is Chairman of the Finance Committee of KMG's Board of Directors; Member of the Appointment and Remuneration Committee of KMG's Board of Directors, Member of the Audit Committee of the KMG's Board of Directors and Member of the Committee for Strategy and Innovations of KMG's Board of Directors.
- ▷ Was elected as Member of the Board of Directors of JSC NC “KazMunayGas” for the first time on 5 Sep. 2006.
- ▷ On 21 June 2014 he was reelected as Independent Director of KMG's Board of Directors.

**Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.



**Peter Lane**  
Independent Director

**Year of birth** – 1946

**Nationality:** United Kingdom

**Education, line of profession (qualification):**

- ▷ Harvard Business School (1992);
- ▷ London School of Economics (University of London) (1968): Bachelor of Economics;
- ▷ University of Essex (1970), Master of Arts in Economics.

**Work Experience:**

- ▷ Economic Advisor of the Exchequer, UK's Ministry of Finance;
- ▷ Work in executive positions in Royal Dutch Shell;
- ▷ Chief Executive Officer for East Caribbean;
- ▷ Director, Shell UK Oil;
- ▷ Managing Director of Lloyd's of London;
- ▷ Director, LLOYD's in Japan;
- ▷ Director, LLOYD's in the USA;
- ▷ Chairman of Management Board, Strathearn Capital Limited.
- ▷ He is Chairman of the Appointment and Remuneration Committee of KMG's Board of Directors; Chairman of the Audit Committee of KMG's Board of Directors, Member of the Committee for Strategy and Innovations of KMG's Board of Directors, and = Member of the Finance Committee of KMG's Board of Directors.
- ▷ Was elected as Member of the Board of Directors of JSC NC "KazMunayGas" for the first time on 8 Aug 2008.
- ▷ On 20 Jun. 2014 he was reelected as Independent Director of KMG's Board of Directors.

**Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.



**Yerlan Urazgeldiyevich Baimuratov**  
Independent Director

**Year of birth** – 1959

**Nationality:** Republic of Kazakhstan

**Education, line of profession (qualification):**

- ▷ Alma-Ata Institute of National Economy, Engineer-Economist (1981);
- ▷ Holds the academic degree of PhD in Economics (1988).

**Work Experience:**

- ▷ Has worked in the system of research-and-development institutes of the Gosplan of the Kazakh SSR, in the positions from Engineer to Academic Secretary of an institute;
- ▷ Has worked in the banking sector. During a number of year held positions from Department Manager to Deputy Chairman of Management Board of Turanbank, Chairman of Management Board of Alembank, Chairman of Management of Almaty Commercial Bank, Senior Deputy Chairman of Management Board of Halyk Bank;
- ▷ Chairman of the Board of Directors, JSC "Bayan Sulu";
- ▷ Chairman of the Board of Directors, JSC "AsiaAgroFood";
- ▷ Independent Director, JSC "Tobol SEC";
- ▷ Independent Director, JSC "KazAgro NMH";
- ▷ Independent Director, JSC NC "Aktau International Commercial Seaport", Member of Supervisory Board, "Samruk-Kazyna Invest" LLP; Member of the Committee for Strategy and Innovations of KMG's Board of Directors, Member of the Finance Committee of KMG's Board of Directors.
- ▷ Was elected as Member of the Board of Directors of JSC NC "KazMunayGas" for the first time on 5 Mar. 2014.
- ▷ On 20 Jun. 2014 he was reelected as Independent Director of KMG's Board of Directors.

**Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.





**Christopher John Walton**  
Independent Director

**Year of birth** – 1957

**Nationality:** Australia

**Education, line of profession (qualification):**

- ▷ Bachelor of Arts (Political Science), University of Western Australia;
- ▷ MBA in Finance, University of Western Australia.

**Work Experience:**

- ▷ Chairman of two London Exchange-listed companies: coal-mining Asia Resource Minerals Plc, and ship operator Goldenport Holdings;
- ▷ Chairman of the Audit Committee in the national rail-way company “Kazakhstan Temir Zholy”;
- ▷ Chairman of Lothian Buses Plc, Edinburgh bus network operator;
- ▷ Senior Independent Director and Chairman of the Audit Committee of oil-exploration company Rockhopper Exploration Plc, listed on the London Stock Exchange;
- ▷ Non-executive Member of the Audit and Risk Committee of the Department for Culture, Media and Sport, UK;
- ▷ Non-executive Director and Member of the UK’s Institute of Directors;
- ▷ Member of the Regional Economic Advisory Council, SE and East Anglia, the Bank of England;
- ▷ CFO of EasyJet Plc.;
- ▷ Australian state-owned airline Qantas, Air New Zealand, Australia Post and Australian Airlines;
- ▷ BP Australia;
- ▷ Australia’s Senate;
- ▷ Hamersley Iron.
- ▷ He is Chairman of the Innovations and Strategy Committee of KMG’s Board of Directors; Member of the Appointment and Remuneration Committee of KMG’s Board of Directors, Member of the Finance Committee of the KMG’s Board of Directors and Member of the Audit Committee of KMG’s Board of Directors.
- ▷ Was elected as Member of the Board of Directors of JSC NC “KazMunayGas” for the first time on 17 Apr. 2014.
- ▷ On 20 Jun. 2014 he was reelected as Independent Director of KMG’s Board of Directors.

**Holding of shares**

Holds no KMG’s shares. Holds no shares of the Company’s suppliers and competitors.



### **Dauren Imanzhanuly Yerdebai**

**Representative of the shareholder - Sovereign Wealth Fund "Samruk-Kazyna" JSC  
Chairman of Management Board of JSC "SWF "Samruk-Kazyna"**

**Year of birth** - 1977

**Nationality:** Republic of Kazakhstan

**Education, line of profession (qualification):**

▷ Kazakh State Academy of Management, International Economist (1998).

**Work Experience:**

- ▷ Lead Specialist, Deputy Head in the Ministry of Economy and Trade of the Republic of Kazakhstan;
- ▷ Advisor to Deputy Prime Minister of the Republic of Kazakhstan;
- ▷ Consultant of the Asian Development Bank;
- ▷ Deputy Director in a department of the Ministry of Finance of the Republic of Kazakhstan;
- ▷ Consultant of President's Administration of the Republic of Kazakhstan;
- ▷ Deputy Chairman of the Investment Committee in the Ministry of Industry and Trade of the Republic of Kazakhstan;
- ▷ Senior Deputy General Director, SAT&Company LLP;
- ▷ President, Kazakhstan Petrochemical IndustriesInc. JSC;
- ▷ CEO, Kazakhstan Petrochemical IndustriesInc. LLP;
- ▷ Chairman of Management Board, United Chemical Company LLP;
- ▷ Chairman of the Board of Directors, JSC "NAC "Kazatomprom";
- ▷ Chairman of Supervisory Board, United Chemical Company LLP;
- ▷ Deputy Chairman of Management Board, JSC "SWF "Samruk-Kazyna".
- ▷ Was elected as Member of the Board of Directors of JSC NC "KazMunayGas" for the first time on 5 Mar. 2014.
- ▷ On 20 Jun. 2011 he was reelected as Shareholder's representative to KMG's Board of Directors.

**Ownership of shares in the Company, and its suppliers and competitors**

Holds no shares.



### **Nurlan Kussainovich Rakhmetov**

**Representative of the shareholder - Sovereign Wealth Fund "Samruk-Kazyna" JSC  
Member of the Management Board, Samruk-Kazyna JSC - Chief Financial Officer**

**Year of birth** - 1965

**Nationality:** Kazakhstan

**Education, line of profession (qualification):**

▷ Moscow M.V. Lomonosov State University (1987), Mathematician;  
▷ Postgraduate studies of the Moscow M.V. Lomonosov State University (1990) - Candidate of Physical and Mathematical Sciences.

**Work Experience:**

- ▷ Junior Research Associate of the Institute of Mathematics and Mechanics of the Academy of Sciences of KazSSR;
- ▷ Senior Teacher of the Mathematical Analysis Chair of the Abai Almaty State University;
- ▷ Head of Planning and Finance Department;
- ▷ Chief Financial Officer of the BUTYA company;
- ▷ Deputy General Director of the Kazakstan Temir zholy RSE;
- ▷ Director of Planning and Forecasting Department of Ministry of Public Revenue of the Republic of Kazakhstan;
- ▷ Vice Minister of Public Revenue of the Republic of Kazakhstan;
- ▷ Vice Minister of Finance of the Republic of Kazakhstan;
- ▷ Chairman of the Tax Committee, Ministry of Finance of the Republic of Kazakhstan;
- ▷ Deputy General Director of the KazTransGas CJSC and Intergas Central Asia CJSC;
- ▷ Managing Director for Economy and Finance of JSC NC "KazMunayGas";
- ▷ Member of the Management Board, Samruk-Kazyna JSC - CFO;
- ▷ He is member of the Finance Committee of KMG's Board of Directors.
- ▷ Was elected as Member of the Board of Directors of JSC NC "KazMunayGas" for the first time on 2 Oct. 2012.
- ▷ On 20 Jun. 2011 he was reelected as Shareholder's representative to KMG's Board of Directors.

**Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.



**Sauat Mukhametbayevich Mynbayev**  
 Member of the Board of Directors, JSC "National Company "KazMunayGas"

**Year of birth** – 1962

**Nationality:** Kazakhstan

**Education, line of profession (qualification):**

- ▷ Moscow M.V. Lomonosov State University (1985), Economist-Cyberneticist;
- ▷ Postgraduate studies of the Moscow State University (Nov, 1985- Nov,1988) - Candidate of Economic Sciences, subject of the thesis: 'Forecasting renewal of capital assets' (1988).

**Work Experience:**

- ▷ President of the 'Kazakhstan' Republic-wide Construction Exchange;
- ▷ Senior Deputy Chairman of Management Board of 'Kazkommertsbank' Joint-Stock Bank;
- ▷ Deputy Minister of Finance of the Republic of Kazakhstan;
- ▷ Deputy Minister of Finance of the Republic of Kazakhstan - Head of Treasurer's Office under Ministry of Finance of the Republic of Kazakhstan;
- ▷ Senior Deputy Minister of Finance of the Republic of Kazakhstan;
- ▷ Deputy Minister of Finance (Vice Minister) of the Republic of Kazakhstan;
- ▷ Senior Vice Minister of Finance of the Republic of Kazakhstan;
- ▷ Minister of Finance of the Republic of Kazakhstan;
- ▷ Deputy Head of President's Administration of the Republic of Kazakhstan;
- ▷ Minister of Agriculture of the Republic of Kazakhstan;
- ▷ President of the "Development Bank of Kazakhstan" CJSC;
- ▷ General Director of the Caspian Industrial-Financial Group LLP;
- ▷ Deputy Prime Minister of the Republic of Kazakhstan;
- ▷ Deputy Prime Minister of the Republic of Kazakhstan - Minister of Industry and Trade of the Republic of Kazakhstan;
- ▷ Chairman of Management Board of the "Samruk" Kazakhstan Holding Company for Assets Management JSC;
- ▷ Minister of Energy and Mineral Resources of the Republic of Kazakhstan;
- ▷ Member of the Board of Directors, Sovereign Wealth Fund "Samruk-Kazyna" JSC.
- ▷ Minister of Oil and Gas of the Republic of Kazakhstan;
- ▷ Currently, he is Chairman of Management Board of JSC NC "KazMunayGas" and Member of KMG's Board of Directors.
- ▷ Was elected as Member of the Board of Directors of JSC NC "KazMunayGas" for the first time on 6 Jan. 2012.
- ▷ On 20 Jun. 2014 he was reelected to KMG's Board of Directors.

**Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.

Members of KMG's Board of Directors are elected by a resolution of the Management Board of the Samruk-Kazyna JSC.

# Requirements determined for Independent Directors

## 1. Primary criteria (stipulated in article 1 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”):

- ▷ is not an affiliate of KMG and has not been for three years preceding its election to the Board of Directors (except where it occupies the position of an Independent Director of this joint-stock company), and is not an affiliate in respect of KMG’s affiliates;
- ▷ is not bound by subordination to the officials of this joint-stock company or entities affiliated to KMG, and has not been bound by subordination to these entities for the three years preceding its election to the board of directors;
- ▷ is not a government employee;
- ▷ is not a representative of the shareholder at meetings of the bodies of this joint-stock company, and has not been the same during the three years preceding its election to the board of directors;
- ▷ does not participate in the audit of this joint-stock company as an auditor employed in an auditing firm, and has not participated in such an audit during the three years preceding its election to the board of directors.

## 2. Ancillary criteria (stipulated in the Rules of Selecting Independent Directors of the Samruk-Kazyna JSC):

- ▷ has publicly announced its status of an Independent Director prior to election to the Board of Directors;
- ▷ has expertise in certain areas related to the functional duties of an Independent Director, membership in the committees of the Board of Directors, strong communication skills, relies in the work on the principles of transparency, objectivity, constructive thinking and professionalism;
- ▷ has general information about the key issues specific to an entity similar in size and nature of operations to KMG, and, among other things, demonstrates understanding of:
  - a. regulatory obligations;
  - b. competitive environment on the domestic and international markets;
  - c. peculiarities in the sphere of corporate finance, internal control, strategy and/or the matters of appointment and/or remuneration to provide an expert opinion when being a member in the relevant committee of KMG’s Board of Directors;
- ▷ is capable of analyzing comprehensively and objectively evaluating the provided information, and work out an independent position on a matter relying on the principles of rule of law, justice and equitable treatment of all shareholders;
- ▷ has impeccable reputation/positive achievement in the business and/or industry environment, maintains high ethical standards;
- ▷ has plenty of time to participate in the work of the Board of Directors not only during meetings of the Board of Directors, but additionally - for appropriate study of materials for meetings of the Board of Directors;
- ▷ is not a member of boards of directors in more than four companies.

# Remuneration to Members of the Board of Directors

Members of the Board of Directors, other than Independent Directors, receive no remuneration. Members of the Board of Directors, who are Independent Directors (F. Kuijlaars, P. Lane, C. Walton) receive a fixed annual remuneration in the amount of 150,000 US dollars, Yu.U. Baimuratov – 18,200,000 tenge.

Furthermore, additional remuneration is paid to the holders of the following positions:

- ▷ Chairman of KMG’s Board of Directors – 75,000 US dollars (or an equivalent amount in KZT at the exchange rate of the National Bank of the Republic of Kazakhstan) annually;

▷ Chairman of the Committee for:

Audit – 35,000 US dollars (or an equivalent amount in KZT at the exchange rate of the National Bank of the Republic of Kazakhstan) annually;

Strategy and Innovations, Appointment and Remuneration, Finance - 25,000 US dollars (or an equivalent amount in KZT at the exchange rate of the National Bank of the Republic of Kazakhstan) annually;

▷ Member of the Committee for:

Audit – 17,500 US dollars (or an equivalent amount in KZT at the exchange rate of the National Bank of the Republic of Kazakhstan) annually;

Strategy and Innovations, Appointment and Remuneration, Finance - 12,500 US dollars (or an equivalent amount in KZT at the exchange rate of the National Bank of the Republic of Kazakhstan) annually;

- ▷ for participation in a meeting initiated by Chairman of KMG’s Board of Directors and/or Chairman of Management Board of the Samruk-Kazyna JSC, Chairman of Management Board of JSC NC “KazMunayGas” - 2,000 US dollars (or an equivalent amount in KZT at the exchange rate of the National Bank of the Republic of Kazakhstan) for each meeting.

