

# Annual Report

2014



**ҚазМұнайГаз**  
NATIONAL COMPANY УЛТТЫҚ КОМПАНИЯСЫ

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# Chairman's passage for annual report of KMG NC

*Dear Shareholder, partners, and other stakeholders,*

2014 was a tumultuous year in the Oil and Gas sector, and KMG NC met the challenges with some bold initiatives, addressing the issues of change and adaptation to a rapidly evolving market.

KMG has some of the best upstream opportunities in the world, which it is developing in partnership with international companies, and the Board agreed a programme to bring Kashagan on-stream following the pipeline disruption. At both Tengiz and Karachaganak further expansion plans were supported by the Board to maximize the benefit to the KMG Group and the Republic.

There are also important new exploration proposals to pursue, both on a standalone basis, and with international partners.

To make the best of these and other opportunities for the Republic a number of changes are needed, and the Board of Directors began the Transformation Process during the year.

Following the Instruction of the Head of State to recruit international specialists to improve capability within the Republic, KMG energetically recruited 5 international upstream specialists to help bring modern technology and management techniques to the upstream operations of the KMG Group. In addition, the Group adopted proactive approach to the matters of Health, Safety and Environment.

Secondly, the Board of Directors has had concerns for a number of years about the poor performance of its subsidiary, KMG EP, not least because of its exclusive access to key existing oilfields and





*Yours sincerely  
Frank Kuijlaars*

Chairman of the Board of Directors,  
JSC NC "KazMunayGas"

unexplored acreage. Under present arrangements KMG's scope to intervene directly is limited. With the support of our shareholder, an attempt was made to buy-back the shares of the minorities and to re-integrate KMG. The minority shareholders in KMG EP did not support the proposal, so the proposal was withdrawn. Subsequently the KMG EP's Board of Directors recorded a major impairment of its assets. A new Chairman was appointed by the KMG NC JSC at the end of the year.

Reintegrating KMG EP was part of a two-step plan to give the KMG Group better access to international equity markets. To meet the financing and technical needs of the major upstream expansion programme that the Republic expects from KMG, the Board of Directors believes, supported by our shareholder, that such floatation is required, so as to balance the debt funds and equity as the sources of satisfaction of the future requirements for financing the development programme.

In the downstream, investment was continued at the major refineries. The future scale and profitability of the downstream depends significantly on how the Eurasia common market evolves, but the Board of Directors remains keenly alert to the needs of the Republic for quality oil products, with reliable supply. The future path of the oil price remains uncertain. It represents the major variable affecting the financial results of the KMG Group. Despite the dramatic fall in oil prices (by as much as 50%)n the Board of Directors has continued to pay dividends to our

shareholder and to finance its growing operations. The Board is keenly aware of the importance of good Corporate Governance. During the year two new Independent Directors were appointed, and the existing ones were re-appointed. A majority of the Board now consists of Independent Directors. A number of changes were made to the Chairmanship of the Board committees, all of which are chaired by Independent Directors. The Internal Audit function reports directly to the Board and continues to play an important and independent role in reviewing the activities of the KMG Group.

# Welcoming Address of Chairman of Management Board

*Dear colleagues and partners,*

The year 2014 was anything but simple for Kazakhstan's oil and gas industry, and was marked by a sharp fall in the oil prices, forced suspension of Kashagan, a reduction in the scope of onshore and offshore exploration. Nevertheless, following the year-end results, there was no reduction in the production volumes, and several important industry-specific projects were launched, among them the Tengiz Future Growth Project and the Aromatics Production Complex launch in the Atyrau Refinery are the most prominent ones.

Notwithstanding the negative global trends, National Company «KazMunayGas» closed the year with the optimum indicators. For example, the consolidated oil and condensate uplift amounted to 22.5 mn tons. There was growth in oil processing and marine transportation and in gas production. After oil prices falling there is a global tendency that the oil companies will reduce investments programs. In the second half of 2014 KazMunayGas also made a revision of its capital expenditures plan.

The results of the last year reveal that exploration is still the focus areas in KMG's activity. In 2014 the increment of reserves amounted to 29.4 mn tons of oil, and the volume of the proven recoverable reserves as of the end of the year amounted to 818 mn tons, which is an example of efficient exploration investments. At present the exploration project portfolio of KazMunayGas is comprised of about 30 projects of which there are 12 prospective projects.

In order to ensure long-term hydrocarbon reserves gain, KMG has completed the three-year project for analysis and compilation of geologic-and-geophysical materials from all 15 sedimentary basins of Kazakhstan, marking the most promising regions where the Com-

pany would like to work jointly with strategic partners, based on subsoil use contacts. Following the results of the analysis, the Caspian Sedimentary Basin has been determined as the main oil-and-gas promising region. In this context, we have started financing of the working group on the 'Eurasia' project supported last year by the heads of Kazakhstan and Russia at the Interregional Cooperation Forum in Atyrau.

The Investment projects on modernization of the three currently operating refineries of the Republic are strategically important, since their implementation will allow supplying the domestic market with high quality oil products. It should be noted that reconstruction of the Atyrau refinery is at the second stage of implementation. Currently the commissioning works at the fluid catalytic cracker unit are carried out. At Shymkent Refinery the works on increasing of the capacity up to 6 Mtpa and the conversion ratio to 90% are carried out. Now the correction of the FS is being performed. Development of the project-design documentation was complete for Pavlodar petrochemical refinery.

The KMG's Privatization Programme has been started last year. It is planned implementing a total of 27 companies over the 2014 to 2020 period. In 2014 the KMG's participation interest in two companies was sold. To the biggest subsidiaries the shares or 100% of which will be transferred to the competitive environment belong Kazakh Oil and Gas Institute, Kazakh-British Technical University, Euro-Asia Air, Kazmortransflot and KazTransGas-Aimak.

At the same time, the work on implementation of non-core assets was continued in 2014. In total 404 assets and objects in the amount of 18.3 bn KZT were implemented, 25 objects and 1 asset in the amount of



*Faithfully yours,  
S.M. Mynbayev*

Chairman of the Management Board,  
JSC NC "KazMunayGas"

4.1 bn KZT were signed off to the local executive bodies and 13 assets were eliminated in 2014.

The modern conditions require from oil and gas companies continuous research-and-development capacity building, search for and implementation of the cutting-edge technology. With this consideration in mind, the Innovation-based-and-technological Development Strategy of KazMunayGas until 2018 was developed in 2014, designed to ensure growth in the level of technology-intensiveness and innovation in the Company's key activity sectors by means of raising the technical level, upgrading and automation of production, implementation of new process flows and energy-efficient technologies, and improvement of the business processes.

KMG's first steps on this way included establishment of the Research and Development Institute of Production and Drilling Technology based on the KazNIPImunai-gaz JSC and Caspimunaigas LLP institutes, with the total staff number of 800 people. In addition, the Company is carrying out conceptual transformation of the upstream business area; notably, the geology block will study the new regions and sedimentary basins not only within the republic, but possibly, overseas, as well. Uninterrupted increasing of the Kazakh content's share belongs to one of the Company's key focus areas. Last year within the framework of the domestic economics

support KazMunayGas increased the share of the Kazakh content in the total volume of goods, works and services procurement from 66 to 76 percent. However, the volume of works performed by the Kazakhstan companies for KMG grew from 55 to 64 percent, and the share of the Kazakh content in services – from 81 to 91 percent.

Over the reporting period, the Company made impressive progress in corporate social responsibility. For example, a Uniform Labour Remuneration System harmonizing the regular rates of pay for worker's professions and determining identical algorithm of payroll calculation was implemented in the 'Upstream' business area. Model Rules of Rendering Social Support to the Employees of KMG's Subsidiary and Dependent Entities were approved.

Last year KazMunayGas continued its operations in compliance with the Company's Code of Corporate Social Responsibility and the Sole Shareholder's Policy on Sponsorship and Charity. According to tradition, the Company's support is received by the national federations of professional and amateur boxing, judo, wrestling, taekwondo, Olympic weightlifting, tennis and a number of others; veteran's organizations, orphanages and children's residential facilities, specialized charitable foundations. In 2014 the KazMunayGas group of companies provided over 18 bn KZT in sponsorship and charitable aid.

The current year is not easier, taking into account the remaining instability on the global oil and gas market. In these conditions KMG continues to accomplish the objectives of transforming all business areas, enhancing the efficiency of oil and gas production, adding the reserves and improving the hydrocarbons transportation system, reconstructing the refineries, with a focus on raising the quality of oil products and saturating the domestic market, developing the support sector, with emphasis on promotion of the innovation-and-technological capacity, and ensuring the transparency of the asset management system. Many thousands of people making up the team of the KazMunayGas group of companies are faced with the task of making their best efforts for the purpose of achievement of the objectives set.



# Company overview



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. 100 percent of its shares are owned by the Sovereign Wealth Fund "Samruk-Kazyna" JSC.

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.

According to KMG's Development Strategy for 2012-2022, the Company's principal strategic goal is maximizing the shareholder value through increasing long-term value of assets and assisting to 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 on the main types of KMG's 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 en-

sure 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:

1. Expanding oil and gas production to 35.4 mn tons annually and 1.5 bcmpa, respectively;
2. Growth in the reserves to 1.4 bn tons of oil and gas condensate;
3. Increasing the success of exploration works from the drilled exploration wells to over 25%;
4. Construction of appropriate infrastructure.

### In the oil and gas transportation sector:

1. Increasing the capacity of the export oil pipeline systems to 101 mn tons of oil annually;
2. Phased development of the national commercial fleet (both in Kazakhstan and overseas) - up to 13 mn tons/year;
3. Increasing gas transportation to 121 bn cub. m annually;
4. Modernization and development of trunk and regional gas-transportation systems.



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\* In accordance with KMG's long-term Strategy 2012-2022 as at the end of 2014.

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

1. Increasing the crude processing capacity to 19.5 mn tons annually (AR - 5.5 Mtpa, PPCP - 7 Mtpa, PKOP - 6 Mtpa, Aktau Bitumen Plant - 1 Mtpa)
2. Increase in the crude processing depth up to 87-90%.
3. Bringing the quality of the motor fuels to the K-4, 5 standards;
4. Increasing the market share of retail sales of oil products to 32%.

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

1. Creation of an infrastructure ensuring efficient implementation of oil-and-gas projects, including creation of the drilling company of KazMunayGas and construction of the North-Caspian Oil Spills Environmental Response Base.
2. Development of the mechanical engineering in Kazakhstan. Construction of a shipyard/dry dock, gas turbine power plant and attraction of foreign investment to creation of new mechanical engineering production facilities in the RoK.
3. Transfer of new technology, strengthening and development of R&D, increasing the workforce capacity.

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

1. Enhancing KMG's financial standing through strict control over the debt level and rational management of the owner's equity;
2. Improvement of the corporate governance system for bringing it to compliance with the requirements of the world's best practice;
3. 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;
4. Implementation of the staff policy. Staff satisfaction of not less than 85%;
5. Development of the risk management system;

6. No industrial accidents, emergency prevention, decreasing the accident and occupational illness-es rate;
7. 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;
8. Development of an integrated management system in the sphere of quality, environment protection, occupational health and safety.
9. 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.





## Performance indicators target values

Name	Unit	2014
Proven recoverable oil and gas-condensate reserves *	Mtpa	818.3
Volume of oil and gas condensate production	Mtpa	22.49
Gas output (natural and associated)	bcm	7.025
Volume of oil transportation by pipeline transport **	Mtpa	64.01
Volume of oil transportation by marine transport	mn tons	9.61
Gas transportation volume	bcm	105.45
Domestic gas transportation volume	bcm	15.62
Balanced refining throughput by RoK refineries accounted by KMG	Mtpa	12.69
Oil conversion ratio	%	
Atyrau Refinery		63
PKOP		74
PPCP		76
TRG (Petromedia Refinery)		95
ROACE***	%	4.6
EBITDA margin***	%	16.9
Share of local content in the total volume of goods purchases	%	73
Share of local content in works and services	%	78
Corporate Governance Score	%	75
Labour efficiency, consolidated	'000 KZT/ pers	37,839
Labour efficiency, consolidated (operating income / salary fund, SF)	KZT/per 1 KZT of SF	9.32
Labour efficiency, oil production	t/pers	539
Labour efficiency, pipeline oil transportation	t/pers	6,410
Labour efficiency, tanker fleet	t/pers	57,180
Labour efficiency, gas transport	Mm <sup>3</sup> /pers	16,061
Labour efficiency, oil refining ****	t/pers	2,130

\* Hydrocarbon liquids (oil and condensate) raw material base consolidated indicators, taking into account the interest of JSC NC «KazMunayGas»;

\*\* Taking into account transshipment volumes via BTL (crude oil and oil products), exclusive of CPC;

\*\*\* Exclusive of the investment projects being implemented on the 'carry' terms, and investments in projects that will not be engaged until 2016, and subject to a reduction in the financial liabilities using the available cash;

\*\*\*\* JSC «KazMunayGas - Refining & Marketing»

### *Government subsidies and guarantees*

In 2014 the Company used, resorted to and had obligations in respect of no government subsidies, guarantee and/or security instruments similar thereto.

### *Kazakhstan's oil-and-gas industry overview and current condition of KMG*

The Republic of Kazakhstan is one of the key sources of raw hydrocarbons for the global economy.

As of 2014, Kazakhstan ranked 12th globally in terms of proven oil and gas condensate reserves.

	<i>Country</i>	<i>Proven reserves volume, bn tons</i>	<i>Share in global reserves, %</i>	<i>Reserves life (reserves/production ratio), years</i>
1	Venezuela	46.6	17.5%	*
2	Saudi Arabia	36.7	15.7%	63.6
3	Canada	27.9	10.2%	*
4	Iran	21.7	9.3%	*
5	Iraq	20.2	8.8%	*
6	Russia	14.1	6.1%	26.1
7	Kuwait	14.0	6.0%	89.0
8	UAE	13.0	5.8%	72.2
9	Libya	6.3	2.8%	*
10	USA	5.9	2.9%	11.4
11	Nigeria	5.0	2.2%	43.0
12	Kazakhstan	3.9	1.8%	48.3

BP Statistical Review 2015

\* more than 100 years



In terms of proven natural gas reserves, in 2014  
Kazakhstan ranked 19th globally.

	<i>Country</i>	<i>Proven reserves volume, bcm</i>	<i>Share in global reserves, %</i>	<i>Reserves life (reserves/production ratio), years</i>
1	Iran	34.0	18.2%	*
2	Russia	32.6	17.4%	56.4
3	Qatar	24.5	13.1%	*
4	Turkmenistan	17.5	9.3%	*
5	USA	9.8	5.2%	13.4
6	Saudi Arabia	8.2	4.4%	75.4
7	UAE	6.1	3.3%	*
8	Venezuela	5.6	3.0%	*
9	Nigeria	5.1	2.7%	*
10	Algeria	4.5	2.4%	54.1
11	Australia	3.7	2.0%	67.6
12	Iraq	3.6	1.9%	*
13	China	3.5	1.8%	25.7
14	Indonesia	2.9	1.5%	39.2
15	Canada	2.0	1.1%	12.5
16	Norway	1.9	1.0%	17.7
17	Egypt	1.8	1.0%	37.9
18	Kuwait	1.8	1.0%	*
19	Kazakhstan	1.5	0.8%	78.2

BP Statistical Review 2015

\* more than 100 years

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

<i>Province</i>	<i>Share in total reserves, %</i>
Atyrau Province	59
Kazakh sector of the Caspian Sea	17
Mangistau Province	8.5
West-Kazakhstan Province	7
Aktobe Province	5.6
Other	2.9

In 2014 Kazakhstan ranked 17th globally with the production volume of 80.8 mn tons (2% of the world production).



	<i>Country</i>	<i>Production, mn tons</i>	<i>Share in global reserves, %</i>
1	Saudi Arabia	543.4	12.9%
2	Russia	534.1	12.7%
3	USA	519.9	12.3%
4	China	211.4	5.0%
5	Canada	209.8	5.0%
6	Iran	169.2	4.0%
7	UAE	167.3	4.0%
8	Iraq	160.3	3.8%
9	Kuwait	150.8	3.6%
10	Venezuela	139.5	3.3%
11	Mexico	137.1	3.2%
12	Brazil	122.1	2.9%
13	Nigeria	113.5	2.7%
14	Norway	85.6	2.0%
15	Qatar	83.5	2.0%
16	Angola	83.0	2.0%
17	Kazakhstan	80.8	1.9%



The bulk (around 85%) of the oil produced in Kazakhstan goes to exports. The 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.

Gas produced in Kazakhstan is mainly petroleum associated gas. Due to the insufficiently developed associated gas utilization infrastructure, and for the purposes of sustainable subsoil use and more robust extraction of liquids, almost half of the associated gas volumes is re-injected by the subsoil users back into the reservoir.

*bcm*

*Forecast of gas production in the Republic of Kazakhstan*

	2015	2020	2025	2030
Gas production	53.3	88.4	99.6	109.4
Gas injection	16.1	50.6	64.0	75.3
In-house process requirements	5.4	7.9	7.4	8.3

Transportation of the Kazakh crude for exports is carried out by the oil pipeline transport, marine transportation from the port of Aktau on the Caspian Sea, the ports of Batumi and Novorossiysk on the Black Sea, and in the water area of the Mediterranean Sea by the oil tankers of the «Kazmortransflot» National Maritime Shipping Company, and by rail as well.

The CPC oil pipeline (32 Mtpa) 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 (18 Mtpa) 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.

Atasu-Alashankou oil pipeline (12 Mtpa), 965 km in length, provides access to the Chinese market. The oil was commissioned in 2006 as part of implementing the first stage of the 'Kazakhstan-China' oil pipeline project.

Sea port 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.

Gas transportation infrastructure of the Republic of Kazakhstan for gas transit consists of the main trunk gas pipelines:

- «Central Asia-Center», with the length of about 4,000 km, capacity of 60 bcm (Turkmen and Uzbek gas);
- «Bukhara-Ural», with the length of about 4,500 km, capacity of 7.2 bcm (Uzbek gas);
- «Orenburg-Novoposkov» and «Soyuz» TGP, with the length of 760 km, and capacity of 10 bcm and 20 bcm (Russian gas);
- «Kazakhstan-China», with the length of 1,310 km, is a part of the «Central Asia-China» trunk gas pipeline, intended 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 large crude oil and gas processing enterprises:

Atyrau Refinery (AR): designed processing capacity is 5.0 Mtpa, the conversion ratio is 63%.

Shymkent Refinery (Petro Kazakhstan Oil Products, PKOP): designed capacity is 6.0 Mtpa, conversion ratio is 74%.

Pavlodar Petrochemical Plant (PPCP): Kazakhstan's most technology-intensive refinery. Designed processing capacity is 6.0 Mtpa, the conversion ratio is 76%. The enterprise has been engineered for processing oil of the West Siberian fields.

CaspiBitum: plant for production of road asphalts from the heavy Karazhanbas crude. The designed processing capacity is 1.0 mn tons annually. Commissioned at the end of 2013.

Following the results of 2014, 15.5 mn tons of crude oil were refined in the 4 refineries, or 108.3% vs the level of the last year. The following was produced from the processed crude:

- gasoline - 2,999.2 thousand tons;
- diesel - 4,199.0 thousand tons;
- fuel oil - 3,191.8 thousand tons;
- jet fuel - 426.0 thousand tons.