# → Business Report of the Board of Directors of JSC NC "KazMunayGas"

Eighteen meetings in praesentia of the Board of Directors were held in 2015 (including those held by means of conference call).

276 matters were submitted to the Board of Directors, of which 70 matters were for information on the current situation with the matters of vocational health and safety and environmental protection, KMG's financial standing, execution of resolutions of KMG's Board of Directors, implementation of major projects etc.

Of 276 resolutions passed by the Board of Directors in 2015:

- ▷ over 70 resolutions - on important matters of corporate governance and the aspects regulating KMG's internal activities;
- ▷ about 15 resolutions on the matters of subsoil use, making amendments to the subsoil use contracts;
- ▷ 50 resolutions were about appointment of staff and the structure of KMG's central office;
- ▷ 20 resolutions - on the matters of making interested-party transactions;
- ▷ about 15 resolutions - on the matters of operations, falling within the exclusive terms of reference of the general meeting of shareholders (members) of a legal entity, whose ten or more percent of shares (interest in the equity capital) are owned by KMG.

## Information on Participation of Members of KMG's Board of Directors in Meetings of KMG's Board of Directors in 2015

Name of Member of KMG's Board of Directors	Meeting number and date (day, month)																	
	No1 (5.01)	No2 (20.01) -conference	No3 (18.02)	No4 (02.04)	No5 (22.04)	No6 (25.04) -conference	No7 (20.05)	No8 (24.06)	No9 (21.07) -conference	No10 (19.08)	No11 (28.08) -conference	No12 (15.09) -conference	No13 (23.09)	No14 (21.10)	No15 (2.11) -conference	No16 (18.11)	No17 (11.12)	No18 (15.12)
S.M. Mynbayev	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
F. Kuijlaars	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
P. Lane	+	+	+	+	+	+	+	+	+	-	+	+	+	+	+	+	+	+
N.K. Rakhmetov	+	+	+	+	+	+	+	+	+	+	+	+	+	- leave	+	+	+	-
D.I. Yerdebai	-	+	-	+	-	-	+	+	+	-	+	+	-	+	+	+	+	+
Y.U. Baimuratov	+	+	-	+	+	+	+	-	+	+	+	+	+	-	+	+	+	+
C. Walton	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	- (left written)	+	- (left written)

## → Committees of the Board of Directors

### Appointment and Remuneration Committee

#### Chairman:

P. Lane (KMG's Independent Director)

#### Members:

F. Kuijlaars (KMG's Independent Director)

C. Walton (KMG's Independent Director)

The committee acts for the purposes of assisting the Board of Directors through development and provision of recommendations on the matters of:

- ▷ the Board of Directors and Management Board succession planning;
- ▷ ensuring continuous and objective performance appraisal of the Board of Directors, Management Board, Corporate Secretary and other employees;
- ▷ ensuring an efficient staff policy, compensation and remuneration system, and social support, vocational development and training of officers and employees.

The Committee's operation during the year was in accordance with the approved 2015 Work Plan.

The Appointment and Remuneration Committee held 12 meetings in 2015. During 2015 the Appointment and Remuneration Committee produced recommendations on the matters of:

- ▷ approval of the central office structure and total number of KMG's employees;
- ▷ KMG's Board of Directors;
- ▷ KMG's Management Board;
- ▷ activity of KMG's Corporate Secretary;
- ▷ approval of Motivation Key Performance Indicator Scorecards of KMG's executive employees and their target values for 2015;
- ▷ preliminary discussion of building KMG's key performance indicator tree;
- ▷ discussion and approval of KMG's corporate key performance indicators and their target values for 2015;
- ▷ report on benchmarking the executive personnel pay levels;



- ▷ preliminary discussion of the Rules of Appraisal of Performance of the Executive and Management Employees, Head of the Internal Audit Service and Corporate Secretary;
- ▷ KMG's Ombudsman;
- ▷ preliminary discussion of the Concept of Creation of the Corporate Ombudsman in the KazMunayGas Group of Companies (certain aspects to the statement of purpose);
- ▷ information on the pay level of KMG's administrative and managerial employees;
- ▷ certain internal documents regulating performance appraisal and labour remuneration of KMG's employees;
- ▷ information on the status of the improvements being carried out in the sphere of human resources management;
- ▷ approval of the Overall Efficiency according to the Motivation KPI Scorecards and determining the amount of remuneration to the members of KMG's Management Board (executive employees) based on the 2014 results;
- ▷ approval of the List of KMG's Long-term Remuneration Program Participants for preliminary discussion;
- ▷ approval of the Rules of Rendering Social Support to the Employees of the KazMunayGas Research and Development Institute of Production and Drilling Technology LLP;
- ▷ the current status of efforts to ensure succession of Chairmen of Management Board (General Directors) at the level of KMG's material subsidiaries;
- ▷ appointment of General Directors (Chairmen of Management Board) of KMG's SDEs;
- ▷ early termination of the powers, election and establishment of the term of office of Chairmen and Members of the Boards of Supervisory Directors and Boards of Directors of KMG's SDEs;
- ▷ approval of Motivation Key Performance Indicator Scorecards of the Members of Management Boards of KMG's SDEs and their target values for 2015;
- ▷ approval of a number of internal documents of KMG's SDEs;
- ▷ approach to evaluation of jobs ranging from Corporate Centre's administrative employees to the top management of the operations SDEs according to HAY GROUP's methodology.

Recommendations of the Committee were presented at meetings of the Board of Directors, and were taken into account by KMG's Board of Directors in passing its resolutions.

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### Committee on Strategy and Innovation

#### Chairman:

Christopher Walton (KMG's Independent Director)

#### Members:

P. Lane (KMG's Independent Director)

F. Kuijlaars (KMG's Independent Director)

Y.U. Baimuratov (KMG's Independent Director)

The committee acts for the purposes of assisting the Board of Directors through development and provision of recommendations on the matters of:

- ▷ the development strategy and investment policy, including top-priority areas of development;
  - ▷ increasing the investment appeal, including by means of improving corporate governance;
  - ▷ appropriate planning of the financial and economic activities;
  - ▷ introduction of Innovations.
- 

In 2015 the Committee held 10 meetings, where about 120 matters were considered, on which KMG's Board of Directors was given recommendations.

Recommendations developed by the Committee were presented at meetings of KMG's Board of Directors on an ongoing basis, and were taken into account by KMG's Board of Directors in passing its resolutions.

The Committee gave recommendations to KMG's Board of Directors on the matters of KMG's Development Plan, KMG's Sustainable Development Report, Road Map of the Transformation Program of JSC NC "KazMunayGas", optimization of business plans of KMG's subsidiaries, approval to and amendments to the articles of association of KMG's subsidiaries; implementation of actions to reduce the number of companies in the JSC NC "KazMunayGas" group. Within the framework of considering actions to improve corporate governance, the Committee made great efforts in terms of self-assessment to check compliance with the Corporate Governance Code of the Sovereign Wealth Fund "Samruk-Kazyna" JSC, approved by Resolution No. 239 of 14 Apr. 2015 of the Government of the Republic of Kazakhstan, and in terms of diagnostics of KMG's corporate governance which led to the assignment to KMG the 79% score (vs 75% in 2014, based on the results of self-assessment). As part of considering the matters of KMG's Development Strategy, the Committee carried out considerable work both with KMG's structural subdivisions and employees, and with the outside advisor, McKinsey, for development of various scenarios, including those providing for privatization.

At every meeting of the Committee, the current situation and the development outlook of the North-Caspian Project and Karachaganak Project were systematically discussed, the status of the KazTransGas-Tbilisi OOO and the consequences of recovery of control over the KazTransGas-Tbilisi OOO were considered, the M&A project being implemented by the Kashagan B.V. PLC jointly with the North-Caspian Project contracting companies, providing for merger of the North-Caspian Project operator and its agent through the consolidation of NC Production Operations Company B.V. into North Caspian Operating Company N.V. and consolidation of North Caspian Operating Company B.V. to North Caspian Operating Company N.V., and other projects were preliminarily approved.

At the Committee meetings the matters of restructuring the core and non-core assets of the KMG group of companies, obtainment and exercise by KMG of a subsoil use right, and making amendments to subsoil contracts, acquisition and alienation by KMG of ten and more percent of shares (interest in the charter capital) of other legal entities, making amendments to SDEs' Articles of Association were discussed.

## Finance Committee

### Chairman:

F. Kuijlaars (KMG's Independent Director)

### Members:

P. Lane (KMG's Independent Director)  
 N.K. Rakhmetov (Member of KMG's Board of Directors,  
 Member of the Management Board of the Samruk-Kazyna JSC)  
 C.J. Walton (KMG's Independent Director)  
 Y.U. Baimuratov (KMG's Independent Director)

Produces recommendations for the Board of Directors for pursuing an efficient financial policy of KMG, performs assessment of KMG's financial standing, and monitoring of the financial strategy.

### Statement of Responsibility

In accordance with the provisions of sub-clause 1.3 of article 62 of the Law of the Republic of Kazakhstan "On Joint Stock Companies", Members of the Board of Directors, as KMG's officers, are obliged to ensure integrity of the accounting and financial reporting systems, including carrying out independent audit. In this respect, according to the provisions of clause 5, article 63 of the Law of the Republic of Kazakhstan "On Joint-Stock Companies", in the event that the company's financial reporting misrepresents the company's financial standing, the officers who signed this financial reporting of the company shall be liable to third parties who suffered material loss as a result thereof.

In 2015 the Finance Committee was the coordinator of KMG's efforts to maintain the company's financial soundness. The most important transactions aimed to reduce KMG's net debt were the sale of 50% of shares in KMG Kashagan B.V. in favour of the Samruk-Kazyna JSC, obtainment of the appropriate consents to the sale from the holders of Eurobonds and KMG's lenders, retirement of KMG's Eurobonds for an amount of 3.7 billion US dollars.

## Audit Committee

### Chairman:

P. Lane (KMG's Independent Director)

### Members:

F. Kuijlaars (KMG's Independent Director)  
 P. Lane (KMG's Independent Director)

The Audit Committee of the Board of Directors of JSC NC "KazMunayGas" was created by a resolution of the Board of Directors of JSC NC "KazMunayGas" (minutes No.9 of 20 Sep 2006).

The Audit Committee is an advisory-and-consultative body of KMG's Board of Directors and operates in compliance with the Regulation on the Audit Committee approved by KMG's Board of Directors (minutes No.1 of 1 Mar 2011).

In line with the provisions of KMG's Corporate Governance Code, the Board of Directors, jointly with the Audit Committee, Internal Audit Service and KMG's external auditors, establishes the formal and transparent order of determining the ways of application by KMG of financial reporting and internal control principles, and appropriate relations with KMG's external auditors.

Primary responsibilities of the Audit Committee include the following:

- ▷ consideration of financial reporting matters;
- ▷ consideration of internal control and risk management matters;
- ▷ consideration of external audit matters;
- ▷ consideration of internal audit matters.

The Audit Committee considers the matters related to the internal and external audit, the matters of financial reporting and risk management. The Audit Committee provides the Board of Directors with recommendations with respect to making decisions on these matters.

The Audit Committee holds regular meetings in praesentia, including by means of conference calls.

10 meetings of the Audit Committee were held in 2015. In 2015, the Audit Committee considered a total of 79 matters.

# → Management Board of JSC NC “KazMunayGas” as at 31 December 2015



**Sauat Mukhametbayevich Mynbayev**  
Chairman of Management Board, JSC NC “KazMunayGas”

## **Supervised matters of activity**

Performs general management of KMG’s activity in accordance with KMG’s Charter and bears responsibility for KMG’s work to KMG’s Board of Directors and Shareholders.

Leads KMG’s Management Board, Investment Committee, Modernization and Transformation Council, Integrated Management System Council.

Represents KMG in government authorities of the Republic of Kazakhstan, Samruk-Kazyna JSC, KMG’s Board of Directors, Boards of Directors/Supervisory Boards and other bodies of the subsidiary and dependent entities (SDEs) and jointly-controlled entities (JCEs), and in international and other organizations.

Determines priority areas and target results of work of Senior Deputy Chairman of Management Board, Deputy Chairmen of Management Board, Managing Directors for Investment and Risk Management, Foreign Oil Refining and Marketing, Human Resources and Labour Remuneration, Legal Support, service of Chairman of Management Board, Secretariat of Managing Director for Investment and Risk Management, Corporate Security Department and Press Office.

Determines priority areas and goals in the sphere of occupational health and safety and environment (OHS&E), industrial and fire safety, as well as CD&ES, their execution and achievement results.

## **Holding of shares**

Holds no KMG’s shares. Holds no shares of the Company’s suppliers and competitors.

## **Membership in Board of Directors of Other Entities**

Has never been a member of the board of directors in other entities.

*Personal information is presented in the membership of KMG’s Board of Directors*





**Christopher Hopkinson**  
Senior Deputy Chairman of Management Board

**Year of birth** – 1967

**Nationality:** United Kingdom

**Education, line of profession (qualification):**

Graduated from the St Andrews University, received bachelor's degree with honours in Applied Physics.

**Work Experience:**

- ▷ C.S. Hopkinson has worked in the petroleum industry since 1980. He began his career in Shell, where he worked for a total of 14 years and grew as high as the leader of the transformation programmes subdivisions.
  - ▷ C.S. Hopkinson worked as Chief of New Wells Development in Yukon EP for 4 years.
  - ▷ During 2004-2006 he served as the Director for Global Projects and Asset Management of LUKOIL Overseas, and in 2007 he became the CEO of the Imperial Energy Corporation PLC.
  - ▷ From 2009 to 2010 he held the post of Vice President of the West Siberia division of the TNK-BP Holding CJSC.
  - ▷ From 2010 to 2011 - Senior Vice President for North African Assets of the BG group.
  - ▷ During 2011-2014 - worked as Chief Executive Officer and General Director of the International Petroleum Ltd.
  - ▷ In the early 2014, by a resolution of the Management Board of the Sovereign Wealth Fund "Samruk-Kazyna" JSC, C.S. Hopkinson was appointed Senior Deputy Chairman of Management Board, JSC NC "KazMunayGas".
- He is a member of the Society of Petroleum Engineers.

**Supervised matters of activity**

- ▷ Organizes and bears responsibility for the results of work in the following areas of KMG's activity: implementation of the development strategy and the key performance indicators of the supervised area and supervised SDEs and JCEs (jointly controlled entities);
- ▷ coordinating work for execution of the approved oil production plans and schedules, production programmes of the SDEs, and for forecasting KMG's oil output;
- ▷ development and implementation of actions for increasing the resource base, the exploration work strategy;
- ▷ coordinating work for technical assessment, acquired new assets/interests in the existing/future projects located on the territory of the Republic of Kazakhstan and overseas;
- ▷ preparation, development and management of operating activity of the new subsoil use projects, control over compliance with conditions and obligations under the subsoil contracts in force, coordination of work with the Competent Authority on the matters of acquisition of subsoil use rights and with potential partners on the matters of assignment/obtainment of subsoil use rights;
- ▷ development and implementation of the technical policy in well construction, oil-and-gas field development, oil and gas production; coordinating the efforts for oil-and-gas field development, oil and gas production, execution of the approved production schedules, and production level forecasting;
- ▷ coordinating the matters of international cooperation in oil and gas upstream within the framework of intergovernmental commissions with countries of far and near abroad, and within the frameworks of participation in international projects and international organizations, ensuring transfer of technology;
- ▷ supervising efforts on ensuring technological development of the supervised SDEs;
- ▷ coordinating the matters of technical development and technical regulation of the KMG group of companies and within the limits of its terms of reference.

Acting as Chairman in the steering committee in KMG's upstream area.

In accordance with the established procedures and within the limits of its competence, represents KMG in government authorities of the Republic of Kazakhstan, Samruk-Kazyna JSC, boards of directors/supervisory boards and other bodies of the supervised SDEs and JCEs, and in international and other organizations.

Determines priority areas and target results of work of Managing Director for Geology - Chief Geologist, Managing Director for Operating Production Assets - Chief Engineer, Managing Director for Well Drilling and Services, Managing Director for Offshore Projects.

Ensures achievement of the set key performance indicators for the planned period in the supervised area in accordance with KMG's Development Strategy and the OHS&E Policy.

**Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.

**Membership in Board of Directors of Other Entities**

- ▷ Chairman of the Board of Directors of the KazMunaiGas Exploration Production JSC



**Daniyar Amirbayevich Berlibayev**  
Deputy Chairman of Management Board for Corporate Centre

**Year of birth** – 1968

**Nationality:** Kazakhstan

**Education, line of profession (qualification):**  
Al-Farabi Kazakh State University (1985 – 1992).

**Line of profession:** Legal Science, qualification - Lawyer.

**Work Experience:**

Worked as General Director of the Intergas Central Asia, JSC from 2005 to 2007, combining the duties of Senior Deputy General Director of JSC “KazTransGas”. From 2007 to 2009 he held the post of Managing Director for Gas Projects of JSC NC “KazMunayGas”. From 2009 to 2011 he was General Director of KazMunayGas-RM JSC, and later - General Director of JSC “KazTransGas”. He held the post of Managing Director for Gas Projects of JSC NC “KazMunayGas”.

**Supervised matters of activity**

Heads committees, advisory-and-consultative bodies in accordance with the procedure established by KMG’s internal documents, and chairs the Management Committee for Transformation of KMG’s Corporate Centre (the CC).

Organizes and bears responsibility for the results of work in the following areas of KMG’s activity:

- ▷ monitoring the execution of the acts and instructions of President of the Republic of Kazakhstan, Government of the Republic of Kazakhstan, Chairman of Management Board of Samruk-Kazyna JSC, and implementation of the strategic and programme documents; ensuring preparation of summarized information on the activity of KMG and SDEs, to be submitted to the Administration of President of the Republic of Kazakhstan, Parliament of the Republic of Kazakhstan, Government of the Republic of Kazakhstan, other governmental agencies, the Shareholders and KMG’s management;
- ▷ ensuring achievement of the target values of key performance indicators related to the terms of reference of the CC, in order to implement KMG’s development strategy;
- ▷ management of strategic planning processes, including: development and control over implementation of the development strategy of KMG and its SDEs, methodological supervision and operation of the performance appraisal system in the KMG group of companies; management of assets, finance, budget and tax planning, statutory and fiscal accounting;
- ▷ control over the activity for organizing the purchase process and local content development;
- ▷ administrative support to KMG’s operations;
- ▷ approval of acts on writing-off of fixed assets, reserves and intangible assets;
- ▷ coordination of the informational and analytical efforts in KMG, including shaping of the analytic environment and making strategic, analytical and sociological surveys;
- ▷ coordination of KMG’s interface with the expert-and-analyst community, information-and-analytical, consulting agencies and organizations, and holding expert meetings and discussion platforms coordination of development and implementation of the common IT strategy of KMG and its SDEs;
- ▷ coordinating communications with governmental agencies, international organizations, diplomatic missions and foreign partners on the matters of international cooperation, including participation of KMG’s management and representatives in the operation of intergovernmental commissions and committees, and in major international events (conferences, forums).

In accordance with the established procedures and within the limits of its competence, represents KMG in government authorities of the Republic of Kazakhstan, Samruk-Kazyna JSC, Boards of Directors/Supervisory Boards and other bodies of the SDEs and JCEs, and in international and other organizations.

Determines priority areas and target results of work of Managing Directors for Economy and Finance, Information Technology, Business Support, Strategy and Information-Summarizing Department.

Ensures achievement of the set key performance indicators for the planned period in the supervised area in accordance with KMG’s Development Strategy and the OHS&E Policy.

**Holding of shares**

Holds no KMG’s shares. Holds no shares of the Company’s suppliers and competitors.

**Membership in Board of Directors of Other Entities**

- ▷ Chairman of the Board of Directors, The Rompetrol Group N.V.
- ▷ Member of the Board of Directors of JSC “KazTransGas”
- ▷ Member of the Board of Supervisory Directors, KazRosGas LLP
- ▷ Chairman of the Board of Supervisory Directors, AstanaGas KMG LLP
- ▷ Members of the Partnership Committee, Kilysh Commercial Partnership



**Nurtas Nuribekovich Shmanov**  
Deputy Chairman of Management Board for Oil Transportation

**Year of birth** – 1956

**Nationality:** Kazakhstan

**Education, line of profession (qualification):**  
Ufa Petroleum Institute (1974 – 1979).

**Line of profession:** designing and operating oil and gas pipelines, gas holders and oil depots, qualification – Mechanical Engineer.

Eurasian Market Institute (1996 – 1998).

**Line of profession:** Finance and Credit, qualification – Economist.

**Work Experience:**

Has served as KMG's Deputy Chairman of Management Board for Support-Sector Projects, KMG's Deputy Chairman of Management Board for Transportation Infrastructure, General Director of JSC "KazTransOil", Deputy General Director-at-Large of CPC-R, Regional Transportation Manager in ChevronNefteGaz in Moscow and Almaty. Has held various posts in ChevronMunaiGaz and Atyrau Oil Pipeline Administration. Since December, 2015 - General Director (Chairman of Management Board) of JSC "KazTransOil".

**Supervised matters of activity**

Organizes and bears responsibility for the results of work in the following areas of KMG's activity:

- ▷ ensuring achievement of the target values of key performance indicators related to the terms of reference of the supervised business area, in order to implement KMG's development strategy;
- ▷ ensuring common policy and coordinating development of oil-transportation systems through efficient management of assets, creation of necessary capacity, integration of transportation systems and diversification of export directions;
- ▷ organizing measures to ensure reliable and uninterrupted water transportation, as well as measures to ensure safe operation of the Astrakhan-Mangyshlak water conduit;
- ▷ ensuring development of the national marine fleet on the Caspian Sea and in open seas in order to improve the quality and reliability of marine oil transportation;
- ▷ arranging measures for ensuring safe and uninterrupted oil transportation through construction of new and modernization of the existing oil and gas pipelines, and measures for ensuring safe operation of oil-transportation systems;
- ▷ in accordance with the established procedure, ensuring efficient management of the shares of the Republic of Kazakhstan in oil-transportation projects;
- ▷ ensuring efficient management of projects for development of the existing and creation of new oil-transportation capacity;
- ▷ coordinating the matters of international cooperation and technical regulation in oil transportation within the framework of inter-governmental commissions with countries of far and near abroad, and within the framework of participation in international projects and international organizations in the sphere of oil transportation.

In accordance with the established procedures and within the limits of its competence, represents KMG in government authorities of the Republic of Kazakhstan, Samruk-Kazyna JSC, Boards of Directors/Supervisory Boards and other management bodies of the supervised SDEs and JCEs, and in international and other organizations.

Determines priority areas and target results of work of the Oil Transportation Directorate.

Ensures achievement of the set key performance indicators for the planned period in the supervised area in accordance with KMG's Development Strategy and the OHS&E Policy.

**Holding of shares**

Holds no KMG's shares. Holds no shares of the company's suppliers and competitors.

**Membership in Board of Directors of Other Entities**

- ▷ Chairman of the Board of Directors, Euro-Asia Air JSC
- ▷ Chairman of the Board of Supervisory Directors, KMG Drilling & Services LLP
- ▷ Chairman of the Board of Supervisory Directors, KMG Systems & Services LLP
- ▷ Chairman of the Board of Supervisory Directors, Teniz Service LLP
- ▷ Chairman of the Board of Supervisory Directors, LLP NMSC "Kazmortransflot"



**Makhambet Joldasgaliyevich Dosmukhambetov**  
Deputy Chairman of Management Board for Major Projects

**Year of birth** – 1960

**Nationality:** Kazakhstan

**Education, line of profession (qualification):**  
I.M. Gubkin Moscow Institute of Petrochemical and Gas Industry.

**Line of profession:** Geology and Exploration of Oil and Gas Fields, Mining Engineer.

**Work Experience:**

During 1983-1991 he served as Geologist, Senior Geologist, Chief Geologist, Head of Geology Department of the Dossorneft Field Office, Chief Geologist of the Makatneft Field Office of the Embaneft PA. 1991-1994 - Lead Geologist, MUNAI JV. 1994-1996 - Director of the Kyrykmylyk oil field, Chief Geologist of the ANACO JSC. 1996-1997 - Deputy Director for Technical Matters, YesBol LLP. In 1997 - Head of Geology Department, Embamunaygas JSC. During 1997-2002 - Chief Manager, Deputy Director, Director of the Reservoir and Petroleum Engineering Department, Kazakhoil NOC. During 2002-2004 - Deputy Director, Director of the Reservoir and Petroleum Engineering Department, JSC NC "KazMunayGas". During 2004-2006 - Director of the Reservoir and Petroleum Engineering Department, KazMunayGas EP JSC, 2006-2009 - Deputy General Director, Kazgermunay JV LLP, 2009-2013 - Deputy General Director for Reservoir and Petroleum Engineering, Mangistaumunaigas JSC, General Director of the Embamunaygas JSC (2013-2014). Since 2015 to the present day he has been Deputy Chairman of Management Board for Major Project, JSC NC "KazMunayGas".

**Supervised matters of activity**

Organizes and bears responsibility for the results of work in the following areas of KMG's activity:

- ▷ ensuring achievement of the target values of key performance indicators related to the terms of reference of the supervised business area, in order to implement KMG's development strategy;
- ▷ representing KMG in major oil-and-gas projects (MOGPs) (Tengiz, North-Caspian, Karachaganak Projects), ensuring efficient management of KMG's participatory interests in MOGPs for the purpose of further development of MOGPs, participating in meetings of the management bodies of MOGPs for considering and agreeing on the matters of strategic development of MOGPs, and on other strategic matters of activity within the framework of MOGPs;
- ▷ control over the implementation of the approved strategic programs of the MOGPs.

In accordance with the established procedures and within the limits of its competence, represents KMG in government authorities of the Republic of Kazakhstan, Samruk-Kazyna JSC, Boards of Directors/Supervisory Boards and other management bodies of the supervised SDEs and JCEs, and in international and other organizations.

Determines priority areas and target results of work of the Major Projects and Managing Director for Major Projects.

Ensures achievement of the set key performance indicators for the planned period in the supervised area in accordance with KMG's Development Strategy and the OHS&E Policy.

**Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.

**Membership in Board of Directors of Other Entities**

- ▷ Chairman of the Partnership Council, Tengizchevroil LLP
- ▷ Managing Director of the Board of Directors, KMG Kashagan B.V.
- ▷ Chairman of the Board of Supervisory Directors, KMG Karachaganak LLP



**Daniyar Suyinshlikovich Tiyyessov**  
**Deputy Chairman of Management Board for Oil Refining and Marketing**

**Year of birth** – 1970

**Nationality:** Kazakhstan

**Education, line of profession (qualification):**  
 Eastern Kazakhstan State University (1997 – 2000).

**Line of profession:** Legal Science, qualification - Lawyer.

Atyrau Institute of Oil and Gas (2000 – 2005).

**Line of profession:** Oil, Gas and Coal Technology; qualification: Process Engineer.

**Work Experience:**

He worked as Deputy General Director for Operations in JSC “TH “KazMunayGas”, held various posts in LLP “Atyrau Refinery”, CJSC “NC “KazMunayGas” and NOC “KazakhOil”.

**Supervised matters of activity**

Organizes and bears responsibility for the results of work in the following areas of KMG’s activity:

- ▷ ensuring achievement of the target values of key performance indicators related to the terms of reference of the supervised business area, in order to implement KMG’s development strategy;
- ▷ working out the position of KMG and the supervised SDEs and JCEs on the strategy and development of the oil refining industry of the Republic of Kazakhstan, including increasing the oil conversion ratio, enhancement of the products quality, improvement of the production operations, ensuring financial return on oil refining, petrochemistry, crude and oil product marketing projects and increasing the level of technological development;
- ▷ coordination of works for development of the common technical policy in the sphere of oil refining and petrochemistry of the supervised SDEs, coordinating works for the implementation of projects for development of the refineries of the Republic of Kazakhstan; development of Kazakhstan’s oil refining industry in the medium and long-term, control over execution of measures for ensuring delivery of oil for refining and for increasing return of oil refining;
- ▷ coordinating the matters of international cooperation and technical regulation in oil refining, petrochemistry, oil and oil products marketing within the framework of intergovernmental commissions with countries of far and near abroad, and as part of participation in international projects and international organizations;
- ▷ efficient management of the supervised SDEs and JCEs, aimed to produce high-quality and environmentally sound oil products, increasing the yield of light oil products, reducing production costs, and enhancing the efficiency of their financial and economic activities; ensuring execution of instructions of the Government of the Republic of Kazakhstan and the Ministry of Energy of the Republic of Kazakhstan on shipping diesel fuel for the needs of agricultural producers, fuel oil for the heating season, jet fuel, petrol, oil, lubricants and other products of oil refining by the supervised SDEs.

In accordance with the established procedures and within the limits of its competence, represents KMG in government authorities of the Republic of Kazakhstan, Samruk-Kazyna JSC, Boards of Directors/Supervisory Boards and other management bodies of the supervised SDEs and JCEs, and in international and other organizations.

Determines priority areas and target results of work of the Oil Refining and Marketing Directorate.

Ensures achievement of the set key performance indicators for the planned period in the supervised area in accordance with KMG’s Development Strategy and the OHS&E Policy.

**Holding of shares**

Holds no KMG’s shares. Holds no shares of the Company’s suppliers and competitors.