3 gas-processing plants with the total processing capacity of 18.9 bcmpa operate in the republic: 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.*

Business area		2014		2013		2012		2011		2010		2009		2008	
			%		%		%		%		%		%		%
Reserves <sup>1</sup>	Year-end A, B, C1 (proven) oil and gas condensate reserves, mn tons	818.3	21	811.3	21	822.7	21	793.4	20	806.3	15	795.4	15	706	13
	Year-end A, B, C1 natural gas residual reserves, bcm	487.6	33	475.5	32	481.6	37	394.9	21	395.6	22	374.6	21	343.2	19
Production	Oil and gas condensate production, '000 tons	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	7,025	16.4	6,924	16.4	5,528 <sup>2</sup>	13.8	4,850	12	4,912	13.1	4,332	12	3,786	11.2
Oil transportation	by trunk oil pipelines, mn tons	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	4.6	77	5.1	81	5.9	77	5.9	74	6.1	64	7.1	63	2.6 <sup>3</sup>	58
Natural gas transportation by trunk gas pipelines, bcm		105.44	95	110.14	94	109.19 <sup>4</sup>	90.5	110.6 <sup>5</sup>	93.5	101.6	97.9	91.1	100	116.7	100
Processing	of oil, thousand tons	12,691	82	11,869	83.0	11,837	83.3	11,429	83.2	11,399	83.3	8,195	80.4	6,079	49.5
	of sour gas, mn cub.m 6)	8,594	40	8,197	40	8,039	50,	7,974	50	7,901	50	8,266	50	7,916	50
Retail sales	of petroleum products, '000 tons	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	12,943	100	10,564	100	10,023	95	8,045	83.6	5,989	100	5,008	100	5,465	100

<sup>1</sup> share of KazMunayGas in Kazakhstan’s proven oil and gas condensate reserves (BP Statistical Review)

<sup>2</sup> taking into account the gas production volume of Karachaganak Petroleum Operating b.v. over 6 months

<sup>3</sup> 50 % of JSC «NMSC «Kazmortransflot» in the “Samruk-Kazyna” JSC

<sup>4</sup> The Asia Gas Pipeline JSC transported 22.828 bcm of gas to China in 2012

<sup>5</sup> The Asia Gas Pipeline JSC transported 15.25 bcm of gas to China in 2011

<sup>6</sup> processing of gas in the OGPP (Orenburg Gas-Processing Plant), carried out by the KazRosGas LLP (50% - KMG, 50% - Gazprom)

# Results

*mn KZT**Key financial indicators*

	2014	2013	2012	2011	2010	2009	2008	2014 / 2013
Income, total including:	3,542,064	3,405,049	3,101,218	2,787,707	2,252,197	1,955,526	2,022,475	104 %
Income from sales of goods and rendering services	3,198,224	3,252,719	2,960,418	2,625,256	2,098,942	1,589,549	1,885,606	98 %
Costs, total including:	3,594,468	3,206,860	2,982,379	2,689,116	2,065,663	1,765,068	1,678,475	113.8 %
Cost price of sold products and rendered services	2,322,162	2,354,109	2,090,818	1,836,061	1,409,001	1,050,463	1,199,360	986 %
Corporate income tax expenses (including EPT)	129,912	193,396	177,131	153,147	132,675	178,603	200,287	60.5 %
Net income after minority interest	207,362	440,955	369,420	422,422	305,309	110,904	298,291	47 %



### Key production indicators \*

	2014	2013	2012	2011	2010	2009	2008	2007
Oil and gas condensate production, thousand tons	22,490	22,630	21,390	21,105	21,969	18,701	18,052 <sup>1</sup>	16,689
Gas production (natural and associated), Mm <sup>3</sup>	7,025	6,924	5,528 <sup>2</sup>	4,850	4,912	4,332	3,786	3,532
Oil transportation by trunk oil pipelines <sup>3</sup> , mn tons	64.01	67.22	65.79	66.87	65.83	64.19	60.63	50.8
Marine oil transportation <sup>4</sup> , thousand tons	9,606	8,878	11,355	9,234	7,082	7,363	2,869	2,280
Gas transportation by main gas pipelines, bcm	105.44	110.14	109.19	110.6	101.65	91.1	116.7	114.2
Hydrocarbons refining, thousand tons	17,115	16,050	15,884	15,326	14,766	12,758	10,993	5,734 <sup>5</sup>
Year-end A, B, C1 (proven) oil and gas condensate reserves, mn tons	818.3	811.3	822.7	793.4	806.3	795.4	706	615.5
Year-end A, B, C1 natural gas residual reserves, bcm	487.6	475.5	481.6	394.9	395.6	374.6	343.2	62.4
Average headcount as of 31 December, pers.	84,219	84,411	84,349	83,302	64,660	57,087	54,768	52,829

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

<sup>1</sup> Consolidated oil uplift taking into account oil production by PetroKazakhstan.

<sup>2</sup> Natural and associated gas, taking into account the gas production volume of Karachaganak Petroleum Operating b.v. over 6 months.

<sup>3</sup> Includes the volume of oil transportation by the trunklines of JSC “KazTransOil”, BTL (100%) and transportation volumes of JSC “North-West Pipeline Company «MunaiTas» (51%) and Kazakhstan-China Pipeline LLP (50%).

<sup>4</sup> 2007-2008 - 50 % share of JSC NMSC «Kazmortransflot».

<sup>5</sup> Consolidated indicator – taking into account the Shymkent Refinery throughput and the acquisition in July, 2007 of the 49.72% share.

# Exploration



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

2 exploration wells were drilled on the Zhambyl offshore area, and drilling of 1 deep subsalt well with the depth of 6,000 meters was started on the Urikhtau area in 2014.

## 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 interest in other assets, and due to a reduction in the reserves in the course of hydrocarbons production.

As of 1 January 2014 the proven residual recoverable oil and gas condensate reserves of JSC NC «KazMunayGas» (taking into account the participatory interests) amounted to 776.2 mn tons and 35.14 mn tons, respectively. In this respect, the total oil reserves additions (taking into account interests) amounted to 18.393 MMt and gas condensate - 11.035 MMt.

### *A, B, C1 Category Consolidated (Proven) Hydrocarbon Reserves of the KazMunayGas Group*

	<i>As of 1 Jan 2014</i>	<i>Total growth (+)</i>	<i>Production (-)</i>	<i>As of 1 Jan 2015</i>
Oil, mn tons	776.2	18.393	22.08	772.5
Gas condensate, mn tons	35.14	11.035	0.407	45.8
Total oil and gas condensate, mn tons	811.34	29.428	22.5	818.3
Natural gas, bcm	475.5	19.139	7.136	487.5

<sup>1</sup> Calculated according to the Instruction on Qualification of Fields Reserves, Oil and Natural Hydrocarbon Gas Prospective and Forecast Resources (approved by Order No. 283 dated 27 October 2005 of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan).



## *Exploration projects in the Caspian shelf area*

JSC NC «KazMunayGas» links further buildup of the hydrocarbon feedstocks reserves to the resource potential of the Kazakhstan sector of the Caspian Sea.

Exploration projects on the Caspian and in the coastal areas are one of the top-priority business areas of KMG and its subsidiaries – JSC OOC “KazMunayTeniz”, N Operating Company LLP, JSC «Atyraumunaygas», and Zhambyl Petroleum LLP.

KazMunayGas, jointly with foreign companies, is carrying out prospecting and research works on a group

of blocks in the Kazakhstan sector of the Caspian Sea: Khvalynskoye, Centralnaya, Zhemchuzhiny (Pearls), Zhambyl, N project, Satpayev.

Following the results of the performed seismic surveys, new prospects and deposits on the Kazakhstan sector of the Caspian Sea exploration areas have been found (Makhambet, Bobek projects).

2 exploration wells on the Zhambyl offshore area were drilled in 2014. As a result of drilling the first exploration well Zhetysu-1, oil deposits were discovered.



### *JSC NC «KazMunayGas»*

#### *Existing projects*

##### *Project «N»*

In 2014, preparatory works (geological engineering survey, environment control, approval and receipt of authorization documents) were performed to construct the first test well AR-1, its target depth being 1 600 m, at the structure Rakushechnoie-more. In December 2014, we started drilling this well with the drilling unit, the drilling contractor of BKE-Shelf involved. As of December 31, 2014, 894 m have been drilled.

##### *Project «Satpaiev»*

In 2014, geological engineering survey (GES) works at the structure “East Satpaiev” were performed. Engineering project plans prepared for construction of prospect wells STP-1 and STPV-1 at the sites “Satpaiev” and “East Satpaiev” were approved by the government authorities. Preparatory works are performed to provide drilling of two prospect wells at the structures “Satpaiev” (STP-1) and “East Satpaiev” (STPV-1), engineering project plan has been prepared for construction of the well. Due to absence of the drilling contractor, the works on drilling the first prospect well at the structure “Satpaiev” STP-1 were moved from 2014 to 2015. Drilling move was agreed with the ED of the RK, and the additional agreement No.3 to the Contract No.3575 was signed on 15.06.2010 (No.4092-HCC-ED of 26.12.2014).

##### *Project “Zhambyl”*

In late July 2014, the prospect well at the structure Zhetysu was drilled, its depth being 2 072 meters. 2 prospective targets were defined in the Middle-Jurassic and Lower Cretaceous formations. When testing the targets, flush gas influx was obtained.

The planned 3D seismic exploration works in a volume of 900 sq.km at the structures Zhambyl and Zhetysu were moved to 2015.

## New Projects

### Project «Khvalynskoie»

Negotiations with the government authorities of the Russian Federation at the level of the Multi-authority Commission on development of subsurface management conditions at the field Khvalynskoie and PSA project development are held, the issue on enabling export sale of the gas produced at the field Khvalynskoie is also negotiated in order to ensure economic profitability of the field development.

### Project «Central»

Authorized institutions of the RK and the RF (JSC NC «KazMunayGas» and LLP «CentraKaspneftegaz») established the joint enterprise LLP «Oil and Gas Company Central», which, in December 2013, sent the request to Rosnedra of the RF in order to receive subsurface management license for supplementary exploration of the field «Central». To receive this license, it is necessary to amend the Interstate Agreement of 06.07.1998, since the Agreement provides for the conclusion of the PSA. In September 2014, the government authorities of the RF completed coordination of the Draft Protocol on amendments to the above stated Agreement. Currently, the Energy Department of the RK together with KMG performs the work on preparation of the required set of documents and their approving by the government authorities of the RK, in order to sign this Draft Protocol.

### Project «Isatay»

In July 2014, the Competent Authority (ED of the RK) and KMG signed the direct negotiations protocol, under which the Competent Authority decided to grant KMG the right to subsurface management at the site Isatay on the terms of the combined exploration and production. Currently, KMG works on coordinating the draft contract with the government authorities of the RK for its subsequent conclusion. KMG concurrently coordinates the set of documents on the proposed business with its strategic partner — ENI (approved by the Competent Authority).

### Project «Abay»

In August 2012, the Competent Authority (RoK ME) and KMG signed the direct negotiations protocol, under which the Competent Authority decided to grant KMG the right to subsurface management at the site Abay on the terms of the combined exploration and production. In April 2014, the meeting of Kazakhstani-Indian Intergovernmental Commission ended with the signing of the Protocol, due to which the Kazakhstani party within the framework of enhanced cooperation offered the site Abay to the Indian party. Currently, KMG works on coordinating the draft contract with the government authorities of the RK for its subsequent conclusion.

### Project «Ustiurt»

In July 2014, the Competent Authority and KMG signed the direct negotiations protocol, under which the Competent Authority decided to grant KMG the right to subsurface management at the site Dead Kultuk (Ustiurt) on the terms of the combined exploration and production. In December 2014, the Government of the RK adopted the resolution «On the contract for combined exploration and production» for the site Dead Kultuk (Ustiurt). Currently, KMG works on coordinating the draft contract with the government authorities of the RK for its subsequent conclusion. KMG concurrently coordinates the set of documents on the proposed business with its strategic partner — UnionField Group (approved by the Competent Authority).







### *LLP OOC “KazMunayTeniz” (KMT)*

#### Project “Zhemchuzhnyi”

Obligations under the Work Program PSA “Pearls” as related to the drilling of prospect wells at the structures Khazar, Auezov, Tulpar and Naryn are fulfilled.

On April 29, 2014, the Ministry of Oil and Gas of the Republic of Kazakhstan and the Co-venturers of the “Pearl” signed the Amendment No.4 to PSA (state reg. No.4013-HCC) on granting the Second extension of the Exploration Period for the term of 2 years till December 14, 2015.

The works on clarifying the geological structure of the productive horizons and reserves at the field Khazar were performed.

According to PSA provisions, the reports on completion of the wells Naryn-1 and Auezov-2 were drawn up and submitted to the Competent Authority.

Laboratory analysis of the drill samples, soils, fluids, sampled at the well Auezov-2 was performed, the results of which were introduced into the geological model of the field Auezov for subsequent parameters justification of FS ORF.

The report on reserves calculation of HCC and FS ORF of the field Auezov is being drawn up, and will continue to be drawn up in 2015. Reserves approval at the SRC is planned to be done in 2016.

Since mid-2014, Voluntary Return of the license area part has been performed (structures Naryn and Tulpar). Studies of the facilities construction concept of the field Khazar were completed. During 2014, KMT together with the leading world institutes and JSC NC “KazMunayGas” performed the works connected with

choosing the facilities construction concept of the field Khazar in order to justify design and technological solutions on the facilities construction concept (proposed by the KMT — offshore ice-resistant fixed platform, OIFP). In late 2014, studies on OIFP optimizing were launched taking into account ice loads and process operations. On the basis of these studies, KMT formed its position concerning the facilities construction at the field Khazar, based on innovative technological solutions. Whereby the cost sheet and the project schedule were confirmed by the recognized world independent company IPA. According to the results of the research, the decision was taken on transfer of the “Pearls” project Operator — “Caspi Meruerty Operating Company B.V.” — to joint development of the projects “Pearls” and “Kalamkas-more”, including the assessment of the concept variants for the offshore ice-resistant fixed platform and cofferdam to choose a single substructure.

#### Project Kurmangazy

Obligations on training Kazakhstani specialists at the amount of \$1.0 mn, monitoring abandoned wells and auditing the Joint Account and the Petroleum Operations Account were performed.

Geological exploration plan for 2015–2021 was developed and approved by the Contracting companies in case of a decision to continue the geological exploration.

In 2014, the works on the Protocol on amending the PSA started; the appropriate draft made by the KMT and approved by KMG and the Ministry of Energy of the RK was presented to the Russian party.

The decision of the Intergovernmental Commission of 03.12.2014 provides for the signing of the Protocol in the first half of 2015 to continue the project “Kurmangazy” under the PSA of 06.07.2005 in 2016.

#### Project Zhambay

Under recommendations of KMG on fulfillment of tax obligations related to paying minimum financial obligations (MFO), the Participants provided an increase in the authorized capital of LLP “Zhambay”.

In order to fulfill tax obligations in 2014, the payout (to the tax authorities) was carried out as the payment of the corporate income tax.

### *Exploration projects on the land*

Within the main Objective of the Geological Service «Increase in proved recoverable oil reserves,» an exploration work for new promising structures and oil and gas traps is underway, and geological model of fields and sites is being checked according to the plans for 2014. Work is carried out in accordance with the approved annual plans for subsidiaries and affiliates, joint ventures in partnership with JSC NC «KazMunayGas».

#### Eurasia project

Within the assignment of the President of the Republic of Kazakhstan on the development of exploration work with the purpose of replenishing the country's hydrocarbon reserves in 2013 the Kazenergy association initiated an international project of regional geological and geophysical research within Peri-Caspian Depression «Eurasia».

At the initial stage a separate Project team was created at JSC «Kazakh Institute of Oil and Gas», and JSC NC «KazMunayGas» defrayed the expenses of the project team.

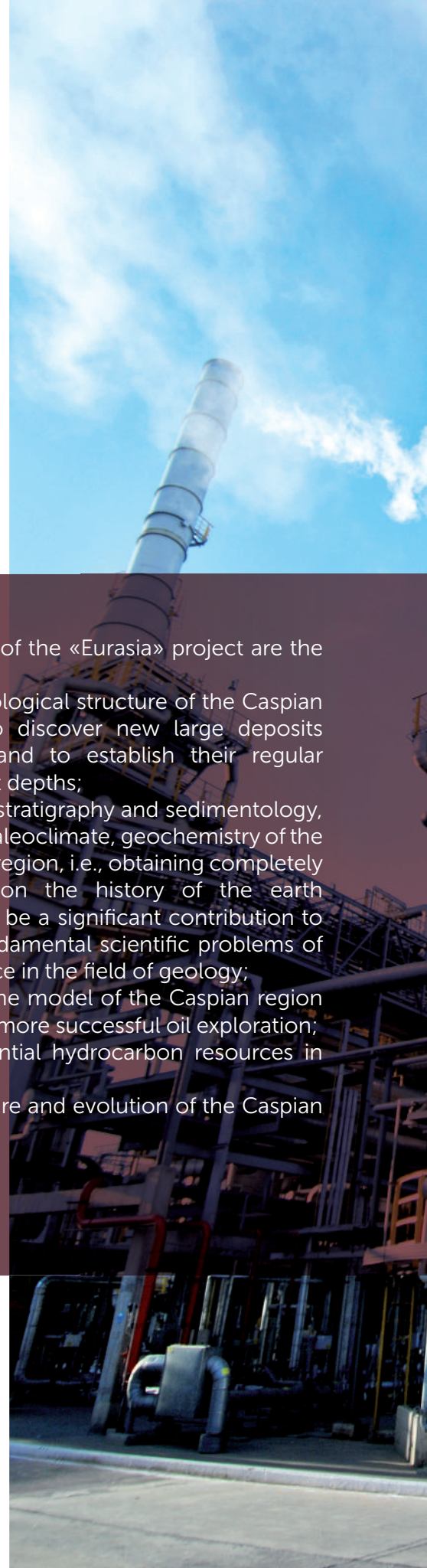
On September 29-30, 2014, during the XI Forum of interregional cooperation of Kazakhstan and Russia, the project was presented to the President of Kazakhstan Nursultan Nazarbayev and the President of Russian Federation Vladimir Putin, and was supported at the highest level.

The main objectives of the «Eurasia» project are the following:

- exploring deep geological structure of the Caspian region in order to discover new large deposits of hydrocarbons and to establish their regular occurrence at great depths;
- study of tectonics, stratigraphy and sedimentology, paleogeography, paleoclimate, geochemistry of the Earth's crust in this region, i.e., obtaining completely new information on the history of the earth formation, that will be a significant contribution to the solution of fundamental scientific problems of universal importance in the field of geology;
- obtaining space-time model of the Caspian region for purposeful and more successful oil exploration;
- estimation of potential hydrocarbon resources in the region;
- study of the structure and evolution of the Caspian basin.

#### R&D project

In 2014, the fulfillment of the Agreement R&D No 485-32 // 409-22-2011 of 27.10.2011 «Improvement and control of development system, including scientific and expert support of major projects (Kashagan, Karachaganak, Tengiz)» was completed. During 2011-15.05.2014, the reports on work tasks totaling \$ 2.2 billion KZT (including VAT) were considered and adopted according to relevant acts of transfer and acceptance of services.







### *JSC NC “KazMunayGas”*

#### *Current projects*

JSC NC “KazMunayGas” associates reserves accumulation with resource potential of oil, gas and condensate field of Urikhtau. This project is one of the priorities of JSC NC “KazMunayGas” and its subsidiary — LLP “Urikhtau-Operating.”

#### *“Urikhtau” project*

In 2014, works on the wells U-4 were carried out: while testing three sites in the southern and south-eastern part of the field the flows of gas condensate from deposits KT-1 were obtained. Currently the well is suspended from 30.09.2014 to 01.11.2015.

The works on the well U-5 were not carried out due to the accident and subsequent abandonment of drilling tool in the well.

In September 2014, drilling of exploration well VU-1 on the structure of Vostochnyi Urikhtau (projected depth of 4600 m) started. The bottom hole is 3347 m as of 01.01.2015, completion of drilling is expected in the II quarter 2015 at the depth of 4600 m.

Exploration well YU-1: projected depth — 4600 m, beginning of drilling — 28.09.2014, bottom hole to 01.01.2015 — 3119 m, completion of drilling is expected in the II quarter 2015 at the depth of 4600 m.

In 2014, the site “industrial base” near the camp Jana-jol was constructed and put into operation. The State Commission accepted the site on 24.07.2014.

#### *“Imashevskoye” project*

The operator of the project “KazRosGas” has been determined; the decision of the Government of Kazakhstan is being expected.

#### *“Kansu” project*

On October 1, 2013, the Ministry of Oil and Gas of the Republic of Kazakhstan and JSC NC “KazMunayGas” signed a contract for exploration in the site of Kansu No 3949-UVS. In 2014, LLP “KMG-Kansu Operating” was established. The subsoil user is JSC NC “KazMunayGas”.

### New projects

#### «Orken» project

On December 12, 2014, the Ministry of Energy of the Republic of Kazakhstan and JSC NC «KazMunayGas» signed a contract for exploration of hydrocarbon raw materials on the site of Orken.

#### «Pribrezhnoe» project

In 2014, direct negotiations with the Competent authority concerning an obtainment of subsoil use rights were held.

Geological allotment was obtained; the agreement of confidentiality with Zapkaznedra was signed.

The Project of prospecting work was drawn up and approved. The draft of subsoil use contract was drawn up and agreed.

Internal corporate approval for obtaining subsoil use rights was received.

#### «Korolevskoe» project

In 2014, direct negotiations with the Competent authority concerning an obtainment of subsoil use rights were held.

Geological allotment was obtained; the agreement of confidentiality with Zapkaznedra was signed.

The Project of prospecting work was drawn up. The project prospecting work is currently under state examination.

#### «Samtyr» project

In 2014, direct negotiations with the Competent authority concerning an obtainment of subsoil use rights were held. The Project of prospecting work was drawn up and approved.

Geological allotment was obtained; the agreement of confidentiality with Zapkaznedra was signed. The draft of subsoil use contract was drawn up and agreed.

Obtainment of internal corporate approvals for subsoil use rights is underway.

#### «Zhilanshik» project

In 2014, direct negotiations with the Competent authority concerning an obtainment of subsoil use rights were held.

Geological allotment was obtained.

The Project of prospecting work was drawn up. The project prospecting work is currently under state examination.

Reduction of geological allotment is being sought.

#### «Bekturly Vostochnyi» project

In 2014, direct negotiations with the Competent authority concerning an obtainment of subsoil use rights were held. The Project of prospecting work was drawn up and approved.

Geological allotment was obtained; the agreement of confidentiality with Zapkaznedra was signed.

The Project of prospecting work was drawn up. The project prospecting work is currently under state examination.

Obtainment of internal corporate approvals for subsoil use rights is underway.





*KazMunaiGas EP JSC  
(JSC «Embamunaygas», JSC «Ozenmunaygas»)*

JSC NC "KazMunaiGas" associates further accumulation of hydrocarbon reserves with supplementary exploration of the licensed blocks by the subsidiary KazMunaiGas Exploration Production (KMG EP).

*"Uzen-Karamandybas" project*

The well SZT-1 on the area of Northwest KZT has been drilled. The actual depth of the well is 3505m. Currently the well is suspended prior to the test (the well was drilled in 2013.).

According to the resolution of the commission of KMG EP in terms of collection and analysis of materials on Paleozoic part of the log the study and analysis of geological and geophysical materials of the block are being carried out.

Under agreement No 350-71 of 10.06.2014 concerning the Operator's involvement in exploration of hydrocarbons the technical specifications were agreed and approved.

Further detailed study of the area prospects is being projected. Intended 3-D CDP seismic exploration in the volume of 270 square km within the discovered favorable structural zones (Enorta, KZT Karamandybas et al.) in the pre-Jurassic complex has been postponed to 2015. Terms and efficiency of 3D seismic exploration depends on the test of the well SZT-1.

The planned drilling of the exploration well D-1 on the Dautovsky dome (projected depth of 2200m) has been postponed to 2015 as well.

*"Lyman" project*

In connection with completion of exploration and structural reorganization, it is decided to transfer materials and data on Lyman block from the KazMunaiGas EP JSC to JSC "Embamunaygas" with the purpose of further arrangements connected with the sites remaining after the return of the territory to the competent authority.

On the area of Novobogatinsk South East (subsalt and oversalt sites) geological and geophysical materials are analyzed in order to draw up the Amendment to the exploration and appraisal project (drilling of three appraisal wells is pre-scheduled).

Appraisal well SG-8 has been drilled to a depth of

1265 m (projected depth of 1500 m); Kungur deposits have been tapped at a depth of 1206 m. In the absence of oil inflow, the well is being prepared to be transferred to the Oil-and-Gas Production Department. The well is prepared for conservation.

*Project P-9*

The final report on the return of the territories (contract No 817 of 26.08.2013) is being completed. At the same time, the prospects and opportunities for further study of certain parts of the block as for subsalt and oversalt complexes have been considered. Evaluation and preparation of data on the southern part of the block as for subsalt complex where a number of major local uplifts were earlier discovered are underway.

*"Taisoigan" project*

Measures have been taken to obtain permit for an extension of the exploration period up to 09.01.2017. Approval of Addendum No 6 to the Contract from the Ministry of Energy of Kazakhstan is pending.

In 2014, 2 wells in the area of Uaz and Bazhir (projected depth of 1350 m and 1200 m, respectively) were drilled.

Well No U2 on the Uaz area has been drilled to a depth of 1175 m (projected depth of 1350 m); salt has been tapped at a depth of 1136.6 m. By the results of the interpretation of geophysical data along the well log oil-saturated and water-saturated reservoirs have been allotted: 1082, 1-1083, 1m — for the inflow of hydrocarbons, 1087,5-1089,6m — for the inflow of hydrocarbons and 1093,3-1094,4m — for the nature of inflow.

The site of 1080–1084 m has been allocated for testing; 1087–1090 m — oil has been recovered when testing -1.9 m<sup>3</sup>. The well is being prepared for conservation.

Exploration well G-3 drilled in 2014 on the structure Bazhir in the south of exploration block Taisoigan was abandoned for geological reasons.

In 2014 by the results of drilling of exploratory wells on the east of the southern wing of the field Uaz and discovery of oil in the Triassic, Jurassic and Cretaceous deposits LLC Research Institute "CaspiMunaygas" estimated expeditious reserves.

Oil reserves approved by the State Reserves Committee of Kazakhstan: category C1–1363 thousand tons of geological oil, including 358 of recoverable oil, category C2–905 thousand tons of geological oil, including 520 of recoverable oil.

#### Block Karaton- Sarkamys

In 2014, the results of the drilling and 2D / 3D seismic exploration as of year-end 2013 were analyzed. In 2013, 2 wells were drilled: on the structures Kenaral and Severnaya 2971m and 3386 m deep, respectively. At the bottom, the deposits of Kungurian stage were tapped. Due to the negative results the decision concerning the return of the territory and drawing up the report on exploration work (contract No 3577) is expected. At the same time, data analysis is being conducted, the prospects of particular sites and areas for possible study and research are being considered.

According to the decision of the geological-technical meeting of KMG EP (minutes of 09.06.2014) feasibility study of the drill site D-1 on the eastern wing of the field Dosmuhambetovskoe, as well as the study and analysis of geological and geophysical materials are underway.

#### Block Zharkamys Vostochnyi — 1

The final report on the results of exploration work on the block Zharkamys Vostochnyi has been considered. Earlier in the period of 2011–2012 on the block area, two wells on the structure Tuzkum (PA-1 and PA-T-2-T) were drilled. Promising results obtained in the well of RA-2-T Tuskum (well is suspended) carry hopes to continuous work in this area. During joint test of two intervals of 4303–4315m and 4227–4280m a weak flow of viscous oil from the Middle Carboniferous was obtained. Accordingly, drilling of an exploratory well (projected depth of 5600 m) on the area Tuzkum in 2014 was recommended.

During the year the project of elimination of subsoil use consequences on the block Zharkamys Vostochnyi 1 (including EIA) has been developed. The project has been submitted to regulatory authorities of Aqto-be region. Approvals by authorized bodies in the field of industrial safety, land relations of sanitation and epidemiological surveillance and the study and use of mineral resources have been obtained. Approval by an authorized body in the field of environmental protection is pending..

#### Block Temir

In 2014, the issues of further work on the block within the Project of oil and gas prospecting were considered (Protocol of the Central Commission for Reserves No 230 of 26.09.2011 and the decision of the Committee of Geology and Subsoil).

The report on the interpretation of CDP 3D seismic data on this block has been drawn up.

Depending on the above, expediency of drilling of the well 6500m deep on the Devonian complex is being considered.

#### Block Teresken

The return of the contract area to the competent authority has been completed.

#### Botahan field

Exploration well No 300 has been drilled to a depth of 2900 m (the projected depth of 2900m). According to the results of well survey, six facilities with hydrocarbon filled reservoirs have been allotted in the open hole of the well. Facilities' testing has been started.

#### Makat Vostochnyi field

Exploration well No 107 was drilled in accordance with the Project of additional exploration of Makat Vostochnyi field; location of the well was specified according to the results of the 3D CDP seismic exploration performed by LLP "Petroleum Geo-Services (Kazakhstan)" (PGS) in 2013. Promising area along the horizon T-II is allocated in the northeastern block, which is not penetrated by wells. The trap is semi-structural, tectonically shielded by main fault of





the northwest course. Inside the trap is complicated by small fault of the same course.

According to the conclusion of the well survey the productive well layers are not allotted, in connection therewith the well was abandoned for geological reasons without run-in-hole operation.

#### S. Nurzhanov field

At the beginning of 2014 exploration wells 703, 704 and 705 were suspended. Exploration well No 702 was drilled to a depth of 2000 m (projected depth of 2000 m). 3 sites were allotted for testing:

1. 1938–1946 m — no inflow;
2. 1904–1910m — no inflow;
3. 1874–1884m, 1888–1895m — inflow of oil-field water.

The well No 706 was drilled to a depth of 2000 m (projected depth of 2000 m). 3 sites were allotted for testing:

1. 1915–1920m — inflow of oil-field water;
2. 1885–1892m — oil was produced by swabbing in the volume of 4.05 m<sup>3</sup>.
3. 1859–1864m, 1866–1868m, 1870–1879m — oil was produced by swabbing in the volume of 4.5 m<sup>3</sup>.

In 2014, as of 01.09.2013 expeditious oil and gas reserves estimate of Valanginian horizon was made. According to the State Reserves Committee of Kazakhstan oil reserves are as follows: category C1–2,824 thousand tons of geological reserves, 882 thousand tons of recoverable reserves; category C2–1,880 thousand tons of geological reserves, 576 thousand tons of recoverable reserves.



#### S. Balgimbaev field

Exploration well No 301 was drilled within the northern block to a depth of 1265m (projected depth 1400m). According to the results of the interpretation of geophysical data along the well log oil-saturated reservoirs were allotted; it is recommended to test 3 sites for hydrocarbon flow:

1. 1177–1180m, 1157–1159m — inflow of oil-field water with a film of oil;;
2. 1116–1122m, 1128–1130m, 1133–1138m — inflow of oil-field water with a film of oil;
3. 1099–1103m — oil produced by swabbing — 3.1 tons / day.

The well is under test..

The report "Recalculation of initial geological and recoverable hydrocarbons reserves of Balgimbayev field" was approved by the State Reserves Committee.

#### Zhanatalap field

In 2014, exploration wells No 300 and No 303 were drilled to a depth of 2300m each (projected depth — 2300m). On the well No 300 4 sites were allotted for testing:

1. 1098–1096m, 1094–1092m, 1087–1084m — a weak flow of oil-field water;
2. 589–592m, 602–604m — oil flows at 7 mm nipple — 8.7 tons / day;
3. 376–374m — oil-field water with the oil film;
4. 361–354m — a weak oil flow of 0.3 tons.

The well was transferred to the Oil-and-Gas Production Department.

On the well No 303 4 sites were allotted for testing:

1. 811–813m, 846–850m — flow of oil-field water of 7.7 m<sup>3</sup>;
2. 488–490m, 509–514m — oil flows at a 7 mm nipple — 10.2 tons / day;
3. 439–442m, 449–452m — oil flows with a 7 mm nipple — 17.2 tons / day;
4. 374–3746m — oil flows at a 7 mm nipple by periodic overflow — 2.3 tons / day.

The well is prepared for conservation.

#### Akkuduk field

In 2014, 3D-CDP seismic exploration in the volume of 46.8 square km was conducted in order to specify the geological structure of subsalt complex. 3D CDP data in the volume of 46.8 square kilometers were processed and interpreted, according to CDP technology and Multifocusing.

### *Projects controlled by the KazMunayGas EP JSC*

#### Rozhkovsky (Fedorovsky block)

In 2014, 3 sites on the exploration well U-24 on the area Rozhkovsky were tested. Test results:

1. 3764–3784m — the inflow of gas condensate, age — Bashkir Middle Carboniferous.
2. 4315–4340m — fountain of gas and condensate, age - Tournaisian carbon.

The well is temporarily suspended before field infrastructure development.

The report on “Estimation of gas reserves and condensate in the Rozhkovsky field” was drawn up (protocol No 1384-14-In of 31.01.2014).

The Amendment to the Test production Project of Rozhkovsky field was considered by the Central Committee for Exploration and Development of Kazakhstan and approved by Geological Committee on 22.09.2014.

Mining allotment on the area Rozhkovsky of 220.28 sq. km was obtained.

Modified mining allotment for the remainder of the contract area of 1291.37 sq.km in Fedorovsky block was obtained. Conclusion of the Production contract and Appendix No 7 concerning the prolongation of the exploration contract for 2 years are underway. The project has been submitted to the Ministry of Energy of Kazakhstan.

#### Karpovskiy Severnyi Block

The well SK-2 Orlovskaya has begun to be tested, hole target — 5250m, KMG EP has decided to deepen the well by 350m (depth — 5600m). As of 24.12, an actual bottom hole is 5459m. In 2014, 3D seismic work was conducted on the priority sites in the volume of 730 sq. km.

### *KMG International N.V.*

#### RomPetrol project

Exploration block Satu Mare is located in the south-eastern Romania. In 2014, RomPetrol's partners carried out 3D CMP fieldwork in the volume of 180 sq. km. On November 10, 2014 the drilling of the well 3700m deep started.

Focsani exploration block is located in the south-eastern Romania. In 2013, drilling of the well KAZ-1 on the structure Fetiaska started in 2012 was completed. The actual bottom hole is 4965 m. Bidding procedures for seismic exploration have been prepared to.

### *JSC «Mangistaumunaygas»*

#### Alatyube current projects

Drilling of appraisal-development well Alatyube No 40 has been completed (hole target is 4100 m).

#### Ayrantakyr current projects

Drilling of appraisal-development well Ayrantakyr has been completed (hole target is 2 500 m)..





### *LLP «KazakhOil Aktobe»*

#### Kozhasai field

Recalculation of the reserves of oil, gas, condensate and associated components and Assessment of oil recovery «Estimation of reserves in the field Kozhasai» is carried out. In connection with new data a new agreement on recalculation of reserves as of 01.07.2013 was concluded – No 20 TDO1 Decree13 of September 2, 2013. Completion of work – November 2014, the report is under consideration by the experts of the State Reserves Committee of Kazakhstan.

#### Alibekmola field

Recalculation of reserves of oil, gas, condensate and associated components and Assessment of oil recovery in the field Alibekmola are carried out. In 2014 the contract with JSC «NIPIneftegas» was terminated and a new contract with LLP Research Institute «CaspiMunaygas» was concluded with the inclusion of the volume of work for additional reinterpretation of KT-I and MKT horizons. Contract No 29 TDO1 Decree14-177 / DGR with LLP «CaspiMunaygas» was signed on July 18, 2014, completion date – August 2015. The work is underway.

### *LLP «KazakhturkMunay»*

In 2014, 3D CDP seismic exploration work was completed and seismic data in the fields of EastSaztobe, North and South-Eastern Saztobe in the volume of 99 sq.km were processed. Data interpretation is underway.

### *JSC «KazTransGas»*

#### Amangeldi project

On the field of Amangeldy gas and condensate production is underway in accordance with the «Analysis of development in Amangeldy gas-condensate field 2003–2011» approved by the Central Commission for Exploration and Development of mineral resources of the Ministry of Oil and Gas of the Republic of Kazakhstan (CCRD) (Minutes No. 30 dated December 12, 2012) Also, the Project of commercial-testing production of the field Zharkum was approved by CCRD's Minutes No. 43/11 dated December 12, 2013.



The draft addendum to the appraisal project on the field Airakty, to the appraisal project on the structure Koskuduk, to the exploration project on the structure Sultankuduk and the project on the structure Maldybay were approved by the CCRD on July 11, 2014 (Minutes No49/31, 49/32, 49/33 and 49/34 accordingly). To the present moment the works on development of the commercial-testing development of the field Airakty and of «The updated draft of production processing of the gas and condensate field Amangeldy» are carried on.

# Oil and gas production



## Oil Production

The consolidated uplift of oil and gas-condensate in the JSC NC «KazMunayGas» group of companies amounted to 22,490 thousand tons in 2014, with the plan of 2 290 thousand tons (in excess of 200 thousand tons) or 101 % of the plan. As compared to 2013, in 2014 the consolidated uplift of oil and condensate of the companies taking into account the interest of

JSC NC «KazMunayGas» decreased by 140 thousand tons, or 0,6 %, mainly owing to reduction of the planned indicators stipulated by deliverables.

A share of JSC NC «KazMunayGas» in the oil and condensate production accounted to 27.8% in the republic as a whole. In 2014, a total of 80, 8 mn tons of oil were produced in Kazakhstan.

### *thsd tons Oil and Gas Condensate Production in Companies Taking into Account the Interest of JSC NC «KazMunayGas»*

<i>Name</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
KazMunayGas Exploration Production	8,160	8,058	7,776	7,911	8,780	8,978	9,486	9,548	9,551
KazTransGas (Amangeldy Gas)	21	22	21	22	24	26	26	26	-
Kazakhoil-Aktobe (50%)	419	575	626	570	488	468	380	435	509
Kazakhturkmunai (51%)	140	120	119	118	116	113	111	129	163
PetroKazakhstan (33%)	1,612	1,759	1,845	1,951	1,999	2,077	2,109	2,238	-
Kazgermunai (50%)	1,500	1,554	1,562	1,500	1,551	1,601	1,570	1,527	-
Karazhanbasmunai (50%)	1,066	1,026	1,019	990	970	933	914	-	-
Tengizchevroil (20%)	5,336	5,421	4,842	5,168	5,183	4,505	3,455	2,786	2,664
MangistauMunaiGaz (50%)	3,137	3,038	2,960	2,875	2,860	-	-	-	-
Karachaganak Petroleum Operating b.v. (10%)	-	1,049	619	-	-	-	-	-	-
KMG Kashagan b.v.North Caspian Operating Company (16.88%)	-	8	-	-	-	-	-	-	-
<b>Total</b>	<b>22,490</b>	<b>22,630</b>	<b>21,390</b>	<b>21,105</b>	<b>21,971</b>	<b>18,701</b>	<b>18,051</b>	<b>16,689</b>	<b>12,887</b>



## Gas production

In 2014 the consolidated production of natural and associated gas in the KazMunayGas group of companies amounted to 7,025 Mm<sup>3</sup> with the plan being 6,761 Mm<sup>3</sup> (+ 264 Mm<sup>3</sup>) or 104% of the plan. As com-

pared to 20123, the consolidated production of natural and associated gas in the JSC NC "KazMunayGas" group of companies in 2014 increased by 101 Mm<sup>3</sup> or 1.5%.

Name	<u>Mm<sup>3</sup></u>			<i>Gas production in the entities taking into account the participatory interest of JSC NC «KazMunayGas»</i>					
	2014	2013	2012	2011	2010	2009	2008	2007	2006
KazMunayGas Exploration Production	782	797	770	844	890	932	1018	1098	1181
Kazgermunai	251	260	258	259	258	260	262	276	118
Tengizchevroil	2,909	2,910	2,539	2,704	2,724	2,338	1,798	1,445	1,382
Kazakhoil-Aktobe	265	283	183	150	141	136	107	140	224
MangistauMunaiGaz	311	263	271	256	227		-	-	-
Karachaganak Petroleum Operating b.v.	1,825	1,753	429						
Others	682	658	1,078	637	672	666	601	573	319
TOTAL	7,025	6,924	5,528	4,850	4,912	4,332	3,786	3,532	3,224



As of the current date the production volume from the date of operation of the field Amangeldy was 3,542.82 Mm<sup>3</sup> of gas and 270,113 tons of condensate.

To provide the consumers of South Kazakhstan with gas and ensure the energy security on December 12, 2000 following the results of investment projects competition, KazTransGas JSC signed a Contract No 611 (hereinafter — the Contract) with the Republic of Kazakhstan on Combined Exploration and Production of Hydrocarbon Raw Materials at the Amangeldy Oil Field, which includes the fields Amangeldy, North Utcharal, Utcharal — Kempirtube, Anabay, Airakty, Zharkum

and Kumyrlı in the territory of Zhambyl oblast via its subsidiary Amangeldy Gas LLP.

In August 2012 the Contract was sold to the subsidiary — «Amangeldy Gas» LLP. Under the Contract, commercial development of Amangeldy field and pilot production of Zharkum field are being conducted, besides, within the Contract territory of the Amangeldy group of fields a number of geological works are being conducted including seismic works, calculation of reserves, development of projects for exploration works and construction of operating wells, construction and testing of prospecting and appraisal wells.

### *Natural gas and condensate production at Amangeldy field*

Description	2014	2013	2012	2011	2010	2009	2008	2007	2006
Gas, Mm <sup>3</sup>	328	321.8	324.1	326.5	344.1	354.2	338.3	280.0	279.7
Gas condensate, thsd tons	20.7	21.8	21.3	22.0	24.1	26.0	26.2	26.2	24.6

## Participation in Major Oil and Gas Projects

### Tengiz Project

The Tengiz field discovered in 1979 is one of the largest in the world.