**Membership in Board of Directors of Other Entities**

- ▷ Member of the Board of Directors, JSC “KazMunayGas – Refining & Marketing”
- ▷ Chairman of the Management Board, JSC “KazMunayGas – Refining & Marketing”
- ▷ Chairman of the Board of Directors, Kazakhstan Petrochemical Industries JSC
- ▷ Chairman of the Board of Supervisory Directors, Atyrau Refinery LLP
- ▷ KMG’s Representative in the Partnership Committee, Kylysh Commercial Partnership



**Timur Mustakhiyevich Bimagambetov**  
Deputy Chairman of Management Board for Oilfield Service Assets

**Year of birth** – 1954

**Nationality:** Kazakhstan

**Education, line of profession (qualification):**  
V. Lenin Kazakh Polytechnic (1973 – 1978).

**Line of profession:** Oil and Gas Geology, qualification – Mining Engineer.

**Work Experience:**

Started out on a career in 1978, working as operator and further, assistant foreman, process engineer, and later - shop foreman in the 'Zhetibayneft' Field Office. Later, in December, 1981, having joined the 'Kalamkasmunaigaz' Field Office, he went through all stages of professional growth: ranging from an operator to the chief engineer - senior deputy of the director of the enterprise. From July, 2000 to March, 2002 worked as a Director of a department in the NOC 'Kazakhoil' CJSC and the 'Oil & Gas Transportation' CJSC. Having later worked as the Director of the Offshore and Coastal Infrastructure Development Department in JSC NC "KazMunayGas", he joined JSOOC "KazMunayTeniz" in the position of Deputy General Director for Production. From 2004 worked as Executive Director in JSC NC "KazMunayGas", subsequently - in JSOOC "KazMunayTeniz". During 2007-2008 he was General Director of the Kurmangazy Petroleum LLP. After a year of employment as Executive Director of JSC NC "KazMunayGas", in 2009 he became General Director of the N Operating Company LLP. Since February, 2012 to November, 2013 he was Deputy Chairman of Management Board for Production and Technical Development of JSC NC "KazMunayGas". From November, 2013 to January, 2015 he was Managing Director for Operating Producing Assets, JSC NC "KazMunayGas". From January, 2015 to the present day he has been Deputy Chairman of Management Board for Offshore and Individual Oilfield Services Projects.

**Supervised matters of activity**

Organizes and bears responsibility for the results of work in the following areas of KMG's activity:

- ▷ ensuring achievement of the target values of key performance indicators related to the terms of reference of the supervised business area, in order to implement KMG's development strategy;
- ▷ increasing the efficiency and competitive capacity of the services companies and service structural subdivisions of producing companies after their demerger from producing companies through pursuing a common policy in the area of implementing separate accounting, payment of remuneration based on common KPIs, modernization of the production facilities;
- ▷ long-term planning and approval of the strategy of services companies and service structural subdivisions of producing companies; managing the oilfield services asset portfolio;
- ▷ provision of support to the OHS&E matters in KMG's corporate governance system in the supervised business area.

In accordance with the established procedures and within the limits of its competence, represents KMG in government authorities of the Republic of Kazakhstan, Samruk-Kazyna JSC, Boards of Directors/Supervisory Boards and other management bodies of the supervised SDEs and JCEs, and in international and other organizations.

Determines priority areas and target results of work of the Oilfield Service Assets and Managing Director for Oilfield Service Assets.

Ensures achievement of the set key performance indicators for the planned period in the supervised area in accordance with KMG's Development Strategy and the OHS&E Policy.

**Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.

**Membership in Board of Directors of Other Entities**

- ▷ Chairman of the Board of Directors, Offshore Oil Company "KazMunayTeniz" JSC
- ▷ KMG's Representative in the General Meeting of Members, Kazakhoil Aktobe LLP
- ▷ Chairman of the Board of Supervisory Directors, Kazakhoil Aktobe LLP and Aktaunefteservis LLP
- ▷ Chairman of the General Meeting of Members, Kazakhturkmunai Ltd.
- ▷ Chairman of the Board of Directors, JSC "Mangistaumunaigaz"



**Rustam Eduardovich Suleimanov**  
**Deputy Chairman of Management Board for Gas Transportation and Marketing,**  
**JSC NC "KazMunayGas"**

**Year of birth** - 1973.

**Nationality:** Republic of Kazakhstan

**Education:**

Alma-Ata Institute of National Economy. Line of profession: Economic Cybernetics.

**Work Experience:**

Economist, Comptroller in commercial entities. Has held various posts in the Financial Inspection, Financial Control Department, Economic Department of the Alautransgaz OJSC, Manager of the Consulting Working Group on the Gas Supply Project, Regional Manager of the KTG Distribution OJSC, Director of the Marketing and Contract Department, JSC "KazTransGas Aimak", Managing Director (Member of Management Board of Joint-Stock Company "KazTransGas Aimak", Deputy General Director for Development of JSC "KazTransGas", Deputy General Director for Marketing and Commerce, JSC "KazTransGas". Since December, 2015 - General Director (Chairman of Management Board) of JSC "KazTransGas".

**Supervised matters of activity**

Organizes and bears responsibility for the results of work in the following areas of KMG's activity:

- ▷ ensuring achievement of the target values of key performance indicators related to the terms of reference of the supervised business area, in order to implement KMG's development strategy;
- ▷ ensuring common policy and coordinating development of gas-transportation systems through efficient management of assets, creation of necessary capacity, integration of transportation systems and diversification of hydrocarbon export routes directions;
- ▷ arranging measures for ensuring safe and uninterrupted gas transportation through construction of new and modernization of the existing gas pipelines, and measures for ensuring safe operation of gas-transportation systems;
- ▷ in accordance with the established procedure, ensuring efficient management of the shares of the Republic of Kazakhstan in gas-transportation projects;
- ▷ coordinating and controlling the work on forming and increasing the resource base, including natural (LNG) and petroleum (LPG) gases, formulating the strategy of implementing new gas production technology;
- ▷ ensuring efficient management of projects for development of the existing and creation of new gas-transportation capacity;
- ▷ coordinating of works for development of the common technical policy in the sphere of gas refining and chemical utilization of gas of the supervised SDEs, coordinating works for carrying out technical and environmental expert review of projects for development of gas-processing plants;
- ▷ development of Kazakhstan's gas-processing industry in the medium and long-term, control over execution of measures for ensuring delivery of gas for processing and for increasing return of gas processing;
- ▷ working out the position of KMG and the supervised SDEs and JCEs on the strategy and development of the gas-processing industry of the Republic of Kazakhstan, including increasing the gas conversion ratio, enhancement of the products quality, improvement of the production operations, ensuring financial return on gas processing, chemical utilization of gas, gas and gas product marketing projects, increasing the level of technological development;
- ▷ efficient management of the supervised SDEs and JCEs, aimed to produce high quality and environmentally sound gas products, increasing the yield of gas products, reducing production costs;
- ▷ assistance in organizing joint ventures for creation of new gas equipment production facilities;
- ▷ coordinating the matters of international cooperation and technical regulation in gas transportation, gas production, chemical utilization of gas, gas processing within the framework of intergovernmental commissions with countries of far and near abroad, and as part of participation in international projects and international organizations;
- ▷ implementing measures geared towards supplying the domestic market with natural gas, maintaining dominant position on Kazakhstan's gas transportation market, stimulating commercialization of gas produced by other subsoil users of Kazakhstan.

In accordance with the established procedures and within the limits of its competence, represents KMG in government authorities of the Republic of Kazakhstan, Samruk-Kazyna JSC, Boards of Directors/Supervisory Boards and other management bodies of the supervised SDEs and JCEs, and in international and other organizations.

Determines priority areas and target results of work of the Gas Transportation and Marketing Directorate.

Ensures achievement of the set key performance indicators for the planned period in the supervised area in accordance with KMG's Development Strategy and the OHS&E Policy.

**Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.

**Membership in Board of Directors of Other Entities**

- ▷ member of the Board of Directors of JSC "KazTransGas"
- ▷ chairman of the Management Board of JSC "KazTransGas"
- ▷ chairman of the Board of Directors of JSC "KazTransGas Aimak"
- ▷ chairman of the Supervisory Board of LLP "Amangeldy Gas"



**Gleb V. Luxembourg**  
**Deputy Chairman of Management Board for Prospective Development of Production**

**Year of birth** – 1968

**Nationality:** Russian Federation

**Education, line of profession (qualification):**  
 Moscow Technical University of Communications and Informatics (1991-1996).

**Line of profession:** Applied Mathematician, Diploma with honours ШБ No. 202796

**Work Experience:**

Since mid-1990s, he has worked in major international and regional companies in Russia and overseas. Has experience of work in FMCG companies (Wm.Wrigley Company, L’Oreal), petroleum industry (THK-BP), management and technology consulting (Accenture, SAP).

Participated in and led the transformation programs/projects, including ERP implementation, business process and organizational structure optimization projects, and projects for building corporate service and competence centres.

Born on 5 June 1968 in the city of Nebit-Dag in the Turkmen SSR.

In 1992 he graduated from the Ivano-Frankivsk Institute of Oil and Gas completing the program “Exploitation and All-round Mechanization of Oil and Gas Fields”, qualifying as Mining Engineer.

Started out on a career in 1988 as Assistant Driller in the Mamontoskoye EOR&WOD (Enhanced Oil Recovery & Workover Operations Department) of the Yuganskneftegaz PA.

From 1997 he continued his career in NC “YUKOS” OJSC in various posts. He concurrently performed the functions of General Director of a subsidiary, YUKSAR OOO.

2000 - August, 2002 – Chief Financial Officer, Resursenergo OOO. The company’s focus area is refining of hydrocarbons in various refineries of the RF on a give-and-take basis with further sales of oil products.

In 2002 he joined the group of companies of the Tyumen Oil Company CJSC, subsequently - TNK-BP OJSC. From 2002 through 2005 – General Director of the “Regional Service Center - Nyagan” CJSC. Provided management of all oilfield service enterprises in the regions of the Nyagan and Novosibirsk.

Continued his education in the Moscow Academy of State and Municipal Administration of the Academy of Public Administration under the RF’s President, graduating it in 2003.

During 2005-2007 he served as General Director of the RSSSC-Nizhnevartovsk CJSC, which was a part of the TNK-BP group of companies. He provided management of the oilfield service enterprises of the Nyagan, Nizhnevartovsk, Novosibirsk, Raduzhny regions.

From 2007 to 2009 he acted as General Director of the Tagulskoye OOO, TNK-BP. The new enterprise of the company ensured putting into operation of a group of fields of the Bolshekhetskaya Depression in the north of the Krasnoyarsk Krai.

From 2009 to 2010 - Deputy General Director, Rospan International.

During 2010-2011 he held the position of Vice President for Health, Safety and Environment of the TNK-BP OJSC.

In 2012 he earned MBA degree, graduating from the Moscow International Higher Business School MIRBIS.

During 2011-2014 – General Director, Yamal LNG OJSC. He managed construction of the natural gas production and liquefaction facility based on the Yuzhno-Tambeyskoye gas-condensate field.

In June, 2015 he was appointed as Deputy Chairman of Management Board for Prospective Development of Production, JSC NC “KazMunayGas”.

**Supervised matters of activity**

Organizes and bears responsibility for the results of work in the following areas of KMG’s activity:

- ▷ development and implementation of the programme for transformation of business processes of the KMG group of companies; forming and managing the activities of the business process transformation program office;
- ▷ organizing the proceeding of commissions, the Modernization and Transformation Council, working groups, meetings and workshops on the matters related to business process transformation, as well as on the HSE matters;
- ▷ coordinating the work for KMG’s interface with its subsidiary and dependent entities, SWF “Samruk-Kazyna” JSC and other authorities and stakeholders within the framework of the transformation program;
- ▷ control over and monitoring of execution of the budgets for transformation of the business processes of KMG and its subsidiary and dependent entities;



- ▷ coordinating and monitoring achievement of the target values of KPIs as part of KMG's Transformation Program, as well as in HSE;
- ▷ coordinating and monitoring work for the implementation of projects and programs in HSE, directed at KMG's sustainable development, efficient management of waste, greenhouse gas emissions, protection of water resources and increased energy efficiency;
- ▷ participating in consideration and coordination of the annual and prospective production programs and budget of KMG and its SDEs/JCEs, as related to occupational health and safety and sustainable development, as well as controlling their full implementation;
- ▷ ensuring expansion in the organizational capability of the staff through enhancing professional development and employee rotation in the structural subdivisions of the SDEs and KMG;
- ▷ coordinating the work for development and implementation of the measures in the sphere of sustainable development of KMG and its SDEs, control over and monitoring of their execution;
- ▷ coordinating appointments and release of candidates for executive positions in the SDEs' HSE structural subdivisions.

Determines priority areas and target results of work of Managing Directors for Transformation of the Corporate Centre and the Upstream Business Area of the Transformation Project Office (branch of KMG Global Solutions in the Republic of Kazakhstan).

In accordance with the established procedures and within the limits of its competence, represents KMG in government authorities of the Republic of Kazakhstan, Samruk-Kazyna JSC, Boards of Directors/Supervisory Boards and other management bodies of the supervised SDEs/JCEs, and in international and other organizations.

Ensures achievement of the set key performance indicators for the planned period in the supervised area in accordance with KMG's Development Strategy and the OHS&E Policy.

#### **Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.

#### **Membership in Board of Directors of Other Entities**

Holds no membership in the Board of Directors of other organizations.



#### **Ardak Makhmuduly Kassymbek** Managing Director for Economy and Finance

**Year of birth** – 1977

**Nationality:** Kazakhstan

**Education, line of profession (qualification):**

Al-Farabi Kazakh State University (1994 – 1998).

**Line of profession:** International Economic Relations, qualification – Economist.

Business School of City University of London, England (2000 – 2001).

**Line of profession:** Banking and International Finance, qualification – Financier.

#### **Work Experience:**

Started out on a career in 1998 in JSC “Halyk Savings Bank of Kazakhstan” as Lead Banker of the Structured Finance Department. In 2001 he joined CJSC NOC “Kazakhoil” as Manager of the Investment Management Department. From 2003 to 2004 he worked in JSC NC “KazMunayGas” and held the following positions - Senior Manager of the Project Analysis Department, Senior Manager of the Corporate Finance Department. In 2004 he was seconded as a Chief Financial Officer of the Business Under-construction Directorate to the Atyrau Refinery LLP. From 2005 to 2006 held the post of Deputy Director of the Corporate Finance Department of JSC NC “KazMunayGas”. From 2006 to 2006 he combined the duties of Deputy General Director for Economy and Finance of JSOOC “KazMunayTeniz”, and Deputy Director of the Astana branch of Kashagan B.V. PLC. Over a number of year from 2008, has held various posts in JSC NC “KazMunayGas”, such as Executive Director for Economy and Finance, Managing Director for Corporate Development, Director for Corporate Finance and Asset Management.

#### **Supervised matters of activity**

Heads the Credit Committee, Commission for Filing and Considering Claims, Suits and Applications and Matters Relating to Restructuring Overdue Accounts Receivable, Commission for Determining and Revising Useful Life, Changing the Base Cost (Revaluation, Depreciation, Further Capital Investments) and Disposing of Fixed Assets and Intangible Assets.

Organizes and bears responsibility for the results of work in the following areas of KMG's activity:

- ▷ ensuring achievement of the target values of key performance indicators related to the terms of reference of the economy and finance block, in order to implement KMG's development strategy;
- ▷ improvement of the corporate governance arrangements in KMG and its SDEs, improvement of KMG's corporate governance score; forming a balanced asset portfolio in the core business, analysis of the asset portfolio risks;
- ▷ financial management, ensuring efficient operation of the common management reporting system in the KMG group of companies; carrying out statutory and fiscal accounting, development and obtainment of approval of statutory and fiscal accounting policies;
- ▷ development of proposals concerning KMG's dividend policy and borrowing policy;
- ▷ development of proposals concerning management of cash of KMG and its SDEs, development and introduction of policies on keeping bank accounts in the entire group of companies, management of working capital and liquidity of the group of companies, and optimizing the profile of the portfolio of placed temporarily free cash in the KMG group of companies;

- ▷ development, approval and monitoring of implementation of KMG's Development Plan;
- ▷ analysis of the factors influencing the efficiency of business planning and development of proposals and recommendations to enhance the efficiency of business planning and budgeting, and improvement of business based on the analysis of budget variances;
- ▷ development and implementation of measures to improve the financial-and-economic performance of KMG and its SDEs and JCEs;
- ▷ ensuring KMG's financial soundness, observance of the law legislation of the Republic of Kazakhstan in the activities of KMG and the SDEs, improvement of the tax planning system as part of the process of business planning of KMG and its SDEs;
- ▷ In accordance with the established procedures and within the limits of its competence, represents KMG in government authorities of the Republic of Kazakhstan, Samruk-Kazyna JSC, Boards of Directors/Supervisory Boards and other management bodies of the supervised SDEs and JCEs, and in international and other organizations.

Determines priority areas and target work results of the Corporate Finance, Asset Management, Budget and Tax Planning, and Accounting Departments, as well as the corresponding departments of SDEs within the framework of the adopted divisional management structure.

Ensures achievement of the set key performance indicators for the planned period in the supervised area in accordance with KMG's Development Strategy and the OHS&E Policy.

#### **Holding of shares**

Holds no KMG's shares. Holds no shares of the Company's suppliers and competitors.

#### **Membership in Board of Directors of Other Entities**

- ▷ Member of the Board of Directors, Caspian Pipeline Consortium-K JSC, Caspian Pipeline Consortium-Russia CJSC, JSC "KazTransOil"
- ▷ Member of the Board of Supervisory Directors, KazRosGas LLP
- ▷ Member of the Board of Supervisory Directors, AstanaGas KMG LLP
- ▷ Member of the Board of Managing Directors, Coöperative KazMunaiGaz U.A., Mangistau Investments B.V.

## Remuneration to Management Board Members

Remuneration for the membership in the Management Board of JSC NC "KazMunayGas" is not provided for.

However, in accordance with the Rules of Labor Remuneration of the Members of the Management Board (executive employees), employees of the Internal Audit Service and Corporate Secretary of JSC NC "KazMunayGas", approved by resolution of the Board of Directors of JSC NC "KazMunayGas" No.1/2012 of 13 February 2013, fiscal year-end bonus to executive employees depending on the degree of achievement by executive employees of the strategic objectives is contemplated. The performance in achievement of the strategic objectives of executive employees is evaluated against two types of key performance indicators (KPIs): corporate and individual KPIs.

The amount of 2015 performance-based compensation to the Members of Management Board (executive employees) of KMG, proportionate to the time worked (taking into account taxes and other obligatory payments as required by the tax legislation of the Republic of Kazakhstan), was 655 662 073,12 KZT, non-residents among others (448 285 720,12 KZT).

# → Summary Business Report of the Management Board of JSC NC “KazMunayGas”

In 2015 the Management Board of JSC NC “KazMunayGas” adopted 438 resolutions, 415 of them (95%) were made at meetings in praesentia. 64 minutes of the Executive Body meetings were drawn up.

KMG’s Management Board carried out its activity in compliance with the Work Plan of the Management Board of JSC NC “KazMunayGas” for 2015, approved by the resolution of 15 Dec 2014 (minutes No.107).

Subject to the regulation on work, in-praesentia meetings of the Management Board were held on a weekly basis, on Tuesdays and/or Thursdays.

The frequency of meetings in praesentia of the Management Board is in line with the provisions of Corporate Governance Code.

Of the total number of the Management Board’s resolutions over the reporting period, 164 matters were submitted to consideration of KMG’s Board of Directors, which is by 62 (37%) matters more than in 2014.

In this way, 47 matters were related to draft documents or amendments to the existing resolutions and internal documents, and KMG’s participation in the creation, alienation/transfer/acquisition of interest/block of shares of subsidiary and dependent entities etc.

Consistent with the terms of reference of the Board of Directors, 83 resolutions were initiated on the matters of operations, falling within the exclusive terms of reference of the general meeting of shareholders (members) of a legal entity, whose ten or more percent of shares (interest in the equity capital) are owned by KMG.

In 11 cases, proposed by the Management Board, the matters relating to making amendments, approving changes, receipt and transfer of the subsoil use right under a number of Hydrocarbons Exploration and Production Contracts were submitted to the Board of Directors.

Furthermore, 14 reports were sent to the Board of Directors for endorsement, which had been preliminarily approved by the Authority, including those on implementation of the Development Plan, Strategy in the Area of Sustainable Development of JSC NC “KazMunayGas” for 2014, and on the interested-party transactions made, resolutions on which were passed by the Management Board in the 4Q 2014 and during the 9 months of 2015, and the risk report for the same period.

As part of the powers falling within the exclusive terms of reference of the general meeting of shareholders (members) of SDEs, during the period until KMG’s second shareholder emerged, the Management Board, adopted 9 resolutions at the General Meetings of Shareholders (Members), acting as the shareholder of the Caspian Pipeline Consortium-K JSC (6), Caspian Pipeline Consortium-R CJSC (1), KazMunayGas Exploration Production JSC (1), JSC “KazTransOil” (1) and 29 on determining the position of KMG as that of a member in Cooperatieve KMG U.A. (7), KazRosGaz LLP (5), Caspian Oil and Gas Company OOO (4), N Operating Company LLP (3), KazakhOil Akto-be LLP (3), TenizService LLP (2), Tengizchevroil LLP (1), Oil and Gas Company Tsentralnaya OOO (1), PE “Samruk-Kazyna” Corporate University (2) and Kazakhstan Pipeline Ventures LLC (1), for further voting by KMG’s authorized representatives.

Further, 15 resolutions were adopted as the Shareholder’s resolutions, including those on the matters of JSC “KazTransGas” (4), N Block B.V. company (3), JSC “KazMunayGas - Refining & Marketing” (2), Euro-Asia Air Airline JSC (2), Kazakh-British Technical University JSC (2), Kazakh Institute of Oil and Gas JSC (1), and AstanaGas KMG JSC (1).

103 resolutions of the Sole Member/Member of KMG’s subsidiaries were drawn up, including 15 on the matters of KazMunayTeniz OOC JSC, 13 - AktauNefteServis LLP, 10 - “KazMunayGas” Research and Development Institute of Production and Drilling Technology LLP, KMG Drilling&Services LLP and KMG-Kumkol LLP, 6 - KMG Systems &Services LLP and Urikhtau Operating LLP, 5 - KMG’s Business Under Construction Directorate LLP, Kazmortransflot LLP and KMG-Karachaganak LLP, 4 - LLP “KazMunayGas-Service”, 3 - Kazakhturkmunai LLP, KMG-Kansu Operating LLP and KMG-Security LLP, 2 - Satpayev Operating LLP, 1 - KMG-Ustyurt LLP, PSA LLP and KazOilMash LLP.

In accordance with the Rules for Sponsorship and Charitable Assistance by JSC NC “KazMunayGas” and Its Subsidiary and Dependent Entities, approved by the resolution of KMG’s Board of Directors of 23 Apr. 2014 (minutes No. 3/2014), during the reporting period KMG’s Management Board adopted 9 resolutions on allocation of sponsorship (charitable) funds totalling 5,920,812,000 (five billion nine hundred and twenty million eight hundred and twelve) KZT.

Subject to the Rules of purchase of goods, works and services by the Sovereign Wealth Fund “Samruk-Kazyna” Joint-Stock Company and entities whose fifty or more percent of voting shares (interests) are directly or indirectly owned or beneficially owned by Samruk-Kazyna JSC, approved by the Samruk-Kazyna JSC’s Board of Directors of 26 May 2012 (minutes No. 80), KMG’s Executive Body adopted 5 resolutions on making purchases, including those of the auditing services for re-certification audit to check compliance with the requirements of the ISO 9001, ISO 14001 and OHSAS 18001 standards from the Branch of the Intercertifica-TUV - jointly with TUV Thuringen OOO in the Republic of Kazakhstan (Astana), services for audit of information security from the Russian Register Eurasia LLP, works for development of the land use design for purchasing a land plot as part of implementation of the strategic investment project “Construction of Ship-building/Ship-repair Yard in Kuryk”, legal advisory services for analysis of the condition of KMG’s assets located on the territory of the Ukraine, from the Avellum Partners OOO and works for development of a land use project, including processing of identity documents, through single-source purchase, from the Mangistau branch of the Republican Public Enterprise on the Basis of Economic Control Right “Register of Properties Research and Development Centre” of the Committee for Construction, Housing and Utilities and Land Management of the Ministry of National Economy of the Republic of Kazakhstan.



Furthermore, during 2015 the following was (were) approved/made under the Management Board's resolutions:

- ▷ 5 agreements and 3 supplementary agreements;
- ▷ 2 policies in the sphere of information security of JSC NC "KazMunayGas" and in the sphere of quality of JSC NC "KazMunayGas";
- ▷ 2015-2019 Exploration Works Development Program of JSC NC "KazMunayGas";
- ▷ Restated Official Salary Scheme of the executive and administrative personnel of JSC NC "KazMunayGas";
- ▷ 2 Regulations on the Investment Committee of JSC NC "KazMunayGas" and the Steering Committee of the Program for Transformation Program of the Business Functions of JSC NC "KazMunayGas";
- ▷ adjustment of the Budget of JSC NC "KazMunayGas" for 2015 and the Budget of JSC NC "KazMunayGas" for 2016 (for 60 calendar days of 2016);
- ▷ 7 Action Plans, including:
  - to implement the Sustainable Development Concept of JSC NC "KazMunayGas" for 2015;
  - to realize "Euro-Asia Air" Airlines JSC;
  - to realize 100% of the Kazakh Institute of Oil and Gas JSC's shares;
  - for 2015 to implement the 2012-2022 Development Strategy of JSC NC "KazMunayGas";
  - to follow the recommendation of the independent auditor of JSC NC "KazMunayGas", the Ernst and Young LLP, following the results of audit of the consolidated and separate financial reporting of JSC NC "KazMunayGas" for 2014 (based on the confidential independent auditor's report to the management and the audit committee);
  - for 2015 to implement the 2014-2018 Innovation-based-and-technological Development Strategy of JSC NC "KazMunayGas";
  - to implement the major IT initiative of JSC NC "KazMunayGas" for 2015-2019;
- ▷ the 2016 Work Plan of the Management Board of JSC NC "KazMunayGas";
- ▷ 16 rules;
- ▷ 18 amendments to individual internal documents of KMG.

Furthermore, last year resolutions were adopted on approval of the List of Positions of JSC NC "KazMunayGas" Falling Within the "Executive Personnel" Category, the overall efficiency of Motivation KPI Scorecards and determining the amount of remuneration to the executive personnel of JSC NC "KazMunayGas" based on the 2014 performance, Standard Profile of Personal (Business) Competencies of Executive Employees, Managerial and Administrative Personnel of the JSC NC "KazMunayGas" Group of Companies, the Charter of the Program for Transformation of the Business Functions of JSC NC "KazMunayGas", Regulation for Keeping Confidential Information and Trade Secrets in JSC "National Company "KazMunayGas", Scorecards of Motivation Key Performance Indicators of the Managerial Employees of JSC NC "KazMunayGas" and their target values for 2015, "Golden Rules" Health, Safety and Environment Code of the Employees of JSC "National Company "KazMunayGas", List of Goods, Works and Services to be Purchased Prior to Approval of the Plan of 2016 Purchase of Goods, Works and Services by JSC NC "KazMunayGas" etc.

## → Integrated Management System

Pursing the objectives arising out of the Development Strategy of the Republic of Kazakhstan until 2030 and the Government's plan for accelerated transition of the Kazakh ventures to the international standards, JSC NC "KazMunayGas" was among the first organizations in the Republic of Kazakhstan back in 2016 who implemented an integrated management system in the area of quality, environment, vocational health and safety, meeting the requirements of the ISO 9001, ISO 14001 and OHSAS 18001 series standards.

Over this period, the system of interaction between the structural subdivisions has been improved, their roles and responsibilities more clearly split. Common procedure for development, coordination and approval of internal documents has been established, which ultimately resulted in the improved quality of decisions made. There is a positive trend of raising the level of the corporate culture and ideology in the sphere of quality, environmental protection, health and safety.

In March, 2015 KazMunayGas passed a regular independent re-certification audit. By a resolution of the Certification Authority, compliance certificates for the subsequent three years valid until March, 2018 were issued.

As at 31 December 2015, quality management systems are in place in 17 subsidiary and dependent entities of the JSC NC "KazMunayGas" group of companies.

Among them KMG and 13 subsidiary and dependent entities (JSC "KazTransOil", JSC "KazMunayTeniz", KMG Refining and Marketing LLP, JSC NMSC "Kazmortransflot", KazakhoilAktobe LLP, "Teniz-Service" LLP, KazMunayGas-Service LLP, "Euro-Asia" Airlines JSC, KazMunayGas-Onimderi LLP, PetroKazakhstan Oil Products LLP, Pavlodar Petrochemical Plant LLP, Embamunaygaz JSC, Atyrau Refinery LLP) are certified to three standards (ISO 9001, ISO 14001 and OHSAS 18001).

The KMG-Security LLP provides its services as per the requirements of two international standards (ISO 9001 and OHSAS 18001), the Kazakhstan-British Technical University JSC - of three standards: quality management system - ISO 9001, occupational health and safety system - OHSAS 18001, test laboratory management system - ISO 17025.

Another 2 entities (JSC "KazTransGas", LLP "KazRosGas") are operating according to the ISO 9001 standard.

The energy management system as per the requirements of ISO 50001 operates in the Pavlodar Petrochemical Plant LLP, Embamunaygaz JSC, Atyrau Refinery LLP, and JSC "KazTransOil".

Information security management system (ISO 27001) has been implemented in KMG's corporate centre and the JSC "KazTransOil", risk management system (ISO 31001) - in JSC "KazTransOil", social responsibility management system (SA 8000, ISO 26000) - in the Pavlodar Petrochemical Plant JSC.

During 2015, all companies of the group successfully passed compliance audits, confirming that the existing integrated management systems meet the international standards.

## ➔ Independent auditor's opinion

To the Shareholder and Management of JSC "National Company "KazMunayGas":

We audited the attached consolidated financial statements of JSC National Company "KazMunayGas" and its subsidiaries (hereinafter, Group) which include the consolidated financial standing statement as of 31 December 2015, consolidated aggregate income statement, consolidated statement of changes in equity, and consolidated cash flow statement for the year which ended by the indicated date, as well as information about significant points of the accounting policy and other notes.

### Responsibility of the Management in Relation to Consolidated Financial Statements

The Group's Management is responsible for the preparation and true presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards, and for the internal control procedures required, in the opinion of the management, for ensuring preparation of the consolidated financial statements free of material misstatements due to fraud or mistake.