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

TCO's core business is exploration, production and sales of hydrocarbons from the Tengiz and Korolevskoye fields in Atyrau oblast.

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

### Total production by TCO

	2014	2013	2012	2011	2010	2009	2008	2007	2006
Oil production, thousand tons	26,679	27,105	24,212	25,839	25,912	22,526	17,274	13,935	13,319
Gas production, Mm <sup>3</sup>	14,544	14,550	12,698	13,522	13,620	11,691	8,977	7,254	6,910

The actual oil production of TCO in 2014 made up 26,679 thsd tons of the planned 26,221 thsd tons, which exceeds the planned target by 458 thsd tons. The TCO oil production schedule for 2015 makes up 26,704 thsd tons. In total, for the period from 01.01.1993 till 01.01.2015, TCO produced 308,8 mn tons of oil. Capital expenditure volume for the period made up \$21.75 bn.

From the day of establishment till December 2014 inclusively, TCO paid to the state budget of the RK about \$72.7 bn in the form of taxes and obligatory payments. By the results of 2014, TCO provided record payments into the state budget of the RK in the amount of \$11.2 bn due to increased royalty payments and income taxes. With the onset of the conditions of the article 7 (K) of the Project Agreement (receiving of 25% annual internal revenue rate by the company «Chevron»), in the 4th quarter of 2014 there was a switching of the TCO additional royalty rate from 5% to 15%.

By the results of the TCO production and financial activity, from the day of establishment till December 2014 inclusively, the total amount of dividend distribution to the TCO Co-venturers (net of withholding tax at source) made up \$47.3 bn, including the share

of «Chevron» of \$23.6 bn, «ExxonMobil» — \$11.8 bn, KMG — \$9.5 bn, «LukArco B.V.» — \$2.4 bn. In 2014, TCO distributed dividends to the Co-venturers (net of withholding tax at source) in the amount of \$4.4 bn, of which the share of KMG is \$0.9 bn.

At the moment, TCO plans to further develop the production within the large-scale Wellhead Pressure Management Project / Future Growth Project (WPMP/FGP).

Within WPMP, it is planned to construct new well-stream gathering system, pressure build-up facilities, infrastructural and auxiliary facilities. WPMP realization is necessary to maintain the current level of oil refining at the existing plants — Complex Technological Lines (KTL) and Second Generation Plant (SGP), because, toward 2021–2022, the wellhead pressure is forecast to decline below the required minimum process pressure level for the oil supply to the input of KTL and SGP (70 atmospheres).

The framework of FGP includes the construction of a new oil refinery, its capacity being 12 Mtpa, and sour gas reinjection facilities, their capacity being 9.4 bn m<sup>3</sup> per year at the field Tengiz. In addition, it is planned to construct blast-holes and to drill wells. FGP implementation shall allow bringing the annual

oil production by TCO from 26.5 mn tons to 38.6 mn tons.

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

Within WPMP/FGP, it is planned to create over 20 thousand working places in Kazakhstan, to take measures for personnel education and training, and to create over 500 working places when maintaining new WPMP/FGP facilities.

In November 2014, within the WPMP/FGP project, Front End Engineering Design (FEED) was completed, and then it was planned to take Final Investment Decision (FID).

#### North-Caspian Project

Production Sharing Agreement for the North Caspian was signed on November 18, 1997. The Parties to this Agreement were the following companies: JSC NC «KazMunayGas» — 16.88%, ENI, Total, ExxonMobil, Shell — 16.81% each, China National Petroleum Corporation — 8.33%, Inpex — 7.56%.

According to the operating model, since January 22, 2009, the duties of the North-Caspian Project Operator (NCP) are performed by the «North Caspian Operating Company», acting on behalf of the Contracting Companies PSA NC. Currently, the Operator and the Contracting Companies perform the works on changing the existing operating model and creating single operator within NCP; the works are planned to be completed in April 2015.

The following fields are situated in the license area of the PSA NC: Kashagan, Kalamkas-more, Aktoty, Kayran and Southwest Kashagan.

The Kashagan field, one of the largest and most complex offshore fields discovered today, is a single hydrocarbon deposit with geological reserves, estimated at 4.6 bn tons and covers an area of about 820 km<sup>2</sup>. The Kashagan field is underway of the Pilot Development Planning (PDP).

Overall progress of works at the facilities of the PDP, as of December 2014, has made up 96.45% of the planned 97.15%. During 2014, commissioning activities at the installations on the Technological line 2 of the offshore complex, excavation and installation activities of West Eskene Railroad Complex Project, activities on design, procurement and fabrication of topside structures of the drilling centers EPC-2, EPC-3 and EPC-4 of the offshore complex, as well as the construction of operational wells at these drilling centers were carried out. Commissioning activities at the Compressor units on sour gas injection (Modules 1 and 2) of the offshore complex and at the facilities of the Stage 3 onshore complex were completed.

Due to detection of leaks in the gas pipeline of the Kashagan field, during 2014, installations of the offshore complex and the plant «Bolashak» were in standby mode. Operator of the NCP performed inline inspection and external inspection work of pipelines, carried out measures to determine the scope and schedule of the required maintenance works.

Based on the results of the leak cause analysis, evaluation of the pipeline consistency and associated risks, Consortium Partners decided to replace existing pipelines in full. By the results of the study of pipeline reconstruction options during the construction of new pipelines, the Co-venturers decided to use pipes with a coating of corrosion resistant alloy X60 SAWL CRA Clad. Works on the placement of orders at the manufacturers of these pipes were done, negotiations with the contractor as to the construction of pipelines were held, barge for works in shallow water areas of the Caspian Sea was modified, and the study of the welding works technology was performed. As of December 31, 2014, the status of production facilities of the Kashagan field has not changed, construction works in order to prepare sites for pipe storage and to build access roads, front end engineering and design works of pipeline reconstruction and measures to obtain permits are currently in progress.

At the fields Kalamkas-more, Aktoty, Kayran and Southwest Kashagan studies and research works to define the concept of their development are also in progress.





### Karachaganak Project

The Karachaganak field was discovered in 1979. Karachaganak project is realized as the part of the Final Production Sharing Agreement (FPSA). The agreement was signed on November 18, 1997 for a period of 40 years and entered into force on 27 January 1998.

The share interest is distributed between contracting companies as follows: British Gas (29.25%), Agip (29.25%), Chevron (18%), Lukoil (13.5%) and JSC NC "KazMunayGas" - 10%.

Currently, Commercial Exploitation Stage 2M is implemented at the Karachaganak field, under which about 11 mn tons of liquid HC and about 17 bcm of gas are produced annually. The main objective of Stage 2M is to maintain the shelf for liquid HC production at the level of about 11 Mtpa by drilling new wells to increase gas capacities and to upgrade technological units for HC preparation.

The actual production in 2014 was as follows:

gas - 18.3 bcm (of which the injection - 8.8 bcm), (105% of the plan);

liquid HC - 11 mn tons (100.3% of the plan).

The planned production volume of liquid HC (stabilized) for 2015 has made up 11.4 mn tons, of gas - 18.1 bcm. As of 01.01.2015, with the commencement of the FPSA, 134 mn tons of liquid HC and 188 bcm of gas were produced at the field. Since 2003, gas re-injection has made up 68 bcm.

After completion of the Stage 2M Projects, in order to further support the shelf of liquid HC production, it is planned to perform the Karachaganak Enhancement Project (KEP). KEP performance is expected to be done in several stages to ensure efficient implementation of the project. The concept of the KEP first phase (KEP-1) is being developed together with Genesis company, by the results of this work; the estimation error will be +/- 25%.

KEP-1 provides for drilling and maintenance overhaul of about 53 wells, constructing facilities for gas preparation (KPK-2) and installation of 3 additional compressors to increase gas re-injection volume, construction of the required auxiliary facilities, facilities for fuel gas production.

Decision on KEP next stages will be made by the results of additional studies and external factors (including effectiveness and validity of costs, current state of the global and domestic economy of Kazakhstan, state of the hydrocarbon sales market, obligations to deliver gas to OGPP, settlement of the

question on construction of the Karachaganak GPP, etc.).

In early September 2014, the Operator submitted to the Competent authority the amendment to the Karachaganak Field Development Plan (FDP), taking into account KEP (being under consideration).

Key dates in accordance with the schedule from the amendment to the FDP:

- Concept selection - 2015;
- Front-end engineering and design (FEED) - 2015-2016;
- Detail design engineering - 2017;
- Receiving approval from the RK / Decisions on funding - 2019;
- Launching the project - 2022.





*Overall production of liquid HC  
(stabilized) at the Karachaganak field*

	2014	2013	2012	2011	2010	2009	2008	2007
Production of stabilized liquid hydrocarbons, thsd tons	11,000	10,492	11,013	10,854	10,247	10,694	10,449	10,429
Gas production, Mm <sup>3</sup>	18,300	17,530	17,519	16,868	15,009	15,564	15,004	14,233
of which to re-inject, Mm <sup>3</sup>	8,800	8,570	8,666	8,129	6,437	6,589	6,372	6,016



# Oil and gas transportation



## *Oil transportation by main oil pipelines*

The transportation of oil by main oil pipelines is carried out by KazTransOil JSC subsidiary.

Furthermore, JSC NC «KazMunayGas» owns a share capital in the Caspian Pipeline Consortium oil pipeline amounting to 20.75%, including the 19% of the government of the RK and the 1.75% of KPV (Kazakhstan Pipeline Ventures).

Today the major functioning export routes of Kazakhstan oil are:

- the Atyrau-Samara pipeline (KazTransOil JSC — 100%);

- the CPC pipeline (JSC NC «KazMunayGas» — 20.75%);
- the Atasu-Alashankou pipeline (KazTransOil JSC — 50%);
- Aktau marine terminal.

The largest volume of Kazakhstan oil in 2014 was exported by the CPC (35.2 mln tons) and Atyrau-Samara oil pipeline (14.6 mln tons). 11.8 mln tons of oil were transported towards China. Sea export amounted to 5.5 mn tons.

## *The development of oil export delivery destinations*

The diversification of Kazakhstan oil transportation destinations plays a special role for KMG, as it gives the opportunity to choose the most cost-efficient routes of hydrocarbon resources transportation to global markets and guarantees the provision of energy safety.

### *Atyrau-Samara oil pipeline*

The Atyrau-Samara oil pipeline is one of the largest export routes existing, where Kazakhstan oil is further transported by the Transneft system to the ports of Primorsk, Ust-Luga and Novorossiysk.

Based on the results of 2014, the volume of oil transportation by the Atyrau-Samara oil pipeline amounted to some 14.6 mn tons.

### *Caspian Pipeline Consortium*

The CPC pipeline with a total length of 1,510 km (452 km of these being the Kazakhstan section) unites Tengiz oil field in Kazakhstan and Yuzhnaya Ozereevka terminal on the Black sea (in the vicinity of Novorossiysk port). The initial construction project of the CPC oil pipeline with a capacity of 28.2 Mtpa was commissioned in 2001.

In 2014, 39.9 mn tons of oil, including 35.2 mn tons of Kazakhstan oil, were transported by the CPC oil pipeline.

The participants of the CPC project include: the government of the RF (Transneft Inc. JSC) — 24%, the government of the RK (JSC NC «KazMunayGas») — 19%, CTC Company (the RF) -7%, producer companies:

Chevron Caspian Pipeline Consortium Company — 15%, Lukarco B.V. (Lukarco) — 12.5%, Mobil Caspian Pipeline Company — 7.5%, Rosneft-Shell Caspian Ventures Limited — 7.5%, Eni International (N.A.) N.V. srl — 2%, BG Overseas Holdings Limited — 2%, Kazakhstan Pipeline Ventures LLC — 1.75% and Oryx Caspian Pipeline Ltd. — 1.75%.

Against the background of an increase in oil production volume in Tengiz oil field and the planned production start in Kashagan field, one of the topical issues of the CPC project is the increase of the oil pipeline's capacity.

On December 15, 2010, the shareholders of CPC unanimously made the final decision concerning the investment for the CPC Expansion Project, which implies a three-stage increase in the capacity of the CPC oil pipeline from 28.2 Mtpa to 67 Mtpa in 2016, including an increase to 52.5 Mtpa in the Kazakhstan section.

The CPC pipeline expansion project implies replacing 88 km of the pipeline within the territory of the RK, the reconstruction of the five existing OPSs (two within the territory of the RK and three in the RF), the construction of ten new OPSs (two in the RK and eight in the RF) and the construction of the third single-point mooring and six tanks for 100 thsd m<sup>3</sup> each at the marine terminal.

#### The Kazakhstan-China oil pipeline

At the moment the eastern export destination is developing most rapidly. JSC NC «KazMunayGas» and the Chinese National Oil Corporation are jointly working in the project of the Kazakhstan-China oil pipeline construction, whose implementation allowed making the delivery of raw hydrocarbons from the fields of West Kazakhstan to the prospective market of China possible. The construction project of the Kazakhstan-China oil pipeline is first and foremost aimed at the diversification of oil transportation destinations to implement the policy of creating a multi-vector hydrocarbon transportation system of the independent Kazakhstan.

Two stages are envisaged in the construction of the Kazakhstan-China oil pipeline. The first stage was the implementation of the project of the Atasu — Alashankou oil pipeline, whose construction had been conducted in accordance with Framework Agreement between the government of the Republic of Kazakhstan and the government of the People's Republic of China on the development of comprehensive cooperation in the field of oil and gas (Beijing, May 17, 2004).

With the purpose of constructing the oil pipeline, KazTransOil JSC and the Chinese National Oil and Gas

Prospecting and Development Corporation (a subsidiary of the CNOC) created Kazakhstan-China Pipeline LLP (KCP LLP) on a parity basis.

The length of the run of the Atasu-Alashankou oil pipeline is 963 km. The diameter of the pipeline is 813 mm. Its capacity at the first stage is 10 Mtpa with a further expansion to 20 Mtpa. The oil pipeline runs across the territory of three regions: Karaganda, East Kazakhstan and Almaty; some 2 km run to the destination of Alashankou over the territory of the PRC. It was funded by means of debt financing against the guarantees of the Chinese party. The transportation of oil by the Atasu-Alashankou oil pipeline started in 2006.

The implementation of the construction project of the Kenkiyak-Kumkol oil pipeline with a capacity of 10 mn tons of oil per year is the first phase of the 2nd stage of the Kazakhstan-China oil pipeline construction project and was carried out in accordance with the Agreement on the Basic Principles of the Second Stage Construction of the Kazakhstan-China Oil Pipeline between the Chinese National Oil and Gas Corporation and Joint Stock Company «National Company «KazMunayGas» (the Agreement) of December 20, 2006, on a parity basis with the Chinese party using the resources of KCP LLP.

The Kenkiyak-Kumkol pipeline with a length of 794 km and a diameter of 813 mm runs across the territory of Aktobe, Kyzylorda and Karaganda regions of the Republic of Kazakhstan. The capacity of the first phase of the oil pipeline amounts to 10 Mtpa with the possibility of an expansion to 20 Mtpa. The project was funded by means of debt financing against the guarantees of the Chinese party. The transportation of oil by the Kenkiyak-Kumkol oil pipeline started in October 2009.

The 2nd phase of the second stage implies a stage-by-stage increase in the capacity of the Kazakhstan-China transport system in all sections from Atyrau to Alashankou to 20 CaTRos in line with the growth of the need for export facilities and the internal market. The 2nd phase of the second stage of the Kazakhstan-China oil pipeline includes:

1. The expansion of the capacity of the Atasu-Alashankou oil pipeline to 20 Mtpa— completed in December 2013.
2. The reversal and expansion of the Kenkiyak-Atyrau oil pipeline to 12 Mtpa.
3. The expansion of the Kenkiyak-Kumkol oil pipeline to 20 Mtpa.
4. The reconstruction and expansion of the Kumkol-Atasu pipeline section.

Based on the results of 2014, 11.8 mn tons of oil were transported towards China.



### *Oil transportation by sea*

Today the major functioning routes of oil transportation by sea are:

- Aktau-Baku (the Caspian Sea);
- Aktau-Makhachkala (the Caspian Sea);
- the routes from the ports of the Black and the Mediterranean Seas.

In 2014, the oil transportation volume of Kazmortransflot NSSC LLP amounted to 9.6 mn tons, including 4.6 mn tons via Aktau port, 3.4 mn tons and 1.5 mn tons of oil on the Black and the Mediterranean seas respectively.

### *Transportation and delivery of natural gas*

JSC “KazTransGas” enters into the composition of JSC “National Company “KazMunayGas” and controls the country’s main network of transporting pipelines with the length of over 17.7 thousand kilometers and annual designed throughput up to 190 bn cubic meters annually (in practice - up to 160 bcmpa).

Transit of natural gas from Turkmenistan and Uzbekistan to China and Russian Federation is carried out across Kazakhstan.



### *bn m<sup>3</sup> Main gas pipeline gas transportation volumes*

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

The volume of gas transportation via trunk gas pipelines of JSC “Intergas Central Asia” from 2006 to 2014 made up 981 bcm.

JSC “KazTransGas” (through its subsidiaries – JSC “KazTransGas Aimak” and JSC “KazTransGas Almaty”) supplies gas to the consumers of Zhambyl, South-Kazakhstan, Kyzylorda, West-Kazakhstan, Aktobe, Almaty, Kostanai, East-Kazakhstan (Zaisan),

Mangystau, Atyrau Provinces, and the city of Almaty. Zhambyl (partially), South-Kazakhstan, Kostanai, Almaty Provinces and the city of Almaty are supplied with imported natural gas, purchased from OJSC “Gazprom” and its affiliates under the Agreement on Counter-Delivery of gas as of 27 December 2006. The remaining regions are supplied with Kazakh gas.



### *Export gas pipelines projects*

#### Kazakhstan-China gas pipeline

The Kazakhstan-China Gas Pipeline construction project ensures transportation of the transit gas from Turkmenistan across the territories of Uzbekistan and Kazakhstan to PRC, increases the transit potential, allows diversifying export routes of the Kazakh gas, and improves the country's energy security.

Implementation of the project for construction of the Kazakhstan-China gas pipeline is conducted by special purpose vehicle Asian Gas Pipeline LLP (AGP LLP), established on parity basis by JSC «KazTransGas» and Trans-Asia Gas Pipeline Limited (CNPC's affiliate) on 15 February 2008.

On 9 July 2008 construction of the gas pipeline commenced, the first stage — linear part construction — was completed ahead of the work schedule, in record-setting time for the international practice.

The A line of the Kazakhstan-China trunk gas pipeline, 1,310 km in length was launched on 12 December 2009. In October, 2010 line 'B' of the Kazakhstan-China gas pipeline was brought on line. The gas pipeline's designed capacity of 30 bcmpa was reached in December, 2012.

In 2014 the linear part of C line of the Kazakhstan-China trunk gas pipeline with the production capacity up to 5 bcmpa was completed and approximately 1,895 mncm of natural gas transported.

#### Beineu-Bozoi-Shymkent gas pipeline

For the purpose of sustainable meeting of the requirements 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 being implemented.

The gas pipeline route runs across the territories of Mangistau, Aktobe, Kyzylorda and South-Kazakhstan Provinces and has the following technical specifications: Stage 1–2011–2014, the capacity of up to 2.5 bcmpa; stage 2–2014–2015, capacity of up to 10 bcmpa, length — 1,477 km, diameter — 1,067mm (in single-line version).

In order to implement the Project, the following was done during 2010–2013:

- Heads of Agreement on construction and operation of the Kazakhstan-China gas pipeline was signed during the official visit of Chairman of PRC Hu Jintao to Kazakhstan of 12 June 2010.
- On 18 January 2011, in order to implement the Project, a joint Kazakhstan-China project company — Beineu-Shymkent Gas Pipeline LLP — was established.
- The consortium of KING JSC and CPEEI design institutes completed works on adjustment of FS and DED, with obtainment of the corresponding positive opinions of the 'Gosekspertiza' RSE and approval in the Agency of the Republic of Kazakhstan for Construction, Housing and Utilities.
- Construction of the linear section of the gas pipeline on the Bozoi-Shymkent section has been underway since 17 July 2012.
- According to the State Acceptance Commission Act dated December 2, 2013 the first line of a linear part at Bozoi-Shymkent site with length of 1143 km and carrying capacity up to 2, 5 bcmpa was commissioned.

In 2014 the production capacity at the Bozoi-Shymkent Gas Pipeline reached 2,5 bcmpa and approximately 1,377 mncm of natural gas was transported.