### Responsibility of the Auditors

Our responsibility is to express our opinion about this consolidated financial statements on the basis of the conducted audit. We conducted the audit in accordance with International Audit Standards. These standards require that we should observe ethical norms, plan and audit in a way that allows being confident enough that there is no considerable falsification in the consolidated financial statements.

The audit comprises procedures to receive auditing proofs of the numbers and other information presented in the consolidated financial statements. Selection of the procedures is based on the judgment of the auditor, including the risk of a considerable falsification in the consolidated financial statements due to fraud or a mistake. When auditors assess this risk, they look at the ways the company exercises internal control with respect to preparation and true presentation of consolidated financial statements so as to identify the procedures of audit necessary in the specific situation, rather than to express their opinion about effectiveness of the system of the entity's internal control. The audit includes evaluation of the appropriateness of the chosen accounting policy and assurance of accounting evaluations made by the top management and evaluation of the presentation of the consolidated financial statements, in general.

We believe that the audit proofs that we received are sufficient and appropriate to be able to express our opinion.

### Opinion

In our opinion, the consolidated financial statements in all material aspects reflect correctly the consolidated financial standing of JSC "National Company "KazMunayGas" and its subsidiaries as of 31 December 2015 and their consolidated financial results and cash flows for the year which ended on the indicated date, in accordance with International Financial Reporting Standards.

Alexander Nazarkulov  
Auditor

Evgeny Zhemaletdinov  
CEO  
LLC Ernst and Young

Auditor's certificate of competence  
No. МФ-0000059 of 6 January 2012

### Information on External Auditor

In 2013, JSC NC "KazMunayGas" signed the agreement with the Ernst & Young LLP on the financial reporting audit services for 2013-2015. The fee amount under this agreement is 148,811 thousand tenge, which includes by years:

for 2013 - 49,604 thousand KZT;

for 2014 - 49,604 thousand KZT;

for 2015 - 49,603 thousand KZT.

## Policy on External Auditor

Policy on appointment and rotation of the external auditor and key personnel of the auditing firm, on approval of the auditing firm's services not related to audit of the financial reporting and other in respect of and recruitment of former employees of the auditing firm (excerpt from the Policy of JSC NC "KazMunayGas" on Attracting Services of Auditing Firms, approved by Resolution of KMG's BoD No. 2/2012 of 15 Mar 2012):

1. KMG believes that provision of certain services not related to auditing, and the the level of the non-audit services fee paid to an auditing firm, may lead to a conflict of interest or actual or deemed loss of objectivity. Each of the potential services of an auditing firm is classified into one of the following categories:

Category A: non-audit services that may influence independence in securing current liabilities of an auditing firm and that may be provided by an auditing firm under the Law and subject to the conditions stipulated by the Code of Ethics for Professional Accountants.

Category B: non-audit services that will lead to the loss of independence in securing current liabilities of an auditing firm and are deemed to be prohibited services under the Law and subject to the restrictions contemplates by the Code of Ethics for Professional Accountants, such as reconstruction and keeping of accounts, preparation of financial reporting.

Services in Category A may be provided by an auditing firm conducting mandatory audit under the Law.

For services in Category A, KMG will not engage an auditing firm carrying out KMG's mandatory audit.



The Audit Committee shall consider the matter of accuracy of non-audit services classification, as necessary.

Before an auditing firm is engaged for services in Category A, prior approval from the Audit Committee shall be required. In the request for determining the Auditor, an auditing firm shall list the reasons for which getting the approval will not compromise the auditing firm's independence. Resolutions passed by the Audit Committee on this clause of the Policy shall be presented to the Board of Directors for reference.

Engagement of members of an Auditing Firm, who carry out audit of KMG's financial reporting, for rendering advisory services belonging to Category A shall be prohibited.

An auditing firm may not render to KMG advisory services amounting to over 50% of the total value of fee to be paid to the Auditor (other than advisory services related to audit of the financial reporting and other information).

At least once a year, KMG Chief Financial Officer shall ensure submission to the Audit Committee of a report containing the information for the previous period of 12 months, including:

- ▷ scope of audit services rendered by the Auditor;
- ▷ scope of non-audit services rendered by the Auditor (broken down into various categories of services);
- ▷ fee (for each individual service and in the aggregate) paid by KMG to the Auditor for rendering those services.

2. KMG shall demand from the Auditor adherence to the principle of rotation of the project partner (bearing primary responsibility for the audit) every five years. The succession plan upon achievement of this result shall be prepared by the Auditor and be submitted to the Audit Committee no later than one year prior to carrying out rotation.

3. In case appointment (election) to the post of KMG's executive employee or Chief Accountant of a person who is participating in KMG's mandatory audit as the Auditor's employee or who participated in KMG's mandatory audit as the Auditor's employee within two years prior to the date of its appointment (election) to KMG is proposed, in order to avoid a conflict of interest, prior approval from the Audit Committee of the proposed candidate shall be required for further consideration of its appointment (election).

Furthermore, former members of an auditing firm shall not be recruited to take up executive positions or positions assuming material influence on the process of the financial reporting preparation earlier than a year upon their resignation from the auditing firm.

# → Consolidated financial reporting

for the year ending 31 December 2015

## Consolidated financial standing report

In thousand KZT	For the years ended 31 December	
	2015	2014
<b>ASSETS</b>		
<b>Long-term assets</b>		
Fixed assets	<b>2.651.338.456</b>	4.296.118.047
Exploration and appraisal assets	<b>208.526.063</b>	277.064.868
Investment properties	<b>29.260.917</b>	27.197.634
Intangible assets	<b>116.514.982</b>	182.966.270
Long-term bank deposits	<b>48.808.421</b>	97.524.249
Investment into joint ventures and associated companies	<b>3.422.939.745</b>	1.217.661.400
Deferred tax asset	<b>107.481.291</b>	93.131.484
VAT reimbursable	<b>42.455.417</b>	79.168.765
Advance payments for long-term assets	<b>133.734.033</b>	100.705.148
Bonds receivable from related party	<b>37.400.972</b>	37.145.896
Note receivable from joint venture participant	<b>21.602.249</b>	13.807.568
Note receivable from an associate	<b>42.319.688</b>	28.237.627
Loans to related parties	<b>433.410.880</b>	101.900.198
Miscellaneous long-term assets	<b>26.256.696</b>	34.569.632
	<b>7.322.049.810</b>	6.587.198.786
<b>Current assets</b>		
Inventories	<b>125.506.949</b>	194.960.759
VAT reimbursable	<b>88.709.365</b>	110.052.511
Income tax down payment	<b>60.482.541</b>	42.744.212
Trade receivables	<b>95.261.169</b>	202.622.353
Short-term financial assets	<b>947.909.540</b>	693.879.434
Bonds receivable from related party	<b>4.440.000</b>	4.440.000
Loan to related party	<b>113.045.841</b>	34.697.640
Note receivable from joint venture participant	<b>8.821.698</b>	4.658.127
Derivative financial instruments	-	6.427.473
Miscellaneous current assets	<b>92.945.564</b>	98.581.850
Cash and cash equivalents	<b>768.576.619</b>	823.031.494
	<b>2.305.699.286</b>	2.216.095.853
Assets classified as intended for sale	<b>1.081.908.562</b>	35.546.227
	<b>3.387.607.848</b>	2.251.642.080
<b>TOTAL ASSETS</b>	<b>10.709.657.658</b>	8.838.840.866

# Consolidated financial standing report (continued)

<i>In thousand KZT</i>	For the years ended 31 December	
	2015	2014
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Authorized capital	696.363.445	557.072.340
Additional paid capital	243.655.405	226.761.347
Miscellaneous capital	3.110.573	2.105.737
Reporting currency recalculation reserve	1.405.325.707	448.739.927
Retained earnings	2.988.542.754	2.627.270.657
<b>Related to the parent company's shareholder</b>	<b>5.336.997.884</b>	<b>3.861.950.008</b>
<b>Non-controlling participatory interest</b>	<b>753.179.913</b>	<b>555.162.424</b>
<b>Total capital</b>	<b>6.090.177.797</b>	<b>4.417.112.432</b>
<b>Long-term liabilities</b>		
Loans	2.932.323.037	2.427.190.567
Due for acquisition of additional interest in the "North-Caspian Project"	-	396.345.201
Reserves	150.427.821	183.530.985
Deferred tax liabilities	218.369.213	194.793.626
Financial guarantee	8.038.985	9.077.566
Miscellaneous long-term liabilities	21.186.312	12.938.824
	<b>3.330.345.368</b>	<b>3.223.876.769</b>
<b>Current liabilities</b>		
Current portion of loans	296.545.652	670.529.840
Reserves	116.508.954	50.329.517
Income tax payable	4.114.767	2.250.849
Trade payables	174.016.256	233.653.734
Other taxes payable	40.015.053	80.534.178
Financial guarantee	1.121.173	755.010
Derivative financial instruments	174.880	277.887
Miscellaneous current liabilities	144.413.935	147.781.512
	<b>776.910.670</b>	<b>1.186.112.527</b>
Liabilities related to the assets classified as intended for sale	512.223.823	11.739.138
<b>Total liabilities</b>	<b>4.619.479.861</b>	<b>4.421.728.434</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>10.709.657.658</b>	<b>8.838.840.866</b>



# Consolidated statement of comprehensive income

<i>In thousand KZT</i>	For the years ended 31 December	
	2015	2014 (Recalculated)*
Proceeds from sold goods and rendered services	1.094.698.809	1.051.289.085
Cost price of sold products and rendered services	(1.093.791.099)	(1.106.561.311)
<b>Gross profit</b>	<b>907.710</b>	(55.272.226)
General and Administrative Expenses	(211.746.713)	(151.917.604)
Transportation and selling expenses	(195.347.885)	(308.535.860)
Impairment of fixed assets and intangible assets, other than goodwill	(67.125.848)	(275.918.733)
Goodwill depreciation	(11.922.192)	(1.622.222)
Loss from retirement of fixed assets, intangible assets and investment properties, net	(3.580.092)	(402.045)
Miscellaneous operating income	22.556.695	18.324.629
Miscellaneous operating loss	(19.697.116)	(16.702.770)
<b>Profit from operating activities</b>	<b>(485.955.441)</b>	(791.242.741)
Foreign exchange loss / gain, net	474.579.910	76.108.200
Financial income	173.330.897	53.937.092
Financial expenses	(198.334.293)	(176.225.987)
Impairment of investment into joint ventures	(9.342.198)	(1.034.370)
Depreciation of assets classified as intended for sale	(85.744)	(4.992.179)
Impairment of loans granted	(10.969.792)	(66.742)
Share in the income of joint ventures and associates, net	112.807.416	427.703.712
<b>Profit before income tax</b>	<b>56.030.755</b>	(415.813.015)
Income tax expenses	(232.149.463)	(133.033.105)
Profit for year from continuing activities	(176.118.708)	(548.846.120)
<b>Discontinued operations</b>		
Loss after taxes from discontinued operations	(670.801.729)	748.061.212
<b>Profit for year</b>	<b>494.683.021</b>	199.215.092

# Consolidated statement of comprehensive income (continued)

<i>In thousand KZT</i>	For the years ended 31 December	
	2015	2014 (Recalculated)*
<b>Miscellaneous aggregate income</b>		
Miscellaneous aggregate income subject to re-classification into future profit or loss:		
Exchange difference resulting from the translation of the foreign subsidiaries financial statements	<b>1.180.868.321</b>	209.509.690
Accumulated exchange rate difference of the disposal group	<b>(106.930.994)</b>	-
<b>Net miscellaneous aggregate income subject to re-classification into future profit or loss</b>	<b>1.073.937.327</b>	209.509.690
Miscellaneous aggregate income not subject to re-classification into future profit or loss:		
Expenses from revaluation under defined benefit plans	<b>(1.750.178)</b>	(1.100.442)
Tax effect of aggregate loss components	<b>365.421</b>	(27.426)
<b>Net miscellaneous aggregate loss not subject to re-classification into future profit or loss</b>	<b>(1.384.757)</b>	(1.127.868)
<b>Miscellaneous aggregate income for period</b>	<b>1.072.552.570</b>	208.381.822
<b>Total: aggregate income for period, less income tax</b>	<b>1.567.235.591</b>	407.596.914
<b>Net income for the period attributable to:</b>		
Company's shareholder	<b>398.325.954</b>	207.362.949
Non-controlling participatory interest	<b>96.357.067</b>	(8.147.857)
	<b>494.683.021</b>	199.215.092
<b>Total aggregate income for period, attributable to:</b>		
Company's shareholder	<b>1.353.725.956</b>	385.103.657
Non-controlling participatory interest	<b>213.509.635</b>	22.493.257
	<b>1.567.235.591</b>	407.596.914

\* Certain amounts listed in this column do not correspond to the amounts in the consolidated financial statements for 2014, as they reflect the adjustments made.