# Refining



## Oil refining

*thousand tons*

*Oil Refining Volumes in the Refineries of the KazMunayGas Group*

<i>Name</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Atyrau Refinery	4,920	4,430	4,423	4,471	4,300	4,004	3,925	3,701	3,746
Shymkent Refinery	2,533	2,429	2,377	2,302	2,292	2,004	2,154	1,011 <sup>1</sup>	-
Petromidia Refinery	4,426	3,781	3,806	3,730	3,367	3,878	4,237	-	-
JSC PPCP	4,926	5,010	5,037	4,649	4,807	2,185	-	-	-
CaspiBitum	312	-	-	-	-	-	-	-	-
Total	17,117	15,650 <sup>2</sup>	15,643	15,152	14,766	12,071	10,316	4,712	3,746



<sup>1</sup> Consolidated figure - taking into account the 49.72% interest and the refining volume in the Shymkent Refinery over the period since the acquisition in July, 2007.

<sup>2</sup> Does not include 400 thousand tons of heavy cuts of RHC in the Petromidia Refinery.



### Atyrau Refinery

Atyrau Refinery (AR) was commissioned in 1945. The oil refining capacity is 5.0 mn tons annually.

99.49% of the interest in the AR are owned by JSC «KazMunayGas - Refining & Marketing».

In 2006 the first stage of the 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.

The refinery depth of AR in 2014 made up 62,77% which is by 3,01% higher than the indicator of 2013.

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

Today under the State Program of Accelerated Industrial and Innovative Development RoK, the Project of Reconstruction and Modernization of Atyrau Refinery is being implemented by two stages:

- Stage 1 – The «Construction of Aromatic Hydrocarbon Production Complex» Project – aimed at enhancement of ecological parameters of motor petrol owing to benzene and aromatic hydrocarbon extraction from the benzene fraction.

- Stage 2 – The “Construction of the Deep Conversion Complex” Project. This project is aimed at increase in efficiency of Atyrau Refinery up to 5, 5 Mtpa and will allow converting residual oil products into high quality motor fuels which meet the Euro 4 and Euro 5 ecological requirements and also enhancing the oil refinery yield.

### Shymkent Refinery

Shymkent Refinery was commissioned in 1985. Shymkent Refinery is controlled by LLP «PetroKazakhstan Oil Products», 49.73% of which are held by JSC «KazMunayGas – Refining & Marketing» since July, 2007. Shymkent Refinery was commissioned in 1985. Shymkent Refinery is controlled by LLP «PetroKazakhstan

Oil Products», 49.73% of which are held by JSC «KazMunayGas – Refining & Marketing» since July, 2007.

Currently, the refinery’s installed capacity is 5.25 Mtpa. PKOP accounted for 20.5 percent of Kazakhstan’ total oil refining volume in 2013.

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

Within the framework of executing the Program for Development of RoK Oil and Gas Sector, the project for reconstruction and modernization of the Shymkent Refinery is being implemented, the main

objectives of which are recovery of the designed oil distillation capacity to 6 Mtpa, improvement of the quality and environmental indexes of the Euro 4 and Euro 5 motor fuels, and increase in refinery yield.

#### Pavlodar PCP

Pavlodar PC Plant was commissioned in 1978.

The refinery's designed oil refining capacity is 6.0 mn tons annually.

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

100% of the shares are owned by JSC «KazMunayGas – Refining & Marketing».

In 2014 the PPCP refining yield accounted to 76,27% which is by 2,09% higher the indicator of 2013.

#### thousand tons      *Production of main oil products*

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

Within the framework of executing the State Program of Accelerated Industrial and Innovative Development of RK, the project for reconstruction and modernization of the Pavlodar PC Plant is being implemented, the main objectives of which are recovery of the

designed oil distillation capacity to 7 Mtpa, increasing the conversion ratio to 90%, improvement of the quality and environmental indexes of the Euro 4 and Euro 5 motor fuels.

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

Road Bitumen Production Plant was commissioned in the end 2013. The design oil refining capacity makes up 1,0 Mtpa.

50% of participatory share in CaspiBitum are owned by JSC «KazMunayGas – Refining and Marketing» (through JSC «Kazakhstan Petrochemical Industries»).

In August 2014 the plant reached design target values daily loading is 3 thsd tons.

#### thsd tons      *Production of basic oil products*

	2014
Road bitumen	153
Other products	450
Total	603

\* Aktau Plastics Plant

### *International activity in the oil refining sector*

In 2007, KMG acquired the controlling block of shares (75%) of The Rompetrol Group, a Romanian oil and gas company. In 2009, the remaining 25% of The Rompetrol Group were acquired. The acquisition of Rompetrol Group and the further significant investment in the reconstruction of the performance of the oil refining facilities, the development of logistics infrastructure and the expansion of the retail network let the Company gain the status of the “energy bridge” uniting the resources of Central Asia with the prospective markets of Europe. In 2014, the company’s name, Rompetrol, had to be changed, which was a prerequisite to strengthen the market positions of the group of companies under the KMG brand both within the country and for its successful entry into external markets. The creation of a unified brand will contribute to the recognition of the trademark of all the companies of the group and will be focused on the promotion of a unified national brand and the country on the whole. Thus, Rompetrol Group was renamed as KMG International.

As part of its joint activities with KMG International, KMG is interested in building a unified vertically integrated, international-level company that performs both oil production and refining, and drawing on the experience of KMG International in the European oil product market.

Currently, with over 7,000 employees in 15 countries, KMG International N.V. (previously Rompetrol

Group N.V.) is registered in the Netherlands with its headquarters in Bucharest (Romania), conducts its principal activities in Romania and the countries of the Black sea and Mediterranean areas. The group of companies under the unified brand of KMG International is occupied with oil refining, oil and oil product marketing. Additionally, it conducts activities within the field of hydrocarbon prospecting and renders industrial services within the field of well drilling and servicing, EPCM (engineering / procurement / construction management).

In Romania, KMG International owns the most advanced oil refinery in the country — Petromidia oil refinery, which is situated in Constanta county, by the Black sea. The capacity of Petromidia oil refinery is 5 Mtpa. Its strategic placement on the shore of the Black sea allows conducting fast oil delivery and oil product shipment, which makes Petromidia oil refinery an important regional node and KMG International — one of the largest regional players in the oil and oil product market.

In Europe, KMG International has over 1,100 points of fuel product sales in 6 countries, such as Romania, the Republic of Moldova, Bulgaria, Georgia, France and Spain, conducting their activities under Rompetrol and Dyneff brands. Through its subsidiaries Dyneff and KMG Trading AG in France, Spain, Switzerland and Singapore, KMG International also carries out trading transactions in international markets.





Petromidia oil refinery is the key asset within KMG International, the largest and most modern oil refinery in Romania, situated on the shore of the Black sea, 225 km off Bucharest and 20 km off the largest port in Romania — the port of Constanta. The oil refining capacity of the oil refinery is 5 Mtpa, which is approximately 40% of all oil refining capacities in the country. The refinery, built in 1974–1979, modernized in the 90s and 2005, is capable of refining the high-sulfur and heavy Urals oils today. The output of products according to the 2009 regulations of the European Union (Euro-

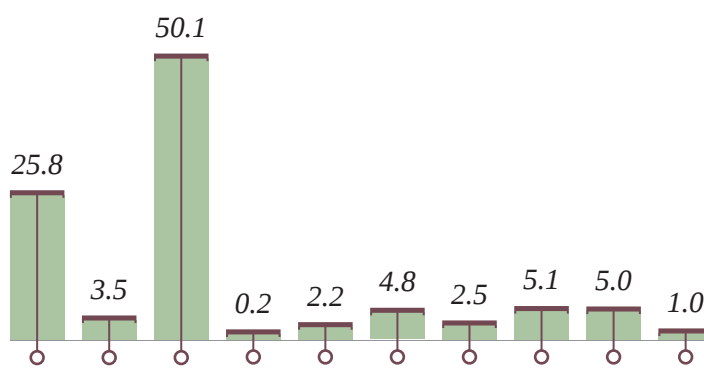
5 standard) has been mastered in the refinery; 100% of the diesel fuel and auto-petrol produced comply with the Euro-5 regulations. The Nelson complexity index was increased from 8.3 to 10.5 after the modernization.

The modernization of Petromidia oil refinery completed in 2013 provides the basis for the next stage of the European strategy of KazMunayGas owing to significant technology enhancements and the improvement of the refinery's economy.

%

*Structure of final products. %*

Gasoline	25.8	Gas	4.8
Jet fuel	3.5	Propylene	2.5
Diesel	50.1	LPG	5.1
VGO	0.2	Coke	5.0
Heavy oil	2.2	Sulfur	1.0



Vega refinery is a special-purpose refinery, situated on an area of 70 ha in the vicinity of Bucharest and Ploiesti. The refinery was built in 1905 and modernized in the 1970s. Its design refinement capacity is 500 Ktpa. Vega oil refinery specializes in refining alternative types of raw material (naphtha, heavy hydrocarbon fractions, mazut). The refinery's technologies allow producing a wide range of tailored solvents, various bitumen and other special-purpose products. In 2014, the refining volume amounted to 309 thsd tons. The products released are used in the chemical, petrochemical, rubber, textile and footwear industry.

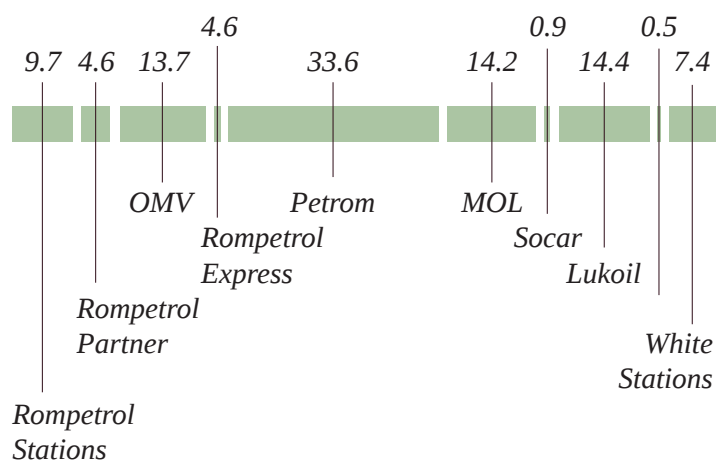
The petrochemical complex (PCC) is integrated with Petromidia oil refinery. The active manufacturing facilities of the complex with a nominal capacity of 220 thsd tons produce polypropylene, HDPE (high density polyethylene) and LDPE (low density polyethylene) of various grades. The source of raw material is the propylene produced in Petromidia oil refinery and purchased ethylene. The processing volume of the PCC in 2014 amounted to 180.1 thsd tons.



<i>Key figures</i>	<i>Units</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Downstream Romania	thsd tons	1,653	1,568	1,426	1,486	1,398
Market share	%	27.4%	27%	24%	25%	24%
Romania GAS	thsd tons	282	260	289	274	263
Market share	%	39%	37%	41%	34%	41%
Georgia	thsd tons	206	158	145	151	140
Market share	%	23.43%	19%	15%	18%	18%
Moldova	thsd tons	188	128	76	58	56
Market share	%	29%	20%	10%	7.30%	7.20%
Bulgaria	thsd tons	206	156	165	206	180
Market share	%	8.75%	6%	6%	6%	5%
France and Spain	thsd tons	2,026	2,101	1,936	2,082	2,208
Market share France	%	3.14%	3.10%	3.00%	3.20%	3.30%
Market share Spain	%	1.21%	1.40%	1.00%	1.00%	1.10%
Ukraine	thsd tons	132	242	139	204	96
Market share	%	1.7%	1.4%	1.4%	2.00%	1.00%
KMG Trading						
Total volume of sales including	thsd tons	14,713	11,153	10,439	6,307	5,507
Oil for Petromidia	thsd tons	4,857	3,931	3,869	3,631	3,358
Petrol and diesel from the refinery for third parties	thsd tons	1,279	875	848	682	666
Handling third party volumes	thsd tons	3,119	323	1,812	350	252
Sale of oil to third parties	thsd tons	4,906	5,496	2,766	279	311
Other raw materials for Petromidia oil refinery	thsd tons	77	83	88	87	35
Oil products for the subsidiaries and affiliates of the neighboring countries (from Petromidia)	thsd tons	475	445	402	479	383
Oil products for Dineff	thsd tons	0	0	654	799	502



### %    *The retail market of Romania*



The retail sales market of Romania is extremely interesting owing to the large sales volume of filling stations as compared with other markets of the Black sea region and owing to its substantial margin. The economic growth and fast-changing infrastructure open opportunities for fast and profitable expansion. The strategy of KMG International consists in strengthening the position of the company as a large

player, one of the top three in the Black sea region, through the organic development of all distribution channels including the further development of its own network of filling stations. Strengthening its positions around Bucharest is in the center of this strategy. Furthermore, the commercial activities of KMG International to spread liquefied petroleum gas will be expanded.

### *Activity of KMG International in Kazakhstan*

«Rompelrol Well Services» provides technical support and supervises the current activity in Romania and abroad. The Kazakhstan branch was founded in 2003 and at the moment carries out works in the west of the country. Production bases of the company are completely equipped; works are carried out by the highly skilled personnel. The portfolio of company services includes: primary cementation, repair cementation and pump works.

«Rominserv» is a general contractor of KMG and combines services in industrial service, project management, technical and technological development:

- in August, 2011 by the company two projects at «Atyrau» Oil Refinery Plant were finished: recon-

struction and modernization of the CDU installation and reconstruction and modernization of installation of the slowed-down coking;

- On July 30, 2013 «Pavlodar Petrochemical Plant» LLP (PPCP) declared transition of the project of reconstruction of PPCP to a new stage of realization after signing of the contract for development of working documentation, implementation of purchases of the equipment and materials, production of installation and construction works (EPC-contract) with the Romanian company SC Rominserv SRL. At the moment the project of modernization of PPCP is at a realization stage. Performance of all works directed on achievement of the guaranteed operational indicators of the project is provided by the signed contract.

### *Investment projects to develop the refineries*

In compliance with the State Program for industrial and innovative development of the RoK, investment projects for development and modernization are being implemented in all three refineries of the republic.

Modernization of the refineries will make it possible to replace the obsolete and worn-out equipment, improve the quality of oil products meeting the K4 and K5 standards, increase the secondary processes efficiency and oil refining depth, and reduce the environmental impact.

The result of the reconstruction and modernization is that the crude refining capacity will amount to 18.5 Mtpa. Base products for petrochemistry — benzene, paraxylene — will emerge.

Modernization and reconstruction of the Atyrau Refinery

An EPC-contract on a turnkey basis on the project "Construction of Aromatics Production Complex"

was made with Sinopec Engineering (China) on 29 October 2009.

The Project goal is:

- to increase sustainable capacity of the plant up to 5 Mtpa
- to produce engine fuels meeting the K3 standard
- to produce the high value-added products — benzene and paraxenol.

Under the EPC contract in 2014 development of engineering documentation was completed, process equipment was delivered and assembled industrial pipeline connection was performed, construction and assembly works are 96 per cent complete, instrumental cable and power cable routing and termination, heat installation works are near completion. Scheduled time of commissioning of the Complex is Q32015.

On the "Deeper Oil Conversion Complex Construction" project a turn-key EPC contract was made on



29 December 2011 with the consortium of contractors: Sinopec Engineering/Marubeni/JSC OGCC KazStroyService (PRC/Japan/Kazakhstan).

The project goal is:

- to improve engine fuels quality to meet the K4 and K5 standards;
- to increase the refinery's capacity from 5.0 to 5.5 Mtpa;
- to increase the second processes efficiency and oil refining depth.

In 2014 the engineering documentation was developed and general construction works were performed. Driving of concrete piles, casting concrete, assembly of equipment, underground pipelines and reservoir walls and bottom were carried out. The orders for delivery of the LLI large-size equipment have been placed, 892 units out of 1344, 22 units have been delivered, 14 have been assembled... Scheduled project implementation term – 2016.

Modernization and reconstruction of the PKOP refinery (Shymkent Refinery)

Italian Technip S.p.A., jointly with the EC "Kazgipronefttrans" LLP, has prepared the FS for the Shymkent Refinery reconstruction and modernization project. Design-and-estimate documentation of the sulfur recovery, diesel hydrotreating and isomerization units as well as documentation of the main stage was developed

The project goal is:

- to increase the crude capacity up to 6 Mtpa;
- to produce engine fuels meeting the K4 and K5 standards;
- to increase the oil refining depth.

EPC contract for turn-key construction of the isomerization units was signed on 30 January 2014.

Construction and assembly works, order and delivery of the main equipment are underway, on stage 1, planned to be completed by 2016.

Design-and-estimate documentation was completed for the purposes of stage 2 of the project. The EPC-contract for the principal stage was signed on January 16, 2015. Construction site preparation and casting of foundation are being performed.

Project implementation period: 2011–2016.

Modernization and reconstruction of the Pavlodar PC Plant

EPC contract for construction was signed with Rominserv (Romania) on 30 July 2013.

The Project goal is:

- to increase the crude capacity up to 7 Mtpa
  - to ensure production of engine fuels meeting K4 and K5 standards;
  - to make the Kazakhstan oil refining possible
- 30 July 2014 — development of the design and estimate documentation according to the Western standards was complete

29 August 2014 — favorable conclusion obtained from RSE "Gosekspertisa" (Government expertise agency) on the amended feasibility study; herewith it is planned to implement the project in three start-up complexes. Orders for manufacturing and delivery of 98 per cent of the equipment are placed for the units of Start-up complex 1.

Arrangement of the worksite, coil stabilizations works, foundation construction for the columns of the isomerization units of Start-up complex 1 was completed.

Project implementation period: 2011–2016.

### *Operations in gas refining*

Under the Agreement between LLP "KazRosGas" and LLC "GasProm Dobycha Orenburg", processing of sour gas from the Karachaganak field, in the amount of about 8 bcmpa, is carried out by the Orenburg Gas Processing Plant. Commercial gas is transferred to the domestic market of Kazakhstan and for exports as well.

Owned by OJSC "Gazprom", the Orenburg Gas-Processing Plant has been created on the basis of the Orenburg gas-condensate field, discovered in 1966. The main conversion products are stripped gas, stable condensate and stabilized oil, technical sulfur, broad fraction of light hydrocarbons, odorizer, liquefied gas, and fuel gas.

# Marketing and sales



## Oil and oil products

JSC «KazMunayGas — Refining & Marketing» sells a wide range of oil products, including high quality gasolines, diesel and jet fuel and present them to the domestic market.

Retail sales of oil products on the domestic market of Kazakhstan are made through the network of «KazMunayGas» service stations, located in the cities of Astana, Almaty, and in all regions of Kazakhstan. Доля Компании на розничном рынке нефтепродуктов The company's share in the retail oil products market of Kazakhstan as at 01 January, 2015 amounts to 16,7 per cent. By 2018 it is planned to expand market share by 20 per cent, and by 2020 — by 32 per cent. Herewith it is scheduled to increase the sales volume to the level of 2000 thous. tons in 2018. These goals are to be reached by means of implementation of the investment project «Purchase of 40 gas stations and 18 gasoline tank trucks» and introduction of a new business-model to the retail network.

The expansion Programme of the retail network is implemented as through construction of new gas stations so by means of acquisition and re-equipment of existing gas stations. The best global experience is used; module structures, up-to-date fuel dispensing units and advanced software are installed during the construction of the KMG's stations. As at 31 December 2014 324 gas stations are owned by KMG RM, out of them 306 gas stations are private, 3 are rented, 3 stations are combined gas stations and LG filling stations 12 LG filling stations, and 11 bulk plants, 1 NGV refill station and 2 camping sites.

Within the framework of the Project «Purchase of 40 gas stations and 18 gasoline tank trucks» 10 gasoline tank trucks were purchased in 2013, 13 gas stations and 8 gasoline tank trucks in 2014. The plans are to increase KMG-RM's retail network to 350 gas stations by 2018.

KMG as a national oil and oil products operator makes shipments of socially important oil products at reduced prices according to the schedule of the Ministry of energy of the RoK. Annually, during the spring sowing and harvesting works, supply of POLs at reduced prices is made to agricultural producers, and during the heating time, JSC «KazMunayGas — Refining & Marketing» provides fuel oil for heating social and industrial objects and institutes of the RoK. 137 thousand tons of diesel were supplied for the needs of the agricultural industry and 45 thousand tons of fuel oil for heating in 2014.