# Consolidated cash flow statement

<i>In thousand KZT</i>	For the years ended 31 December	
	2015	2014 (Recalculated)*
<b>Cash flow from operating activities:</b>		
Profit before income tax from continuing activities	56.030.755	(415.813.015)
Loss before income tax from discontinued operations	650.638.932	732.210.004
Profit before taxes	706.669.687	316.396.989
Adjustments against:	141.964.124	211.195.042
Aging, depletion and amortization	41.214.586	-
Aging, depletion and amortization of discontinued operations	(112.807.416)	(427.857.457)
Share in the income of joint ventures and associates	217.714.440	202.470.692
Financial expenses	(173.330.897)	(55.490.877)
Financial income	2.543.060	(6.621.755)
Unrealized gain from derivative financial instruments on oil products	241.176	(2.618.352)
Realized gain from derivative financial instruments on oil products	3.580.092	3.639.406
Loss from retirement of fixed assets, intangible assets and investment properties, net	51.548.508	-
VAT depreciation	79.048.040	351.950.037
Impairment of fixed assets and intangible assets, other than goodwill	166.525.248	-
Impairment of fixed assets and intangible assets, other than goodwill on discontinued operations	9.342.198	1.034.370
Impairment of investment into joint ventures	85.744	4.992.179
Depreciation of assets classified as intended for sale	10.969.792	66.742
Impairment of loans to related parties	(427.840.668)	-
Profit from sale of a subsidiary	6.151.234	-
Loss from sale of a joint venture	99.695.140	470.260
Reserves	3.158.635	1.306.152
Allowance for doubtful debts and other current assets	1.391.281	(1.517.304)
Provision for obsolete inventories	1.589.628	(80.076)
Disposal of equity instruments	(321.841.594)	(107.973.268)
<b>Unrealized foreign exchange gain</b>	<b>507.612.038</b>	<b>491.362.780</b>
Profit from operating activities before changes in the floating capital	57.113.535	26.102.234
Change in inventories	(1.186.992)	(8.742.624)
Change in VAT reimbursable	74.828.999	104.263.617
Change in trade receivables	(184.934.375)	(27.235.502)
Change in miscellaneous assets	(47.542.464)	(29.109.219)
Change in other taxes payable	39.745.815	(3.336.984)
Change in trade payables	(24.663.004)	5.063.773
Change in miscellaneous liabilities	420.973.552	558.368.075
Cash inflow from operating activities	6.694.868	2.328.788
Proceeds from derivative financial instruments, net	(187.135.282)	(178.584.194)
Income tax paid	118.778.446	41.645.502
Fee received	(212.864.705)	(155.277.014)
<b>Fee paid</b>	<b>146.446.879</b>	<b>268.481.157</b>
<b>Net cash inflow from operating activities</b>		

# Consolidated cash flow statement

## (continued)

<i>In thousand KZT</i>	For the years ended 31 December	
	2015	2014 (Recalculated)*
<b>Cash flow from investment activities:</b>		
Withdrawal of deposits in banks, net	<b>313.189.387</b>	224.033.563
Acquisition of fixed assets, intangible assets, investment properties and exploration and appraisal assets	<b>(557.448.149)</b>	(558.885.281)
Cash inflow from sale of fixed assets, intangible assets and investment properties	<b>22.350.510</b>	7.280.896
Receipts from realization of assets intended for sale	-	4.778.857
Receipts from sale of subsidiaries	<b>1.372.498.443</b>	-
Dividends received from joint ventures and associates, less taxes	<b>172.719.434</b>	302.418.013
Investment and contribution into joint ventures and associated companies	<b>(41.435.041)</b>	(3.234.425)
Repayment of a loan granted to a related party	-	3.093.298
Realization of a joint venture	-	147.813
Loan provided to related party	<b>(58.939.789)</b>	(108.803.459)
Acquisition of a subsidiary	-	(28.507.982)
Cash of the acquired subsidiary	-	8.235.554
<b>Net cash flow used in investment activities</b>	<b>(1.222.934.795)</b>	(149.443.153)
<b>Cash flow from financial activities:</b>		
Proceeds of loans	<b>281.752.106</b>	682.264.686
Repayment of loans	<b>(1.902.374.221)</b>	(326.531.746)
Dividends paid to the non-controlling interest shareholders	<b>(15.851.249)</b>	(48.203.538)
Dividends distributed to Shareholder	<b>(6.768.531)</b>	(69.577.485)
Repurchase of the own stock by a subsidiary	<b>12.700.436</b>	-
<b>Net cash flow from financial activities</b>	<b>(1.630.541.459)</b>	237.951.917
Effect of change in exchange rates on cash and its equivalents	<b>243.150.206</b>	62.127.031
<b>Net change in cash and cash equivalents</b>	<b>(18.009.579)</b>	419.116.952)
<b>Cash and its equivalents as of the beginning of the year</b>	<b>826.443.718</b>	407.326.766
<b>Cash and its equivalents as of the end of the year</b>	<b>808.434.139</b>	826.443.718

\* Certain amounts listed in this column do not correspond to the amounts in the consolidated financial statements for 2014, as they reflect the adjustments made.

# Consolidated statement of changes in equity

In thousand KZT	Due to the Parent Company's shareholders							Total
	Authorized capital	Additional paid capital	Miscellaneous capital	Reporting currency recalculation reserve	Retained earnings	Non-controlling participatory interest	Total	
<b>As at 31 December 2013</b>	<b>546,485.470</b>	<b>19,645.866</b>	<b>2,185.813</b>	<b>269,950.758</b>	<b>2,611,367.993</b>	<b>3,449,635.900</b>	<b>586,555.014</b>	<b>4,036,190.914</b>
Profit for year	-	-	-	-	207,362.949	207,362.949	(8,147.857)	199,215.092
Miscellaneous aggregate income	-	-	-	178,789.169	(1,048.461)	177,740.708	30,641.114	208,381.822
Total amount of aggregate income for the year	-	-	-	178,789.169	206,314.488	385,103.657	22,493.257	407,596.914
Contribution to authorized capital	10,586.870	207,115.481	-	-	-	217,702.351	-	217,702.351
Dividends	-	-	-	-	(83,114.547)	(83,114.547)	(53,891.914)	(137,006.461)
Operations with Samruk-Kazyna	-	-	-	-	(26,916.423)	(26,916.423)	-	(26,916.423)
Distributions to Samruk-Kazyna	-	-	-	-	(80,363.549)	(80,363.549)	-	(80,363.549)
Recognition of payments based on equity instruments in subsidiaries	-	-	(80,076)	-	(19,310)	(99,386)	8,072	(91,314)
Acquisition of non-controlling participatory interest	-	-	-	-	2,005	2,005	(2,005)	-
<b>As at 31 December 2014</b>	<b>557,072.340</b>	<b>226,761.347</b>	<b>2,105.737</b>	<b>448,739.927</b>	<b>2,627,270.657</b>	<b>3,861,950.008</b>	<b>555,162.424</b>	<b>4,417,112.432</b>
Profit for year	-	-	-	-	398,325.954	398,325.954	96,357,067	494,683,021
Miscellaneous aggregate income	-	-	-	956,585.780	(1,185.778)	955,400,002	117,152,568	1,072,552,570
Total amount of aggregate income for the year	-	-	-	956,585.780	397,140,176	1,353,725,956	213,509,635	1,567,235,591
Contribution to authorized capital	139,291,105	16,894,058	-	-	-	156,185,163	-	156,185,163
Dividends	-	-	-	-	(24,335,911)	(24,335,911)	(15,790,408)	(40,126,319)
Distributions to Samruk-Kazyna	-	-	-	-	(6,771,791)	(6,771,791)	-	(6,771,791)
Recognition of payments based on equity instruments in subsidiaries	-	-	1,004,836	-	-	1,004,836	584,792	1,589,628
Operations with Samruk-Kazyna	-	-	-	-	(4,760,377)	(4,760,377)	-	(4,760,377)
Disposal of a subsidiary	-	-	-	-	-	-	(286,530)	(286,530)
<b>As at 31 December 2015</b>	<b>696,363.445</b>	<b>243,655.405</b>	<b>3,110.573</b>	<b>1,405,325.707</b>	<b>2,988,542.754</b>	<b>5,336,997.884</b>	<b>753,179.913</b>	<b>6,090,177.797</b>

# ➔ Material Aspects of Accounting Policy

## Basis for preparation of financial reporting

This consolidated financial reporting has been prepared in accordance with the historical cost valuation principle, except for the operations disclosed in the accounting policy and Notes to this consolidated financial reporting. All values in this consolidated financial reporting have been rounded off to a thousand, except where specifically indicated.

### CONFORMITY STATEMENT

This consolidated financial reporting of the Group has been prepared in conformity with the International Financial Reporting Standards (IFRS) as amended and approved by the International Accounting Standards Board (IASB).

## Foreign currency translation

### Functional currency and presentation currency

The elements of the financial reporting of each Group's enterprise, included in this consolidated financial reporting, are evaluated using the currency of the basic economic environment, where the enterprises are operating ("functional currency"). The consolidated financial reporting is represented in KZT, which is the Company's functional currency.

### Transactions and account balances

Transactions in a foreign currency are translated into the functional currency using the exchange rates as of the date of transaction. Exchange gain and loss, resulting from settlement for such transactions, and translation of monetary assets and liabilities, expressed in a foreign currency, at the rates as of the reporting date, are recognized in the consolidated aggregate income statement.

### Exchange rates

The weighted average exchange rates determined on the Kazakhstan Stock Exchange ("KASE") shall be used as official exchange rates in the Republic of Kazakhstan.

KASE's exchange rate as at 31 December 2015 was 340.01 KZT for 1 US dollar. This rate has been used for translation of the monetary assets and liabilities, expressed in US dollars as at 31 June 2015 (in 2014: 182.35 KZT per 1 US dollar). KASE's exchange rate as at 14 March 2016 was 343.32 KZT for 1 US dollar.

## Consolidation Basis

The attached consolidated financial reporting includes the financial statements of the Company and its subsidiaries as at 31 December 2015. Control is exercised in case the Group is entitled to a variable return on investment and is exposed to a risk related to its change and can influence this return due to its powers in respect of the investee.

The financial reporting of the subsidiaries was prepared for the same reporting period as that of the parent company based on the consistent application of the accounting policy for all companies of the Group.

## Business Combination and Goodwill

Business combinations shall be recorded using the purchase accounting method. The cost of acquisition shall be evaluated as the amount of the transferred compensation, evaluated at fair value as at the date of acquisition, and non-controlling participatory interest in the company acquired. For every business combination transaction, the acquirer shall evaluate the non-controlling participatory interest in the company acquired either at fair value or at the pro rata proportion in the identifiable net assets of the company acquired. Expenditures incurred due to the acquisition shall be included in the administrative expenses.

### Acquisition of subsidiaries to the Shareholder's order

When subsidiaries are acquired to the Shareholders' order, the difference between the amount of the consideration paid and the fair value of the acquired assets and assumed obligations other than a non-controlling participatory interest, and the result of revaluation of the participatory interest previously owned by the Group are recorded as distributions to the Parent Company directly in the equity.

### Acquisition of subsidiaries from parties who are under common control

Acquisition of subsidiaries from the parties who are under common control shall be recognized using the pooling of interest method. Assets and liabilities of a subsidiary transferred under common control shall be recognized in this consolidated financial reporting at the present value of the transferring organization ("Predecessor") as at the transfer date. The corresponding goodwill objectively recognized at the initial acquisition of the Predecessor is also recorded in this consolidated financial reporting. The difference between the total present value of the net assets, including the Predecessor's goodwill, and the paid consideration is recorded in this consolidated financial reporting as a capital adjustment.

## Participatory Interests in Jointly-controlled Operations

The Group has participatory interests in jointly-controlled operations. When a participatory interest in jointly-controlled operations is acquired, the Group shall recognize the assets relating to that interest, including the interest in the jointly-controlled assets, liabilities, including the share in the jointly incurred liabilities. Subsequently, the Group shall recognize income from sales of goods related to jointly-controlled operations, including the share in the income from sales of goods produced as a result of jointly-controlled operations; the expenses related to jointly-controlled operations, including the share of expenses incurred in jointly-controlled operations.

The Group shall recognize assets, liabilities, income and expenses from jointly-controlled operations in compliance with the Group's accounting policy in respect of such assets, liabilities, income and expenses.

In case the Group has not joint control of joint operations, it shall recognize its participatory interest in such joint operations just as the parties having joint control.

### Investment in associated companies and joint venture

Associated company is a company in respect of which the Group has significant influence. Significant influence is the powers to participate in decision-making in respect of the investee's financial and operations policy, but not control or joint control in respect of this policy.

Joint venture is a joint operating agreement under which the parties exercising joint control in respect of the agreement, are entitled to the net assets of the joint venture. Joint control is joint exercise of control, stipulated in the agreement and taking place only if and to the extent that decision-making in respect of material activities require unanimous consent of the parties exercising joint control.

Investments in an associated company and a joint venture are recorded using the equity method.

The profit and loss statement records the Group's interest in the financial performance of a joint venture or associated company. Share in the profit of joint ventures and associated companies shall be shown directly in the consolidated aggregate income statement.

### Classification of assets and liabilities into short-term and long-term

In the consolidated statement of financial position the Group shall record assets and liabilities based on their classification into short-term and long-term. An asset is short-term if:

- ▷ it is expected to be realized or is held for sale and consumption as part of the usual operating cycle;
- ▷ it is held mainly for the purposes of trade;
- ▷ it is expected to be realized within twelve months of the completion of the reporting period; or
- ▷ it is represented by cash or cash equivalents, except in cases there are restrictions on its exchange or use for repayment of liabilities within a minimum of twelve months of the completion of the reporting period.

All other assets are classified as long-term. A liability is short-term if:

- ▷ it is expected to be repaid within the framework of the usual operating cycle;
- ▷ it is held mainly for the purposes of trade;
- ▷ it is subject to repayment within twelve months of the completion of the reporting period; or
- ▷ the company has no unconditional right to put off repayment of the liability within a minimum of twelve months of the completion of the reporting period.

The Group shall classify all other liabilities as long-term liabilities. Deferred tax assets and liabilities shall be classified as long-term assets and liabilities.

### Expenses Related to Exploration, Appraisal and Development of Fields

#### Expenditures Incurred before Obtaining Licences

Expenditures incurred before obtaining licences shall be classified as expenses of the period they were incurred in. Expenditures incurred after an appropriate agreement with the Government of the Republic of Kazakhstan is signed shall be capitalized. Expenditures for Obtaining Licenses and Property

#### Expenditures for Obtaining Licenses and Property

Expenditures for obtaining licenses and property shall be capitalized and classified as intangible assets. Every exploration target shall be considered on an annual basis concerning the fact that the drilling works have been planned, and it has not depreciated. If future works are not planned, the present value of the costs of acquiring exploration licences and the relevant facilities shall be written off. When economically feasible recoverable reserves ("proven reserves" or "commercial reserves") are found, and in case of internal approval of development, the present value of the costs of acquiring exploration licences and relevant facilities, broken down by field, shall be combined with the exploration expenditures and be transferred to the oil and gas properties.

#### Expenditures Related to Exploration and Appraisal

As soon as the legal right to exploration is gained, the expenditures for geological and geophysical surveys and expenditures directly related to an exploration well, shall be capitalized as intangible or tangible exploration and appraisal assets until drilling of the well has been completed and the results of such drilling have been appraised. Such expenditures include payment to employees, materials and fuel used, cost of drilling rig and payments to contractors. If no reserves are found, the exploration asset shall be tested for impairment, if recoverable hydrocarbons are found, and are subject to further appraisal that may include drilling of other wells the commercial development of which is probable enough, then the expenditures shall continue to be recorded as an intangible asset, until reasonable/continuous progress in the appraisal of commercial extraction of hydrocarbons is achieved. All expenditures of such kind shall be subject to a technical, commercial and management test, along with an impairment test, at least once a year, in order to confirm the intent to continue development or any other way of deriving benefit from the discovery. Otherwise, the expenditures shall be written off. When the proven oil reserves are determined and the decision on continuing the development is made, the corresponding expenditures shall be transformed into petroleum property after the depreciation appraisal and recognition of the impairment loss incurred.

#### Development Costs

Costs for construction, installation and completion of infrastructure facilities, such as platforms, pipelines and development well drilling, including dry development wells or outpost wells and unforeseen engineering problems, shall be capitalized as part of the petroleum property.

### Petroleum Property and Other Fixed Assets

Petroleum property and other fixed assets shall be recorded at cost minus the accumulated amortization, depletion and depreciation.



Original cost of assets is comprised of the acquisition or construction price, interest expenditures for long-term construction projects, when the criterion of recognition of expenses directly related to making the asset operation is met, and the initial estimate of the asset removal costs, as required. The acquisition or construction price is the aggregate value paid and fair value of any type of consideration provided for acquisition of the asset.

Petroleum property shall be amortized using the units of production method, while tangible assets shall be amortized according to the proven developed reserves, and intangible assets – according to the proven reserves. Certain petroleum property with useful life shorter than the residual life of fields shall be amortized using the straight-line basis during the useful life from 4 to 10 years. Fixed assets, apart from the oil and gas assets, mainly include buildings, machinery and equipment, amortized using the straight-line basis during the following fixed useful lives:

Refinery Assets	4-100 years
Pipelines	2-30 years
Buildings and Constructions	2-100 years
Machinery and equipment	2-30 years
Means of transportation	3-35 years
Miscellaneous	2-20 years

The contemplated useful life of the fixed assets shall be revised on an annual basis, and as required, changes in the lives shall be adjusted in the subsequent periods.