As part of one of the strategic goals of its activity in the sector of oil products marketing, a competitive trade in the market of jet fuel supplies for air transportation in the RoK is being developed — JSC «KMG AERO», established in 2014. As of the year end 2014 7 contracts were entered with the airport terminals of the RoK, 4 contracts with the air companies for «into plane fueling» sales. Besides, KMG has plans for development of a competent enterprise at the market of bunkering in the water area of the Caspian Sea.





## Gas

Marketing of natural gas on the domestic market is carried out by subsidiaries of JSC «KazTransGas» — JSC «KazTransGas Aimak» and JSC «KazTransGas-Almaty». The functions of these companies include wholesale purchase of natural gas for the domestic market, gas transportation through regional gas-distributing networks, operation of gas-distributing facilities and networks and sales of natural gas on the domestic market.

Gas exports to external markets and sales of gas for Kazakhstan's domestic market requirements, including swap operations, are carried out by LLP «KazRosGas», established on a parity basis by JSC NC «KazMunayGas» and OJSC «Gazprom» in 2002. LLP «KazRosGas» receives volumes for sale under the «15 Years Karachaganak Field Sour Gas Purchase Agreement».

Gas supply of the South regions of the RoK and Kostanay region is performed within the swap operation with JSC «GasProm», by means of Uzbek gas resources supplied through the pipelines «BGR-TBA» and «Gazli-Shymkent», Uzbek and/or Turkmenian gas through the main gas pipeline «TurkmenistanOChina», Kazakhstan gas through the gas pipeline «Bozoi-Shymkent», and Russian gas through the gas pipeline «Bozoi-Shymkent».

Gas supply of the North regions of Kazakhstan is carried out by means of Kazakhstan subsoil users' gas reserves.

Mm<sup>3</sup>

### Natural gas sales

	2014	2013	2012	2011	2010
Domestic market	11,140	9,351	10,495	8,284	7,245
Export	1,801	2,378	1,089	2,845	2,750
Total	12,942	11,729	11,584	11,129	9,995



# Local Content Development



Following the results of 2014, the total amount of purchases in the KazMunayGas group of companies amounted to 1,573 bn KZT. The local content in the purchase made 1,198 bn KZT or 76%.

the share of the Kazakh goods was 464 bn KZT or 73% (with planned 50%), of works and services — 733 bn KZT or 78% (with planned 68%). To ensure guaranteed long term product sales and increased efficiency and industry updating the KMG's companies has signed 136 long-term with the Kazakhstani manufacturers in 2014 to the total amount of 25.6 bn KZT. KMG is directly involved in the industrial development of the country, establishing new enterprises

The work on establishment of 6 new enterprises was carried on in 2014:

- AktauOilMash LLP was created jointly with the Russian company Sputnik-Integratsia for production of oil/gas fiscal metering units, liquid/gas rate measuring units, reservoir pressure maintenance units, modular cluster pump stations, pumping and compressor unit oil-circulating systems, oil/gas treatment facilities, compressor stations and combined power supply systems. CT-ZK certificates were received for water injection distribution manifolds, package transformer substations for oil production, separation-and-measurement units, rod rotators and automated group metering units.
- Aktau oil equipment plant Established on the basis of the subsidiary — «Aktauneftebservice» LLP together with the French company Valourec Tubes to produce premium joints for casing pipes

- Industrial complex for oil and gas equipment production in Mangistau region. The Project is implemented together with Chian National Petroleum Corporation. Beam pumping units, oil well pumps and progressive cavity pumps will be produced there, as well as corrosion coating of pipes, production of chemical compounds. The Project's feasibility study is being performed.
- JV «KMG Automation» LLP. Is to render services and produce automated management and control systems over the technological processes, and controlling instruments. The project is being implemented together with international company Invensys.
- Shipbuilding/ship-repair yard in the township of Kuryk. The Project is implemented together with Italian company «Eni». The shipyard capacity is estimated to service up to 70 ships per annum, and to build shops with max deadweight of about 15 thousand tons. Design and estimate documentation is being developed.

KMG was holding offset working meetings in the regions together with the akimats of the regions. The meetings were aimed at working meetings with the domestic manufacturers of goods, works and services, introduction of the procurement plans, clarification of the local content, discussion of the problems and issues of further cooperation development, local content development and visiting of the local enterprises. In 2014 the visits were made to West-Kazakhstan, Aktobe, Kostanay, Karaganda and South-Kazakhstan regions, as well as participation in the action of Government orders 2015 in Almaty.



Work with major subsoil users — Tengizchevroil and Karachaganak Petroleum Operating on increasing of the local content in the future expansion projects were continued.

Within the joint Working group on expansion of Tengiz there was monitoring of the KMG's requirements to the local content development.

Within the framework of the Karachaganak oil-field expansion a Working group for the local content development has been created which carried out analysis of the project needs to enable the operator (KPO b.v.) holding early tenders. This would create favorable conditions in the form of preliminary guaranteed placement of bulk orders to organize new goods production in the territory of Kazakhstan.



### *Local Content in Major Oil and Gas Projects*

#### *\$ mn Payments for Purchases of Kazakh Goods and Services on Tengiz Project*

2014	Total	Kazakhstan content	Kazakhstan content, %
Total purchases	4,961	2,509	51%
Goods	902	127	14%
Services	4,059	2,381	59%

#### *\$ mn Payments for Purchases of Kazakh Goods and Services on Karachaganak Project*

2014	total	Kazakhstan content	Kazakhstan content, %
Total purchases	997	472	47
Goods	194	93	1.4
Works	372	156	23
Services	431	313	73

#### *\$ mn Payments for Purchases of Kazakh Goods and Services on North-Caspian Project*

2014	total	Kazakhstan content	Kazakhstan content, %
Total purchases	1,954	902	46
Goods	227	27	12
Works	872	428	49
Services	855	447	52

## Support sector projects



### *Project of construction of the North-Caspian Environmental Oil Spill Response Base*

One of the important aspects of the development of the Kashagan and other fields of the northern Caspian Sea is to ensure environmental safety during production operations.

In December 2012, the construction of the North-Caspian Environmental Oil Spill Response Base in the area of Damba settlement of Atyrau region was completed. It is intended for maintenance, storage and deployment of oil spill response equipment of the second level while developing Kashagan field and other fields in the northern part of the Caspian Sea.

In February 2013, LLP «KMG-Transcaspian» became the owner of the North-Caspian Environmental Oil Spill Response Base. In August 2013, LLP «KMG-Transcaspian» and NC Production Operations Company BV (NCPOC) — the operator of the Kashagan project signed a long-term lease agreement for 10 years. In December 2014, LLP «KMG Systems & Services» (the new name of LLP «KMG-Transcaspian») and NCPOC signed the Contract for Operation and Maintenance of the North-Caspian Environmental Oil Spill Response Base.

### *Jack-up rig project*

In 2012, KMG acquired 100% partner's interest in the authorized capital of LLP «KMG Drilling & Services» (previously — JSC «Teniz Burgylau») (the Partnership) from JSC IOC «KazMunayTeniz». The Partnership carries out the project of building a new jack-up rig (JUR).

As a part of this project, on July 5, 2012, the Partnership signed an agreement of jack-up rig construction with a consortium LLP «Keppel Kazakhstan» and LLP «Ersai Caspian Contractor».

As of the end of 2014, the following works were completed: assembly of all sections of the jack-up rig body, assembly and installation of all support sections, assembly and installation of drill console, assembly of LQ module, installation of helipad, in-

stallation of drilling pumps and marine jack-up system, installation and testing of the main power generating equipment, lift engines of jack-up system, compressors. Construction and installation works for 2014 amounted 94%.

During 2015, the following works are planned: installation of the flare system, the completion of finishing works of LQ module on the jack-up body, moving out the jack-up rig from the dry dock, strapping of all systems, pre-commissioning activities, putting the main equipment into operation.

During the construction period, 1,000 jobs were provided; it is expected to provide 120 jobs for the period of operation.





## *Industrial infrastructure projects implemented jointly with Eni S.p.A Company*

Within the framework of the Cooperation Agreement between the KMG and Eni S.p.A the following projects are implemented:

- The project of gas turbine power plant construction;
- The project of gas processing plant construction;
- The project of Pavlodar refinery reconstruction;
- The project of shipbuilding/ ship repair plant construction in Kuryk;
- Optimizing utilization of associated gas in the Republic of Kazakhstan;
- Exploration work in the areas of Chagall and Isatai in the Kazakh sector of the Caspian Sea.

All the works specified in the Cooperation Agreement have been generally completed. For all industrial

projects a feasibility study has been developed, positive conclusion by the state examination has been obtained. Public hearings on all projects have been organized and conducted.

According to the assignment of the Head of the State, (No 1988 of 23.04.2012) the project «Modernization of Pavlodar petrochemical plant» was removed from the agreement with Eni and implemented by JSC «Pavlodar petrochemical plant» on its own.

In addition, on April 23, 2012, the project «Construction of a gas processing plant» was suspended until 2014 in accordance with the resolution of the President No1990 taking into account particular sensitivity of the issue for the Russian Federation.

On March 19, 2014, the Interdepartmental Commission on the development of oil and gas and energy sectors chaired by the Prime Minister of the Republic of Kazakhstan agreed with the position of the relevant ministries, JSC «Samruk-Kazyna» and JSC NC «KazMunayGas» as for the need to focus further cooperation with Eni on the projects for exploration and production of hydrocarbons on the site «Isatai» and «Sudoverf».

In addition, on April 18, 2014, it was decided to continue cooperation with Eni on the projects «Isatai» and «Sudoverf» according to the resolution of the President of the Republic of Kazakhstan.

On May 16, 2014, JSC NC «KazMunayGas» and Eni signed an agreement on the principles of the project «Isatai», as well as an agreement of cooperation of the second phase of the project «Sudoverf», under which the two companies agreed on the basic technical and commercial conditions for the implementation of these projects.

On May 26, 2014, the contract for basic engineering (FEED) and development of design and estimate documentation for the project «Sudoverf» was concluded.



### *Project «The route of cargo transportation»*

On March 11, 2014, the KMG Investment Committee decided to approve the investment project «The route of cargo transportation.» The main goal of the project is the development of maritime transport hub in the northern part of the Caspian Sea for the future needs of LLP «Tengizchevroil» in the transshipment of large modules and other goods

required by the project for future expansion (PFE).

On May 11, 2014, LLP «TenizService» and LLP «Tengizchevroil» signed a contract for the construction and operation of the facility.

The facility is currently under construction; its completion is scheduled for late 2016.

### *Project of establishing the joint venture LLP «AktauOilMash»*

As part of creating new production of oil and gas equipment in 2013 KMG signed a Memorandum of cooperation with the Russian company «Sputnik-Integration», according to which the joint venture was established: LLP «Aktauoil mash» (AOM). AOM specializes in the production of various types of equipment, including installation of commercial accounting of oil/gas, installation measuring flow rate of the liquid/gas, block cluster pumping stations and others. As of the end of 2014, the land plot in the subzone No 1 of the free-trade zone «Seaport Aktau» for the construction of a plant with area of 10 ha was allotted. Production facilities in the territory of Aktau Plastic Plant owned by JSC «KPI» with total area of 7.5 thousand m<sup>2</sup> were leased out to AOM; the first batch of shop equipment was delivered and installed, shops were overhauled, 195 engineers and workers were hired, administrative staff were recruited, certificates CT-KZ of all manufactured products were obtained, future AOM employees recruited from among the residents of Zhanaozen were trained (100 pers.) according to required specialties at the Aktau Training Centre. Currently LLP «Aktauoil mash» and KMG subsidiaries concluded agreements for manufacture and supply of various kinds of oil and gas equipment in the amount of 5.2 billion KZT.

### *Project for purchase of two AW139 helicopters*

In October 21, 2011, JSC «Airline» Euro-Asia Air» signed a contract with the manufacturer for the purchase of two helicopters Agusta Westland-139. The aim of the project is to increase the value of the company «Euro-Asia Air» and preserve dominant positions in the market of aviation services of marine operations. The first aircraft arrived in Kazakhstan

### *Innovation and technological development of KMG*

In 2014, KMG's Board of Directors approved «The strategy of innovation and technological development for 2014-2018» and the Plan for its implementation. It also established a policy of



in November 2011. Since December 2011, AW-139 helicopter flies on the offshore rigs for the Agip KCO services. The second aircraft was accepted on January 31, 2014 and delivered in April 2014. The helicopter is insured and included in the State Register of the Armed Forces of the Republic of Kazakhstan and is used for aviation services.

rationalization and inventive activity for the KMG group of companies whose primary purpose is the development of the Company's incentive mechanisms for invention and innovation, favorable





conditions to enhance creative potential of each employee aimed at promoting innovation and rationalization proposal in the company.

In 2014, implementation of certain innovative projects continued, in particular, the project for construction of a modern desulphurization of associated gas with a high content of hydrogen sulfide in the fields of EMG, the use of mobile compressor plants on the basis of motor vehicles while repairing main gas pipelines, projects of gas distribution network modernization in South Kazakhstan region and Taraz, manufacturing application of the modern cleanup and heating systems during oil transportation. Also, as part of a large-scale modernization of three Kazakh oil refineries innovative projects in the field of oil refining and petrochemistry are implemented,

with assignment of rights for the use of innovative technologies in the Republic of Kazakhstan.

For successful development of the Company in light of contemporary realities and international experience, the Company attaches great importance to increasing scientific research capacities in the key areas of activity. Research and innovation infrastructure of the Company is improved to solve crucial tasks. In particular, taking into account increasingly complicated conditions for exploration and production of hydrocarbons and the need for more advanced technological solutions in 2014 it was decided to set up a competent center on exploration and production of oil and gas on the basis of «Scientific-Research Institute of mining and drilling technologies of KazMunayGas». The main activity of the Institute in the near future will be the organization of a single management of KMG's scientific and research units in the segment «Exploration, Development and Production».

R&D activities carried out in the KMG group of companies should be mentioned, in particular: introduction of modern technologies for cleaning of main oil pipelines and tanks, extraction of coal bed methane in the Karaganda coal basin, introduction of advanced techniques and technologies to improve corrosion resistance of pipelines, development of methods to increase inter-repair cycle of oil refineries, development of new catalysts for oil refineries and others.

Today, in the framework of the Strategy of innovation and technological development and improvement of engineer staff management systems, our main manufacturing subsidiaries and affiliates provide comprehensive services for technology and energy audits, benchmarking on key indicators of performance, development of innovation and technological programs, improvement of regulatory basis and IT- solutions.

Thus, to date, in the framework of innovation and technological development of the core business areas of the Company, the main points of efforts determined in 2014 are the following:

- in the field of exploration and production - increasing the depth of research, seismic resolution, accuracy of analysis and exploration forecast, increasing recoverable oil and improved recovery;
- in the field of transportation - increasing security level of oil and gas pipelines, energy absorption capacity and resource intensity during operation, search for new corrosion-resistant materials, modern methods of cleaning of the main pipelines and storage tanks;
- in the field of oil refining - diversification of petrochemicals, improvement of energy efficiency.



# Key events of the year



## January

EPC contract for implementation of Stage 1 of the “Reconstruction and updating of the Shymkent Refinery” was signed.

By Decree dated January 22, 2014 the Government of Romania has definitely established the provisions of the Memorandum of Understanding signed between Rompetrol Company and Government’s stake management and privatization Agency of the Ministry of Energy in Romania in last February. The General provisions of the Memorandum are as follows: to purchase 26.7% of Rompetrol Rafin-

are’s shares from the Government of Romania (a subsidiary KMG International N. V. – the operator of Petromedia Refinery) at a price of \$200 mn, and establishment of a joint investment fund for implementation of projects in the energy sector of Romania, meeting strategy interests of KMG. The share of the Government of Romania in the investment fund will comprise 20%.

The Eurobonds in the amount of 1.5 bn USD, issued in April 2009, redeemed. The issue has been redeemed as per schedule.

## February

In February, 2014 KMG increased financial guarantees obligations issued to the benefit of China Development Bank Corporation and other participants of the syndicated loan under the obligations of “Beineu-Bozoi-Shymkent” LLP from \$900 mn to \$1250 mn within financing of the project “Beyneu-Bozoi-Shymkent Gas Pipeline Construction”.

The Coke calcination unit (CCU) reconstruction project at “Atyrau Refinery” LLP is completed. The object is commissioned under Government Commission Certificate No. 238 dated November 16, 2014. The following operation indicators of the CCU have been achieved: at the rated capacity of 23 tons per hour with guaranteed production of calcinated coke of KP-1 mark, and at the rated capacity of 16–18 tons per hour with guaranteed production of calcinated coke of KP-2 mark.

## March

Decree of the Government of the Republic of Kazakhstan No. 232 dated March 12, 2014 established quotas for attraction of foreign workforce under the “Reconstruction and Modernization of Atyrau Refinery” Project for 2014. On March 26, 2014 the ARNM of the RoK approved of the

tariff and the tariff cost estimation for regulated services on oil pumping through the system of main pipelines of JCS “KazTransOil” as an emergency regulation measure for export in the amount of 5,817.2 KZT /1,000 km without VAT, to be carried into effect on April 1, 2014.

Following the Resolution of the Board of Directors of JSC NC "KazMunayGas" it has been decided that KMG should enter into transaction on withdrawal from the shareholders of KMG Kashagan B.V. in the amount of 25 and more per cent of all the assets owned by JSC NC "KazMunayGas", enter into a major transaction in which KazMunayGas is interested in; Agreement on deposit and transfer of the shares of KMG Kashagan B.V. between KMG, Cooperative KazMunayGas U.A. and KazMunayGas Kashagan B.V.

Following the results of the independent diagnostics of corporate management carried out in five subsidiaries of JSC Samruk Kasyna, the corporate management level of JSC NC "KazMunayGas" was 71.7% in 2013. This estimation has been received through coordination of the three components – "Structure", "Processes" and "Transparency", taking into account their quantitative values: structure – 69%, processes – 64.9 and transparency – 80.5%.

Decree of the Government of the RoK No. 499 dated May 16, 2014 established quotas and approved consent conditions for attraction of foreign workforce under the "Reconstruction and Modernization of Shymkent Refinery" Project for 2014.

KazMunayGas Exploration Production JSC has declared finding of a new deposit in the laydown of the Bashkirian stage of the Carbonic period at the Rozhkovskoye oil field. In particular, by the formation test in the laydown of the Bashkirian age in well U-24, drilled in 2013 in the north-east flank of the

field there was free flowing of light dry crude oil and gas with that maximal flowrate at 1.9 mboe/day and 6 mn cu ft/day respectively at the flow nipple of 24/64" (9.5 mm).

Memorandum of Understanding has been signed between JSC NC "KazMunayGas" and Corporation "CITIC Group" on the issues of exploration of the offshore sector near the Karazhanbas oil field, which is developed jointly by the both parties. Financing of the exploration works at the site is planned to be performed at the cost of "CITIC Group".

On June 12, 2014 an Agreement on implementation of the "Isatai" and "Sudoverf" projects was signed between KMG and Eni. Concerning the "Isatai" project KMG and Eni have agreed to perform exploration works at the same-name Block in the northern part of the Kazakhstani sector of the Caspian Sea. The parties

have defined that the joint operational company will perform exploration works. The both parties expect the implementation of the "Isatai" project be successful and following the results of the exploration works KMG and Eni will be able to declare the results of the commercial discovery.

RSE "Gosexpertise" gave positive conclusion on design and estimate documentation for the main stage of the project "Reconstruction and modernization of the Shymkent refinery".

The Board of Directors of JSC "KazMunayGas - Refining & Marketing" approved the Development strategy of JSC "KazMunayGas – Refining & Marketing" for 2014-2022.

An important for the country industrial project of shipbuilding/ship-repair yard construction in the township of Kuryk has been presented in Aktau. Kazakhstan is the only country at the Caspian Sea that possesses no plant of such specialty. The project is being implemented under the Agreement for co-operation between JSC NC "KazMunayGas" and Eni S.p.A. (Italy).

## August

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KazMunayGas and Korean consortium KC Kazakh B.V. (KCK) following the results of drilling and testing of two exploration wells at the contract site "Zhambyl" in the Kazakhstani sector of the Caspian Sea confirmed that existence of the prospective targets for oil and gas. By testing of these objects oil and gas free flowing was.

KMG provided financial guarantee as loan security, supplied by Raiffeisen Bank to the benefit of KMG International in the amount of \$200 mn to refund

the previously raised loan, provided by UniCredit Bank in 2012.

RSE "Gosexpertise" gave positive conclusion on amendment of the feasibility analyses for the project of "Pavlodar PC Modernization".

The project indicators of the Aktau Bitumen Plant of CASPI BITUM JV LLP were achieved – daily loading 3 thsd tons.

## September

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KMG provided financial guarantee as loan security, supplied by JSC "Sberbank of Russia" to the benefit of KMG RM in the amount of \$400 mn within the financing of the investment project "Shymkent Refinery Upgrading".

An extended meeting of the Board for upgrading and transformation with the participation of the Sole Stake-

holder – JSC Samruk Kasyna took place in JSC NC "KazMunayGas". Draft Transformation program presented by the KMG's Working Group was considered at the meeting. Chairman of the Board of Management of JSC NC "KazMunayGas" Sauat Mynbayev pointed out the key directions of the Transformation Program of KMG. They are exploration and production, refining, foreign assets management and the corporate center.

## October

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KMG entered into an Agreement for purchasing services on technical audit "Audit of KMG's reserves" with DeGolyer and MacNaughton Corp. for the amount of \$3.7 mn.

KMG made a 100% contribution of the participation interest in SRI KaspiMunayGas and 100% of stock of

shares of JSC "KazNIPImunaygas" to the equity capital of "Scientific Research Institute of Production and Drilling Technology" LLP, according to the resolution of the Board of Management of KMG.



## November

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A General scheme of gas infrastructure development of the Republic of Kazakhstan for 2015–2030 was approved (Decree of the Government of the Republic of Kazakhstan dated November 11, 2014 No. 1171).

The transaction on placement of Eurobonds in the total amount of 1.5 bn USD with the rate of return at 4.95% in the amount of \$500 mn for 10.5 years tranche and with the rate of return at 6.10% in the amount of 1 bn USD for the 30 years tranche was successfully completed. These Eurobonds of Reg S/144A issue format were issued with the coupon rate at 4.875% per annum for the 10.5 years tranche and with coupon rate at 6.000% for the 30 year tranche. Eurobonds were assigned ratings at the level of BBB (Fitch) / BBB (Standard&Poors)/ Baa3 (Moody's).

KMG increased its participation interest in «Kazakhstan-turkmunay» LLP up to 100% by means of acquisition of 49% of interest from Turkish Petroleum Corporation (TPAO).

The call for electronic auction of 51% of stock package of Global Securities Systems A., owned by Rompetrol Logistics SLR, 98.823065% of stock package of Palplast S.A, owned by KMG International N.V. and Rominserv SRL, 100% of participation interest of SC Rominserv SRL and SC Rompetrol Financial Group SRL, was launched.

KMG connected its oil fields to the unified database and developed a unique strategy of «The Intellectual oil field».

## December

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KMG provided financial guarantee as loan line security for Pavlodar Refinery LLP, opened in JSC "Development Bank of Kazakhstan" in the amount of 51,465 mn KZT within financing of the investment project of "Pavlodar Refinery Upgrading".

Within the framework of the Kazakhstan and France business forum a Memorandum of Understanding was signed between "JSC KazMunayGas — Refining & Marketing" and Air Liquide (France) on implementation of the project for outsourcing of the technical gases production at the Refineries.

An Agreement for implementation of the project on the complex coal conversion of the Republic of Kazakhstan was signed between JSC NC "KazMunayGas — Refining & Marketing", "Arbat" JV LLP, "Kuznetskiy Mine" LLP and "China Energy Corporation "Xinhua".

Within implementation of of the investment project of "Purchasing of 40 gas stations and 18 gasoline tank trucks" 13 gas stations were purchased.

A Concept of gas sector development of the Republic of Kazakhstan by 2030 was approved (Decree of the Government of the Republic of Kazakhstan dated December 5, 2014 No. 1275).

The sales of 100% of stock package of "Kazakhstan Institute of Oil and Gas" JSC by means of electronic tender at the portal of the state property register of the Ministry of Finance of the Republic of Kazakhstan was declared. An auction on sale of "Kazakhstan Institute of Oil and Gas" JSC started on January 27, 2015 at 11 00 a.m. Astana. The starting price is 10,280,600,000 KZT.

# Interested-party transactions



Consistent with sub-clause 19) of clause 53.2 of the RoK's Law 'On Joint Stock Companies' (the JSC Law), unless otherwise established by the Law and/or the company's articles of association, making a decision on the company's interested-party transactions is within the exclusive terms of reference of the board of directors.

However, article 21 of the RoK's Law 'On the Sovereign Wealth Fund' stipulates that transactions between the entities in the group of the Fund, in respect of which the JSC Law establishes special conditions, shall be made without applying them in accordance with the procedure determined by the Board of Directors of the Fund.

Thus, in compliance with clause 3 of the Rules of Making Transactions between Entities of the Samruk-Kazyna JSC Group, in Respect of which the JSC Law Establishes Special Conditions, approved by the resolution of the Board of Directors of the Fund of 27 April 2009 (the Rules), a decision on making an interested-party transaction between entities of the Fund group shall be made by collegial executive bodies of the corresponding entities at a meeting held 'in praesentia'.

That is, resolutions on making the transactions under consideration may be adopted by:

- KMG's Management Board (with entities of the Fund's group);
- KMG's Board of Directors (with other entities not in the Fund's group);

Furthermore, clause 9 of the Rules stipulates the right of the Board of Directors to make a decision on making interested-party transactions between entities of the Fund's group at its discretion.

## List of Transactions

During 2014, KMG's Board of Directors adopted resolutions on making the following interested-party transactions and/or transactions of strategic nature:

1. On Making a major interested-party transaction of JSC NC «KazMunayGas» - Deed of Contribution and Transfer of Shares in KMG Kashagan B.V. Plc Equity, and the transaction on withdrawal from the shareholders of the KMG Kashagan B.V. Plc.
2. On making by JSC NC «KazMunayGas» of an interested-party transaction – Guarantee to be issued by JSC NC «KazMunayGas» jointly with Waterford International Holdings Ltd., of fulfillment of the TenizService LLP's obligations to the Tengizchevroil LLP under the Contract for Terminal Services near Prorva on the territory of the Republic of Kazakhstan between the Tengizchevroil and TenizService LLP.
3. On making by JSC NC «KazMunayGas» of an interested-party transaction – an Agreement to be made between JSC NC «KazMunayGas», Waterford International Holdings Limited and the TenizService LLP in order to allocated the rights and liabilities under the Guarantee to be issued by JSC NC «KazMunayGas» jointly with Waterford International Holdings Ltd., of fulfillment of the TenizService LLP's obligations to the Tengizchevroil LLP under the Contract for Terminal Services near Prorva on the territory of the Republic of Kazakhstan between the Tengizchevroil and TenizService LLP.
4. On making by JSC NC «KazMunayGas» of an interested-party transaction – Mutual Indemnity Guarantee within the framework of the Shareholders Agreement in respect of KPJV Limited between the Kazakh Institute of Oil and Gas JSC,



Kazgiproneftetrans Engineering Company LLP, FWPJV Limited and KPJV Limited.

5. On acquisition by JSC NC «KazMunayGas» of a 49% interest in the Kazakhturkmunai Ltd.'s authorized capital from Türkiye Petrolleri Anonim Ortaklığı (TPAO)

Subject to the Rules for making transactions between the entities of the Samruk-Kazyna JSC Group with respect to which the Law of the RK "On Joint Stock Companies" sets out special conditions (approved by the resolution of the Board of Directors of the Fund of 27 April 2009), the Management Board passed 52 resolutions on KMG's interested-party transactions during 2014.



- Agreement on Trust of High, Medium, Low-Pressure Gas Pipelines and Their Installations, Located on the Territory of the Aktobe Province of the Republic of Kazakhstan between KMG and the JSC «KazTransGas Aimak»;
- Supplementary Agreement No.2 to Agreement on Trust of High, Medium, Low-Pressure Gas Pipelines and Their Installations, Located on the Territory of the West-Kazakhstan Province of the Republic of Kazakhstan No.259-21 of 20 Sep 2013 between KMG and the JSC «KazTransGas Aimak»;
- Supplementary Agreement No.2 to Agreement on Trust of High, Medium, Low-Pressure Gas Pipelines and Their Installations, Located on the Territory of the Zhambyl Province of the Republic of Kazakhstan No.260-21 of 20 Sep 2013 between KMG and the JSC «KazTransGas Aimak»;
- Supplementary agreement No.4 to Agreement on Purchases of Research-and-development Works between KMG and the Kazakh Institute of Oil and Gas JSC No.484-33//408-14/2011 of 27 Oct 2011.
- Supplementary agreement No.4 to Agreement on Purchases of Research-and-development Works between KMG and the Kazakh Institute of Oil and Gas JSC No.485-32//409-22/2011 of 27 Oct 2011.
- Facility Agreement between KMG and LLP «KazMunayGas-Service» on the following principal terms:
  1. credit amount – 2,853,280,362 (two billion eight hundred and fifty-three million two hundred and eighty thousand three hundred and sixty-two) KZT;
  2. lending purpose: granting by KMG of an unsecured credit in favour of KMG-S for further granting by KMG-S of a secured credit in favour of the Borjomi Likani International JSC on similar terms for financing the «Borjomi-Likani» Health Complex Construction project in Borjomi, Georgia;
  3. fee rate - seven (7) % annually, exclusive of VAT;
  4. credit term – eighty-four (84) months from the day of credit provision;
  5. security – none;
  6. partial early repayment – no charge;
  7. payment of principal – with equal annual payments;
  8. fee payment – on an annual basis, first payment due in 12 months after the exploitation date.
- Agreement on Trust of the Immovable Property of Joint-Stock Company «KazTransOil» - the premises located at 19 Kabanbay Batyr, Block B, Astana, 9 Floor and 1/3 of the conference hall, with the total area of 1,095.23 square metres.



- Supplementary Agreement No.1 to Facility (Loan) Agreement of 18 October 2013 No.288-28//386-2013.
- Loan Facility Agreement between KMG and the Teniz Burgylau LLP (the Partnership) for financing the Partnership's working capital for the purposes of operating the jack-up drilling rig on the following principal terms:
  1. loan facility amount – 3,449,000,000 (three billion four hundred and forty-nine million) KZT;
  2. loan facility term – twenty-four (24) months from the time of receipt of the first disbursement of the loan facility;
  3. lending purpose - financing the Partnership's working capital for the purposes of operating a jack-up drilling rig;
  4. security – none;
  5. partial early repayment – no charge;
  6. fee rate – 6.5% exclusive of VAT;
  7. grace period for interest payment - twelve (12) months from the time of receipt of the first disbursement of the loan facility. capitalization of interest - annually;
  8. fee payment - on a quarterly basis upon the expiry of the grace period;
  9. repayment of the principal - at the end of the loan facility term.
- Supplementary Agreement No.1 to Loan Facility Agreement of 24 October 2013 No.291-28//9988.23.
- Additional contribution to the Teniz Burgylau LLP's authorized capital in cash in the amount of 1,000,000,000 (one billion) KZT.
- Loan Facility Agreement between KMG and the Urikhtau Operating LLP on the following principal terms:
  1. loan facility amount - 6,224,296,000 (six billion two hundred and twenty-four million two hundred and ninety-six thousand) KZT;
  2. loan facility term – twelve (12) months from the time of receipt of the first disbursement of the loan facility;
  3. lending purpose - financing hydrocarbons exploration and production works at the Urikhtau field;
  4. security – none;
  5. early and partial early repayment – no charge;
  6. fee rate – 7 % exclusive of VAT;
  7. fee payment - at the end of the loan facility term.
  8. repayment of the principal - at the end of the loan facility term;
- special conditions - obligatory early repayment of the loan in case of sale of 50% or more interest in the Urikhtau Operating LLP.
- Supplementary Agreement No.2 Financial Aid Agreement of 2 May 2013 No.11-104-2013//142-28 between KMG and JSC OOC KazMunayTeniz (the Agreement) for supporting financing of the trustee's costs in 2014 and the production operations at the Tolkyn and Borankol fields on amending the Agreement as follows:
  1. extend the terms of the financial aid provision to 2 May 2015;
  2. repayment of the part of the financial aid in the amount of 7,457,531,175 (seven billion four hundred and fifty-seven million five hundred and thirty-one thousand one hundred and seventy-five) KZT by 2 August 2014 and 4,803,015,825 (four billion eight hundred and three million fifteen thousand eight hundred and twenty-five) KZT by 2 May 2015..
- Supplementary Agreement No.5 to Agreement on Purchases of Research-and-development Works of 27 Oct 2011. No.485-32//409-22/2011 between KMG and the Kazakh Institute of Oil and Gas JSC for the section «R&D-Development System Improvement and Management, incl. Scientific-and-expert Support to Major Projects (Kashagan, Karachaganak, Tengiz)»..
- Agreement on Trust of the KazMunayTeniz JSOOC Shares between KMG and the KMG-Kumkol LLP.
- Additional contribution to the KMG-Kumkol LLP's authorized capital of the 1% interest in the Teniz Burgylau LLP's authorized capital for an amount of 161,792,600 (one hundred and sixty-one million seven hundred and ninety-two thousand six hundred) KZT.
- Agreement on Trust of Interest in the KMG Drilling & Services LLP's authorized capital between KMG and the KMG-Kumkol LLP..
- Agreement on Trust of Interest in the KMG Drilling & Services LLP's authorized capital between KMG and the KMG-Kumkol LLP..
- Agreement on Engagement of Operator under the Contract for Hydrocarbons Exploration at the Kansu Area Located in the Mangistau Province of 1 Oct 2013 No. 3949-UVS between KMG and the KMG-Kansu Operating LLP.



- Agreement on termination of Agreement on Purchases of Research-and-development Works in the «Oil and Gas Exploration» area No.484-33/408-14/2011 of 27 October 2011 between KMG and the Kazakh Institute of Oil and Gas JSC.
- Additional contribution to the Coöperatieve KazMunaiGaz U.A.'s authorized capital with its subsequent payment in the amount of 658,117,134 (six hundred and fifty-eight million one hundred and seventeen thousand one hundred and thirty-four) US dollars.
- Additional contribution to the authorized capital of the KMG-Kumkol LLP with its further payment in the amount of 145,486,776 (one hundred and forty-five million four hundred and eighty-six thousand seven hundred and seventy-six) KZT..
- Agreement on Financial Aid between KMG and the KazMunayTeniz JSOOC for financing the trustee's costs in 2014 for maintaining production operations at the Trustee and Borankol fields on the following principal terms:
  1. financial aid amount - 9,903,181,189 (nine billion nine hundred and three million one hundred and eighty-one thousand one hundred and eighty-nine) KZT;
  2. financial aid term - one (1) year from the time of the financial aid agreement;
  3. security – none;
  4. partial early repayment – no charge;
  5. fee rate - not applicable;
  6. repayment of the principal - at the end of the term.
- Facility Agreement between KMG and JSC "KazTransGas".
- Agreement on financial aid between KMG and the KMG Karachaganak LLP for an amount of 98,500,000,000 (ninety-eight billion five hundred million) KZT for a term of 1 year.
- Supplementary Agreement No.1 to the Loan Agreement of 18 July 2011 made between JSC NC «KazMunayGas» and KMG Finance Sub B.V.
- Agreement on purchase of 100% ordinary shares of the Kazakh Research-and-development Institute of Oil and Gas JSC.
- Agreement on purchase of 100% interest in the Caspimunaigas RDI LLP.
- Additional contribution to the AktauNefteServis LLP's authorized capital in case in the amount of 799,983,044 (seven hundred and ninety-nine million nine hundred and eighty-three thousand and forty-four) KZT inclusive of VAT.
- Agreement on trust of 100% of the KazNIPImunaigaz JSC's shares between KMG and the «KazMunayGas» Research and Development Institute of Production and Drilling Technology LLP.
- Agreement on trust of 100% interest in the Caspimunaigas RDI LLP between KMG and the «KazMunayGas» Research and Development Institute of Production and Drilling Technology LLP.
- Additional contribution to the «KazMunayGas» Research and Development Institute of Production and Drilling Technology LLP's authorized capital with subsequent transfer of 100% of the KazNIPImunaigaz JSC's shares and 100% of interest in the Caspimunaigas RDI LLP.
- Mandate Letter between KMG, Urikhtau Operating LLP, Citibank N.A. London Branch and Sumitomo Mitsui Banking Corporation.
- Mandate Letter between KMG, KazMunaiGaz Finance Sub B.V., Citigroup Global Markets Limited and other lead book runners of the Eurobonds issue.
- Supplementary Agreement No.1 to Agreement on purchase of 100% interest in the Teniz-Burgylau Limited Liability Partnership's authorized capital of 29 October 2012 No.287-31//11-144-2012 between KMG and the KazMunayTeniz JSOOC.
- Assignment agreement between KMG, the «KazMunayGas» Research and Development Institute of Production and Drilling Technology LLP and Schlumberger Logelco Inc.
- Agreement on termination of Agreement on Trust of the KazMunayTeniz JSOOC Shares of 20 May 2014 No.131-31 between KMG and the KMG-Kumkol LLP.
- Agreement on Trust of the KMG-Kumkol LLP's Interest in the KazMunayTeniz JSOOC's authorized capital between KMG and the KMG-Kumkol LLP.
- Agreement on trust of the property located on the territory of the Kostanai Province of the Republic of Kazakhstan between KMG and JSC «KazTransGas Aimak».



- Loan Facility Agreement between KMG and the Oil Services Company LLP for financing investment projects on the following principal terms:

1. loan facility amount - 1,505,621,376 (one billion five hundred and five million six hundred and twenty-one thousand three hundred and seventy-six) KZT;
2. loan facility term - thirty-six (36) months from the time of receipt of the first disbursement under the loan facility, including the grace period of twelve (12) months;
3. collateral - without security;
4. partial early repayment – no charge;
5. fee rate – 6.0% exclusive of VAT;
6. grace period for payment of the principal - twelve (12) months from the time of receipt of the first disbursement of the loan facility;
7. fee payment - with semi-annual payments;
8. repayment of the principal - with semi-annual payments, first payment - on the expiry of the grace period.

- Loan Facility Agreement between KMG and the Oil Transport Corporation LLP for financing development of the design-and-estimate documentation for the project «Construction of gas pipeline for conversion to liquefied gas of the heating supply of the Oil Transport Corporation LLP's production bases» on the following principal terms:

1. loan facility amount - 8,917,440 (eight million nine hundred and seventeen thousand four hundred and forty) KZT;
2. loan facility term - twenty-five (25) months from the time of receipt of the first disbursement under the loan facility, including the grace period of twelve (12) months;
3. collateral - without security;
4. partial early repayment – no charge;
5. fee rate – 6.0% exclusive of VAT;
6. grace period for payment of the principal - twelve (12) months from the time of receipt of the first disbursement of the loan facility;
7. fee payment - with semi-annual payments;
8. repayment of the principal - with semi-annual payments, first payment - on the expiry of the grace period.

- Loan Facility Agreement between KMG and the Oil Services Company LLP for financing the 2014 current costs Programme on the following principal terms:

1. loan facility amount - 1,997,418,105 (one billion nine hundred and ninety-seven million four hundred and eighteen thousand one hundred and five) KZT;
  2. loan facility term – forty-eight (48) months from the time of receipt of the first disbursement of the loan facility;
  3. collateral - without security;
  4. partial early repayment – no charge;
  5. fee rate – 6.0% exclusive of VAT;
  6. fee payment - on an annual basis;
  7. repayment of the principal - on an annual basis.
- Loan Facility Agreement between KMG and the Oil Construction Company LLP for financing the 2014 current costs programme on the following principal terms:
1. loan facility amount - 394,688,113 (three hundred and ninety-four million six hundred and eighty-eight thousand one hundred and thirteen) KZT;
  2. loan facility term – forty-eight (48) months from the time of receipt of the first disbursement of the loan facility;
  3. collateral - without security;
  4. partial early repayment – no charge;
  5. fee rate – 6.0% exclusive of VAT;





6. fee payment - on an annual basis;
  7. repayment of the principal - on an annual basis.
- Loan Facility Agreement between KMG and the Oil Transport Corporation LLP for financing the 2014 current costs programme on the following principal terms:
    1. loan facility amount - 1,205,652,081 (one billion two hundred and five million six hundred and fifty-two thousand and eighty-one) KZT;
    2. loan facility term – forty-eight (48) months from the time of receipt of the first disbursement of the loan facility;
    3. collateral - without security;
    4. partial early repayment – no charge;
    5. fee rate – 6.0% exclusive of VAT;
    6. fee payment - on an annual basis;
    7. repayment of the principal - on an annual basis..
  - Additional contribution to the PSA LLP's authorized capital with its subsequent payment in the amount of 2,654,114,517 (two billion six hundred and fifty-four million one hundred and fourteen thousand five hundred and seventeen) KZT.
  - Agreement on purchase of 25% interest in the AktauOilMash LLP's authorized capital at a price lower than the appraisal value determined by an independent appraiser, between KMG and the AktauNefteServis LLP.
  - Agreement on purchase of 1% interest in the KazOilMash LLP's authorized capital at a price lower than the appraisal value determined by an independent appraiser, between KMG and the Oil Construction Company LLP.
  - Agreement on purchase of 99% interest in the KazOilMash LLP's authorized capital at a price lower than the appraisal value determined by an independent appraiser, between KMG and the AktauNefteServis LLP.
  - Loan Facility Agreement between KMG and the Urikhtau Operating LLP subject to the draft agreement attached, on the following principal terms:
    1. loan facility amount - 30,000,000,000 (thirty billion) KZT;
    2. loan facility term – twelve (12) months from the time of receipt of the first disbursement of the loan facility;
    3. lending purpose - financing hydrocarbons exploration and production works at the Urikhtau field;
    4. security – none;
    5. early and partial early repayment – no charge;
    6. fee rate – 7 % exclusive of VAT and WT;
    7. fee payment - at the end of the loan facility term.
    8. repayment of the principal - at the end of the loan facility term;
    9. compulsory condition - in case of realization of the Urikhtau Operating LLP's interest, the buyer undertakes to repay the Urikhtau Operating LLP's debt to KMG or arrange financing for repayment of the debt.
  - Contribution to the «KazMunayGas» Research and Development Institute of Production and Drilling Technology LLP's authorized capital through transfer of 52 licenses of Petrel, Eclipse and Techlogy software modules as attached hereto at a price determined by the independent appraiser Real Estate LLP, in the amount of 127,638,822 (one hundred and twenty-seven million six hundred and thirty-eight thousand eight hundred and twenty-two) KZT.
  - Services Agreement between KMG and the KazMunaiGas Exploration Production JSC.