Present value of the fixed assets shall be revised for impairment if and to the extent that events and changes in circumstances occur, indicating that the present value is not recoverable.

### Intangible assets

Intangible assets shall be recorded at cost, minus accumulated amortization and accumulated impairment losses. Intangible assets include expenditures for obtaining oil and gas resources exploration licences, software and goodwill. Intangible assets acquired separately shall be initially appraised at the purchase value. The initial value is the aggregate amount paid and fair value of any other consideration provided for acquisition of the asset.

Intangible assets, other than the goodwill, shall be amortized using the straight-line basis during the estimated remaining useful life. The expected useful life of assets shall be revised on an annual basis, and as required, changes in the lives shall be adjusted in the subsequent periods. The useful life of computer software is from 3 to 7 years.

Present value of intangible assets shall be analyzed for depreciation if and to the extent that events and changes in circumstances indicate that the present value cannot be recovered.

Goodwill shall be tested for depreciation annually (as at 31 December) and where events and circumstances indicate that its present value may be depreciated.

### Investment properties

Investment properties shall be initially valued at historical cost, including the transaction costs.

Since the Group applies the historical cost accounting method, after the initial recognition, investment properties shall be recognized using the method adopted in accordance with IFRS 16 "Fixed Assets" - taking into account the accumulated depreciation and accumulated amortization.

Investment properties shall be amortized on the straight-line basis within the useful life of 2 to 100 years.

On every reporting date the Group shall determine the fair value of investment properties, and in case the present value exceeds the fair value, the difference shall be recognized in the profit or loss.

### Impairment of Non-financial Assets

As at every reporting date, the Group shall determine if there are signs of possible impairment of an asset. If such signs take place, or if an annual check of the asset for impairment is required, the Group shall evaluate the recoverable value of the asset. Recoverable value of an asset is the biggest value of: the fair value of an asset or a cash generating unit (CGU), less costs to sell, and value in use of the asset (CGU). The recoverable value shall be determined for an individual asset, except to the extent that the asset generates cash flows, that are mainly independent of the cash flows generated by other assets or groups of assets. If the present value of an asset or CGU exceeds its recoverable value, the asset shall be deemed impaired and shall be written-off to the recoverable value. The Group shall determine the depreciation amount, proceeding from detailed plans and forecast calculations prepared separately for each CGU of the Group, to which individual assets are referred. As a rule, these plans and forecast calculations are made for a five-year period. For longer terms long-term growth rates shall be calculated, to be used in respect of the forecasted future cash flows after the fifth year.

### Impairment of Exploration and Appraisal Assets

The Group shall check its exploration and appraisal assets for impairment, when such assets are transferred to tangible or intangible development assets, or when there are facts and circumstances indicating impairment of assets.



## Assets Held for Sale and Discontinued Operations

Assets and disposal groups, classified as held for sales, shall be evaluated at the least of the two values – the present value and the fair value less costs to sell. Assets and disposal groups shall be classified as held for sales, if their present value is refundable, mainly through a selling transaction, and not as a result of continued use. This condition shall be deemed to be observed only to the extent that the likelihood of sale is high, and the asset or disposal group cannot be sold immediately in their current condition.

### Asset Retirement Obligation (Decommissioning)

Reserves for decommissioning shall be recognized in full on a discounted basis, when the Group has liabilities on decommissioning and relocation of equipment or a mechanism and restoration of the site where the equipment was located, and where reasonable valuation of such reserve can be made. The amount recognized constitutes the present value of the estimated deferred expenses, determined in accordance with the local conditions and requirements. The corresponding fixed asset, equivalent in size to the reserve amount shall be also recognized. Subsequently, this asset shall be amortized as part of the capital expenditures on the means of production and means of transportation on the basis of the units of production method.

## Financial Assets

### Initial recognition and valuation

Financial assets at the initial recognition shall be classified accordingly as financial assets revaluated at fair value through the profit or loss; loans and accounts receivable; investment held to maturity, financial assets available for sale; derivatives set as hedging instruments in case of effective hedging. All financial assets, other than financial assets revaluated at fair value through profit or loss, shall be initially recognized at fair value increased by the transaction costs directly related thereto.

The Group's financial assets include cash and cash equivalents, short-term bank deposits, bonds receivable from the parent company, note receivable from a joint venture member, note receivable from an associated company, loans to related parties and trade receivables.

### Impairment of Financial Assets

The Group shall establish the presence of objective evidence of impairment of a financial asset or a group of financial assets. A financial asset or a group of financial assets shall be deemed impaired then and only then when there is an objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (occurrence of a "damage sustained event") that have exerted reliably measurable influence on the expected cash flows on a financial asset or a group of financial assets.

### Inventories

Inventories shall be accounted at the least of the following two values: production cost and net realizable value according to the FIFO costing method. The value shall include all expenditures incurred in the ordinary course of business, related to the local delivery of inventories and bringing them to the current condition.

### Value-added tax (VAT)

Tax authorities allow repayment of the VAT on sales and acquisition on a net basis. VAT reimbursable constitutes VAT on acquisition on the domestic market, less VAT on sales on the domestic market. Export sales have the zero rate.

### Cash and cash equivalents

Cash and its equivalents shall include cash in banks and on hand, and short-term deposits with the original maturity of not more than three months.

## Financial Liabilities

### Initial recognition and valuation

Financial liabilities within the scope of IAS 39 shall be classified accordingly as financial liabilities, revaluated at fair value through profit or loss, credits and borrowings, and derivatives. The Group shall classify its financial liabilities at their initial recognition.

Financial liabilities shall be initially recognized at fair value, increased in case of credits and borrowings by the transaction costs directly related thereto.

The Group's financial liabilities include trade and other accounts payable, loans and borrowings, and derivative financial instruments.

## Reserves

Reserves shall be recognized, if the Group has a current liability (legal or voluntarily assumed), occurring as a result of a past event, there is a substantial likelihood that an outflow of economic benefits will be required for the repayment of the liability, and the amount of such a liability can be accurately determined. If the Group intends to receive reimbursement of a certain portion or all reserves, for example, on an insurance agreement, the reimbursement shall be recognized as a separate asset, but only in case receipt of the reimbursement is beyond exception.

If the effect of the time value of money is material, the reserves shall be discounted at the current rate before taxes, that reflects, where applicable, the risks characteristic of the specific liability. If discounting is used, an increase in the reserve shall be recognized as financial costs over time.

### Provisions for construction

The Government delegates to the Group various obligations related to sponsorship and financing. The Group's management believes that such obligations are constructive and shall be recognized in accordance with resolutions of the Government. Since the Government is the Group's ultimate shareholder, the costs related to fulfillment of such obligations shall be recognized in the consolidated financial reporting as "distribution to the shareholder" as part of the capital.



## Payments to Employees

### Pension Plan

Payments under a predetermined contribution pension program shall be booked to expenses as they are paid. Payments under the public pension system shall be considered as defined contribution plans, when the Group's liabilities under this plan are equal to the liabilities arising under a predetermined contribution pension program.

### Long-term employee benefits

The Group offers to its employees long-term benefits before and after retirement under the Bargaining Agreement between the Group and its employees. The Bargaining Agreement, in particular, provides for payment of a lump-sum retirement benefit, rendering material assistance to employees in case of incapacity, a jubilee or death. Entitlement to benefits is usually conditioned by the need for an employee to continue work before retirement.

Estimated cost on payment of lump-sum benefits shall be accrued during the working life of an employee according to the methodology used in calculating defined contribution pension plans. Actuarial gains and losses arising during a year shall be recorded as part of the miscellaneous aggregate income. Such liabilities shall be evaluated on an annual basis by independent qualified actuaries.

## Recognition of Proceeds

Proceeds shall be recognized if there is a likelihood that the Group will receive economic benefits, and if the proceeds can be reliably evaluated. The proceeds shall be evaluated at fair value of the received compensation, less discounts and other sales taxes or duties. The following criteria shall be fulfilled for recognition of proceeds in the consolidated financial reporting:

### Sales of goods

Income from sales of crude oil, oil products, gas and other commodities shall be recognized when a delivery of a commodity has occurred, and the rights and title have been transferred to the buyer.

### Provision of services

Income from services provided, such as transportation services, shall be recognized at the time of rendering the services.

### Interest Income

For all financial instruments valued at amortized cost and interest-bearing financial instruments classified as instruments available for sale, the interest income or costs shall be recorded at the effective interest rate, which, when discounted at, brings the expected future cash payments or proceeds throughout the projected period of use of the financial instrument or throughout a shorter time period, where applicable, precisely to the net book value of a financial asset or financial liability. Interest income shall be included in the financial income in the aggregate income statement.

## Recognition of Expenses

Expenses shall be recorded at the moment of occurrence and reflected in the consolidated financial reporting in the period they are related to, based on the accrual method.

## Income Tax

Income tax for a year includes the current income tax, the excess profits tax and the deferred tax.

Assets and liabilities on the current income tax for the current and prior periods shall be evaluated at the amount, that will be supposed to be refunded by the tax authorities or paid to them. Tax rates and tax legislation used for the calculation of this amount are the rates and laws adopted and actually adopted as at the reporting date.

The current corporate income tax (CIT) attributable to items recognized directly in the capital shall be recognized as part of the capital, and not in the statement of comprehensive income.

The excess profits tax (EPT) is considered as an income tax and forms a portion of the income tax expenses. EPT rates shall be applied to a portion of the net tax income (taxable income after deduction of CIT and permitted adjustments) in respect of every subsoil use contract in excess of 25% of the deductions attributable to each contract.

Deferred tax shall be calculated both for the corporate income tax and for the excess profits tax. Deferred excess profits tax shall be calculated according to the temporary differences for the assets referred to the sub-soil use contracts, at the expected rate of the excess profits tax, subject to payment under the contract.

## Equity

### Non-controlling participatory interest

Non-controlling participatory interests are represented in the consolidated statement of financial position as part of the equity capital separately from the capital attributable to the Company's shareholders. The losses of a subsidiary shall be classified as the non-controlling participatory interest even in case this leads to negative balance.

### Payments based on equity instruments

Employees of the Group receive remuneration in the form of payments based on equity instruments. Employees provide services for which they receive remuneration in equity instruments of a subsidiary where they work ("transactions settled with equity instruments").

The value of transactions with employees, settled with equity instruments, shall be evaluated proceeding from the fair value of such instruments at the date they are provided. The fair value shall be determined using a relevant evaluation model.

#### Dividends

Dividends shall be recognized as liabilities and be subtracted from the capital amount as at the reporting date only in case they are declared on or before the reporting date. Information on dividends shall be disclosed in the reporting, if they have been recommended before the reporting date, and recommended or declared after the reporting date, but before the date of approval of the consolidated financial reporting for issuance.

#### Miscellaneous distributions to shareholder

Costs incurred by the Group in compliance with resolutions of the Government or resolutions of the parent company or their instructions shall be recognized as distributions through equity. Such costs shall be included in the expenses related to the Group's non-core operations (construction of social facilities and acquisition of investments).

#### Events after the reporting date

Events occurring after the end of the reporting year, providing evidence of the conditions that existed at the date of preparation of the statement of financial position (adjusting events), shall be reflected in the consolidated financial reporting. Events occurring after the end of the reporting year, which are not adjusting events, shall be disclosed in the notes to the reporting, if they are material.

**Chairman of Management Board**

**S. Mynbayev**

## → Glossary

**2D** — seismic acquisition in two planes

**3D** — seismic acquisition in three planes

**BTL** — Batumi Terminal Limited

**EBITDA** — analytical indicator presenting the amount of profit before tax, amortization costs and credit interest

**JBIC** — Japan Bank for International Cooperation

**TRG** — The Rompetrol Group, an integrated Romanian oil and gas company

**GFS** — gas filling station

**NGVRS** — NGV refill station

**AGP** — Asia Gas Pipeline (trunk gas pipeline for transportation of the Central Asian gas to China)

**FFS** — fuel filling station

**AR** — Atyrau Refinery

**JSC NC “KazMunayGas”, National Company “KazMunayGas”, KazMunayGas, KMG, Company** — Joint-Stock Company “National Company “KazMunayGas”

**BBSH** — Kazakhstan section of the Asia Gas Pipeline, running through Beineu - Bozoi - Shymkent

**HVL** — high voltage line

**GIS** — geographic information system

**SRC** — State Commission of Mineral Reserves

**GEWs** — geologic exploration works

**SDE** — subsidiary dependent entity

**EPC contract (engineering, procurement, construction)** — type of a turnkey construction contract

**DE** — dependent entity

**SS** — soil surveying

**ITD** — innovation-and-technology development

**ORF** — oil recovery factor

**KMG RM** — JSC “KazMunayGas - Refining & Marketing”

**APC** — aromatics production complex

**KPIs** — key performance indicators

**CS** — compressor station

**KSCS** — Kazakhstan sector of the Caspian Sea

**KTG** — JSC “KazTransGas”

**CPC** — Caspian Pipeline Consortium (trunk oil pipeline from transporting oil from the Tengiz field to the port of Novorossiysk on the Black Sea)

**IPL** — integrated process line at the Tengiz field

**KTO** — JSC “KazTransOil”

**MA** — VSP - multi-azimuth vertical seismic profiling, a seismic acquisition method

**IDC** — interdepartmental commission

**TGP** — trunk gas pipeline

**CDPM** — a seismic acquisition method using common depth point

**MMtpa** — million tons per annum

**RoK’s MoE** — Ministry of Energy of the Republic of Kazakhstan

**R&D** — research-and-development works

**PS** — pump station

**SEC** — science and engineering council

**PCC** — petrochemical complex

**EIA** — environmental impact assessment

**OGPP** — Orenburg Gas-Processing Plant  
**PCD** — pilot commercial development  
**TP** — test production  
**FGP** — Tengiz field future growth project  
**SUC** — start-up complex  
**PKOP** — PetroKazakhstan Oil Products JSC, the owner of the Shymkent Refinery  
**PPCP** — Pavlodar Refinery  
**ME** — miscellaneous entity  
**PreEIA** — preliminary hearing on environmental impact assessment  
**KGP** — Karachaganak field growth project  
**HVS** — high voltage substation  
**DED** — design-and-estimate documentation  
**WPCP** — well-head pressure control project at the Tengiz field  
**LDPE** — low-density polyethylene  
**HDPE** — high-density polyethylene  
**JCE** — jointly-controlled entity  
**NCP** — North-Caspian Project  
**NCERB** — North-Caspian Environmental Oil Spills Response Base  
**CAWs** — construction-and-assembly works  
**JV** — joint venture  
**JUR** — jack-up self-elevating drilling rig  
**PSA** — production sharing agreement  
**TCO** — Tengizchevroil LLP, the operator for development of the Tengiz field  
**FS** — feasibility study  
**HC** — hydrocarbons  
**RWC** — raw hydrocarbons  
**DC** — delayed coker  
**CCED** — Central Commission for Exploration and Development of the RoK's Ministry of Energy