# Asset structure

as at 31 December 2014



KMG group incorporates 222 companies, including the corporate center of JSC NC “KazMunayGas”, 170 subsidiary entities (SEs) of all levels and 51 associated and joint entities.

## JSC “National Company “KazMunayGas”

Exploration and Production		Oil transportation		Gas transportation and marketing		Refining and marketing		Service sector (условно-профильные и непрофильные услуги)	
KMG EP JSC	63.21 %	JSC “KazTransOil”	90%	JSC “KazTransGas”	100%	KMG RM JSC	100%	JSC “Euro-Asia Air”	100%
Cooperative KMG U.A.	100%*	CPC-R CJSC ZO.	20.75%*	KazRosGas LLP	50%	Kylysh CP	50%	Kazakh-British Technical University JSC	100%
Kazakhturkmunai LLP	100%	CPC-K JSC ZO.	20.75%*	AstanaGas KMG LLP	100%	Kazakhstan Petrochemical Industries JSC	97.32 %	KMG Security LLP	100%
Kazakhoil Aktobe LLP	50%	NMSC “Kazmortransflot” LLP	100%			Kazakhoil-Ukraine LLP	34.04% (being sold)	Rauan Media Group JSC	97.65 %
KMG Kumkol LLP	100%	Kazakhstan Pipeline Ventures Ltd	100%					JSC “Kazakh Institute of Oil & Gas”	100%
TCO LLP	20%							KMG-Service LLP	94.48 %
JSOOC “KazMunayTeniz”	100%							TenizService LLP	48.996%
COGC LLC	50%							KMG’s Businesses under Construction Directorate LLP	100%
KMG Kashagan B.V. LLC	100%							KMG-Transcaspian LLP	100%
N Operating Company LLP	75.5%*							Teniz Burgylau LLP	100%
Urikhtau Operating LLP	100%							AktauNefteServis LLP	100%
BeineuMunayGas LLP	100%							Scientific-Research Institute of production and drilling technology of “KazMunayGas” LLP	100%
PSA LLP	100%								
Satpayev Operating LLP	100%								
N Block B.V	100%								
KMG Karachaganak LLP	100%								
“Tsentrlnaya” Oil and Gas Company LLC	50%								
<b>Total</b>	<b>17</b>	<b>Total</b>	<b>5</b>	<b>Total</b>	<b>3</b>	<b>Total</b>	<b>4</b>	<b>Total</b>	<b>12</b>

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



*List of subsidiary and dependent entities of  
JSC NC «KazMunayGas»*

<i>Entity</i>	<i>First and second-tier subsidiary, dependent and other entities</i>	<i>Entity in relation to the parent (SE, DE, JCE, ME) *</i>	<i>Ownership %</i>
KazMunayGas EP JSC		SE	63.21 %
	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	5.71 %
	JV Kazgermunay LLP	JCE	50%
	JSC "Kazakhstan Petrochemical Industries"	DE	2.68 %
	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%

\* SE – subsidiary entity

DE – dependent entity

JCE – jointly-controlled entity

ME – miscellaneous entity



*List of subsidiary and dependent entities of  
JSC NC «KazMunayGas»*

<i>Entity</i>	<i>First and second-tier subsidiary, dependent and other entities</i>	<i>Entity in relation to the parent (SE, DE, JCE, ME) *</i>	<i>Ownership %</i>
JSC "KazTransGas"		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%
	Asian Gas Pipeline LLP	JCE	50%
	KazTransGas-Bishkek LLC	LJ	100%
	KazTransGas-Tbilisi OOO	SE	100%
	Amangeldy Gas LLP	SE	100%
	KazTransGas AG, Lugano	JCE	50%
	Intergas Finance B.V.	SE	100%
	Saryarka Gas Damu LLP	SE	60%
JSC "KazTransOil"		SE	90%
	MunaiTas North-West Pipeline Company JSC	JCE	51%
	Kazakhstan-China Pipeline LLP	JCE	50%
JSC "KazMunayGas -Refining & Marketing"		SE	100%
	KazMunayGas-Onimderi JSC	SE	100%
	Atyrau Refinery LLP	SE	99.49%
	TH KazMunayGas N.V.	SE	100 %
	TH KazMunayGas A.G (Lugano)	DE	100%
	JSC Kaskor-Transservice	DE	12.87%
	TransMunai OOO	SE	50%
	KazMunayGas - Aero LLP	SE	100%
	PPCP JSC	SE	100%
NMSK "Kazmortransflot" LLP	Kazakhstan Petrochemical Industries JSC	SE	97.32%
		SE	100%
	Kazmortransflot UK LTD	SE	100%
	Kazmortransflot LTD	SE	100%
	Alatau Shipping Ltd	SE	100%
KazMunayTeniz JSOOC	Altai Shipping Ltd	SE	100%
		SE	100%
	Kurmangazy Petroleum LLP	SE	100%
	Caspi Meruerty Operating Company B.V. Branch	JCE	40%
	Zhambyl Petroleum LLP	SE	100%
	Zhambay LLP	JCE	50%
	Caspi Development Centre LLP	ME	6.80%

<i>Entity</i>	<i>First and second-tier subsidiary, dependent and other entities</i>	<i>Entity in relation to the parent (SE, DE, JCE, ME) *</i>	<i>Ownership %</i>
KazRosGas LLP		JCE	50%
	Kairat Football Club LLP	SE	70%
Kazakhoil-Ukraine LLP		SE	34.04%
	"Ukrnefteprodukt" TH" LLP	SE	99.996%
KMG-Service LLP		SE	100%
	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 NSJSC	SE	100%
JSC "Kazakh-British Technical University"		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%
"Kazakh Institute of Oil and Gas" JSC		SE	100%
	JSC NIPI Caspimunaygas	SE	100%
	United Engineering Company KING-KGNT LLP	JCE	50%
	KING Research-and-Development Centre LLP (KING RDC)	SE	100%
	KPJV Limited	JCE	20%
Rauan Media Group JSC		SE	97.65 %
	"Rauan" Publishing House LLP	SE	100%
	TV & Radio Company "NS" - Radio Nationwide Network LLP	SE	100%
	New Television - Kazakhstan LLP	SE	100%
	"Television of the City of Astana" LLP	DE	40%
KMG Security LLP		SE	100%
	Semser ort sondirushi LLP	SE	99.80%
Teniz Service LLP		JCE	48.996%
	Kaz M-I LLP	JCE	51%
JSC "Euro-Asia Air" Airlines		SE	100%
Kazakhoil-Aktobe LLP		JCE	50%
Kazakhturkmunay LLP		JCE	51%
KMG Kumkol LLP		SE	100%

*Перечень дочерних и зависимых компаний  
АО НК «КазМунайГаз»*

<i>Entity</i>	<i>First and second-tier subsidiary, dependent and other entities</i>	<i>Entity in relation to the parent (SE, DE, JCE, ME) *</i>	<i>Ownership %</i>
Cooperative KazMunaiGaz U.A.		SE	95.1%
	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.	JCE	50%
	Kazakhstan Pipeline Ventures LLC	JCE	50.1%
	KMG Investments B.V.	SE	100%
	CPC-K JSC	ME	1.75%
	CPC-R CJSC	ME	1.75%
	Kashagan B.V. LLP	SE	100%
	TH KMG UK Ltd.	SE	100%
Caspian Pipeline Ventures LLC		JCE	49.9%
CPC-K JSC		ME	19%
CPC-R CJSC		ME	19%
Caspian Oil and Gas Company LLC		JCE	50%
Tengizchevroil LLP		JCE	20%
	Tengizchevroil Finance Company	SE	100%
	Tengizchevroil International Bermuda Limited	SE	100%



<i>Entity</i>	<i>First and second-tier subsidiary, dependent and other entities</i>	<i>Entity in relation to the parent (SE, DE, JCE, ME) *</i>	<i>Ownership %</i>
Kylysh Commercial Partnership		JCE	50%
N Operating Company LLP		JCE	51%
KMG Systems&Services LLP		SE	100%
KMG Drilling&Services LLP		SE	100%
AktauNefteServis LLP		SE	100%
Urihtau Operating LLP		SE	100%
"KMG's Businesses under Construction Directorate" LLP		SE	100%
PSA LLP		SE	100%
AstanaGas KMG JSC		SE	100%
BeineuMunayGas LLP		SE	100%
Satpayev Operating LLP		SE	100%
"KazMunayGas" Research and Development Institute of Production and Drilling Technology		SE	100%
	KazNIPImunaygas	SE	100%
	SRI Kaspiymunaygas	SE	100%
KMG Karachaganak LLP		SE	100%
	Karachaganak Petroleum Operating B.V.	ME	10%

# Key Areas of Development



## Company's plans for 2015

Under KMG's Development Plan, KMG's production performance indicators for 2015 were approved, aimed to implement the Strategy:

Name	Unit	2015
Proven recoverable oil and condensate reserves	thsd tons	816,6
Volume of oil and gas condensate production	thsd tons	22,395
Gas output	Mm <sup>3</sup>	7,161
Refining throughput	thsd tons	17,231
Oil transportation volume (by trunklines and marine fleet)	thsd tons	68,641
Oil turnover (MOPs)	mn ton-km	44,365
Gas transportation volume	Mm <sup>3</sup>	102,240



## Investment Portfolio

### Ongoing investment projects by business area

	Draft	Estimated implementation period	Brief description of the project
Upstream	'N' Project	2007-2059	Increasing the resource base and the growth in HC reserves
	Urikhtau	2008-2038	
	Satpayev	2010-2016	
	Zhambyl	2008-2016	
	Kansu project	2013-2019	
	Zhemchuzhiny	2005-2040	
	Khvalynskoye	2014-2054	
	Development of the Amangeldy group of gas fields	2012-2017	
	Focsani	2005-2032	
	Construction of associated gas sulphur removal unit at Prorvinskaya Group of Oil Fields	Construction period — 2014-2016 Expected commissioning — 2017	Construction of AG sulphur removal unit at Prorvinskaya Group of oil fields. The project implementation is actual for Embamunaygas JSC at large, since the complexity of AG local processing at the oil fields results in flaring of significant volumes of the associated gas.





### *Ongoing investments projects by business area*

	<i>Draft</i>	<i>Estimated implementation period</i>	<i>Brief description of the project</i>
Downstream	Atyrau Refinery reconstruction and modernization, incl.:		
	Stage 1: Atyrau Refinery-based Aromatics production complex construction	2010-2014	<ul style="list-style-type: none"> <li>• Output of high added value products — benzene and paraxylene.</li> <li>• Production of motor fuels meeting the requirements of the K-3 emission standard.</li> <li>• Increasing the refinery's capacity to 5.0 mn tons annually.</li> </ul>
	Stage 2: Construction of the Deeper Oil Conversion Complex in the Atyrau Refinery	2012-2016	<ul style="list-style-type: none"> <li>• Increasing the efficiency of secondary processes and oil conversion ratio</li> <li>• Increasing white products output to 77%.</li> <li>• Enhancing the quality of motor fuels meeting the K-5 environmental requirements.</li> <li>• Increasing the refinery's capacity to 5.5 mn tons annually.</li> </ul>
	Shymkent Refinery Reconstruction and Modernization	2011-2016	<ul style="list-style-type: none"> <li>• Increasing the refining volumes to 6 mn tons annually</li> <li>• Increasing the refining yield</li> <li>• Output of gasoline and diesel in accordance with the Euro-4,5 environmental quality standard</li> </ul>
	Pavlodar PCP Modernization	2011-2016	<ul style="list-style-type: none"> <li>• Increasing the refinery's capacity to 7.0 mn tons of oil annually.</li> <li>• Providing the opportunity to refine Kazakh oil in the volume of 5.2 mn tons annually.</li> <li>• Increasing the refining yield</li> <li>• Ensuring output of motor fuels as per the requirements of the K-4, K-5 emission standards.</li> </ul>
	Development of the retail network in the Black Sea region. Stage 1 — Romania on construction of 16 gas filling stations in 2014-2015	2014-2015	Increasing the volume of KMG International B.V.'s retail market from the current 832,642 cub.m in 2013 to 1,346,887 cub. m in 2017.
Gas projects	Construction of the Beineu-Bozoi-Shymkent gas pipeline	2011–2017 (stage 1) 2014–2017 (stage 2)	Provision of the RoK's southern regions with natural gas, export gas deliveries to China, ensuring the RoK's energy security.
	Construction of the Kazakhstan-China Gas Pipeline (Line C)	2012-2016	Provision of natural gas transportation from Turkmenistan and Uzbekistan to China across the RoK's territory. Provision of natural gas to the RoK's South regions, gas export deliveries to China.
	Modernization of the SKP's Taraz	2011-2019	Ensuring uninterrupted gas supply, increasing volumes of gas transportation and sales, reducing gas losses, extending the useful life of gas pipelines, increasing the throughput capacity of the system.
	Modernization of the GDS (South Kazakhstan Region)	2010-2016	Ensuring uninterrupted gas supply, increasing volumes of transportation and sales, reducing gas losses, extending the useful life of gas pipelines.
	Gas supply to the populated localities of Kyzylorda region	2015	Energy security and safe and uninterrupted gas supply to meet growing demands of the small townships of Kyzylorda region.

	<i>Draft</i>	<i>Estimated implementation period</i>	<i>Brief description of the project</i>
Service Projects	Ship-build/ship-repair yard in Kuryk	2014-2017	The shipyard is designed for building and maintenance of vessels with deadweight capacity of about 15 thsd tons, its expansion capacity is for vessels of up to 60000 tons.
	Goods Transportaion Rout	2012-2016 (construction is to be finished at year-end 2016)	The main objective of the project is development of the sea transportation junction in the North Caspian Sea to meet future demand of Tengizchevroil LLP (TCO) in throughput of large modules and other cargo need within the future expansion project (FEP)
	Joint Venture with Nabors Drilling International Ltd.	2014-2015	In execution of Article 2 item 13a of the Memorandum of Understanding signed between the Government of the RoK and Tengizchevroil LLP the work is carried on for establishment of a joint venture between KMG Drilling&Services LLP and Nabors Drilling International Ltd. to implement the drilling program of Tengizchevroil LLP.
	Construction of AMC of KazNIPmunaygas JSC in 35 microdistrict in Aktau	2011-2014	
	Construction of a Health complex «Borzhomi-Likani» in Borzhomi, Georgia	2011-2014	The project involves construction of a multifunctional health complex, which includes residential areas (a Hotel), a restaurant, a conference hall, SPA, a medical centre, a fitness club, social areas, technical rooms and service infrastructure.
	Oil Service Company LLP Investment projects	2014-2015	<ul style="list-style-type: none"> <li>• Coiled tubing unit acquisition project</li> <li>• Backfill unit acquisition project</li> <li>• GPS monitoring system acquisition project</li> <li>• Wheeled receiving platforms acquisition project.</li> </ul>
Oil Transportation	Second train of the second stage of the Kazakhstan-China oil pipeline construction. Increasing the capacity to 20 Mtpa	2013-2014 (tenge 1) 2015-2018 (tenge 2)	Second stage includes reconstruction and expansion using own resources of the Kazakhstan-China oil pipeline system from Atyrau to Alashankou of the corresponding sections: MunaiTas NWPC JSC — the Kenkiyak-Atyrau oil pipeline, Kazakhstan-China Pipeline LLP — Kenkiyak-Kumkol and Atasu-Alashankou oil pipelines, and JSC «KazTransOil» — oil pipelines on the Kumkol-Karakoin-Atasu section and OPS along the whole rout.
	Expansion the general cargo capacity of «Batumi sea port» LLP up to 2.5Mtpa	2014-2016	The project implementation involves increasing the capacity of «Batumi sea port» LLP up to 2.5Mtpa due to the construction of an auto scaffold bridge; purchasing of two cranes of «Aist» 18-20-32 (36) type; construction of a cargo district building; purchasing of front-end loaders; reconstruction of rail ways; purchasing and mounting of rvy scales and expansion of depot acreage.
Large projects	North-Caspian project	1993-2041	<ul style="list-style-type: none"> <li>• Implementation under the Agreement for Consortium dated December 03, 1993 and PSA on North Caspian dated November 18, 1997</li> <li>• A group of oil fields: Kashagan, Kalamkas-sea, South-West Kashagan, Aktoty, Kairan</li> <li>• Development of the Kashagan oil field is at the pilot development planning (PDP) stage. Pursuant to Amendment 4 to KDPaB the nominal volume of oil volume within PDP will make 370 thsd bbl/day.</li> </ul>

### *Estimated Income*

	<i>mn KZT</i>				<i>Target indicators of KMG's operating and non-operating income were formed.</i>
	2015	2016	2017	2018	
Total Income	2,511,670	2,840,365	3,367,945	3,961,767	
Income from sales	2,391,473	2,780,180	3,303,515	3,907,578	
Financial income	39,395	36,374	35,669	28,263	
Miscellaneous income	80,802	23,811	28,761	25,926	
Net income	(75,867)	29,337	232,980	377,827	

# 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 2014, 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 activities for implementation of Corporate Risk Management System and Internal Control in 2014*

### *March - August*

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The following internal documents of KMG on corporate risk management system and internal control system are approved by the resolution of the relevant KMG's authorities:

1. Provision on the Risk Management Committee under the KMG's Board
2. Standard Risk Classifier of KMG and its subsidiaries
3. Rules of market risk management of KMG
4. Rules on the consideration, consolidation and accounting for contingencies of KMG
5. Policy on corporate risk management system of KMG and its subsidiaries and affiliates

### *September - December*

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Seminar on corporate risk management system and internal control system for all KMG's structural units was held.

Two training seminars on the risk management system within adaptation course for newly hired workers were held.

### *October*

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On October 17, by the order of the Chairman of the Management Board a Risk-Control Matrix of Corporate Level was approved.

### *January - December*

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During the reporting period the risks were monitored quarterly with the participation of the KMG risk owners in the risk identification and assessment, monitoring of implementation of risk management, quarterly calculation of the level of KMG's risk-appetite, statistical database of implemented risk had been maintained and the monitoring results had been rendered in the quarterly risk reports. Quarterly risk reports are submitted for consideration to the KMG's Board of Directors in accordance with the established procedure.



Below is the non-exclusive 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 financial performance of the Company. 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 interest rate on loans is based on the interbank loan rates LIBOR and EURIBOR, whose increase may lead to appreciation of KMG's debt servicing. In 2014 the Company did not take measure to minimize the risk, as it did not expect material growth in the loan rates.

#### Inflation risk

Change in the consumer price index exerts influence on the Company's financial standing; however, the existing and forecast inflation levels are not critical for the Company. In 2014, the Company took no measures to minimize the risk of inflation.

#### 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 mathematic simulation of the price risk every 10 days using the internal model Cash Flow/Earnings at risk (CFaR/EaR) for assessment of price risks. 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.

In 2014 the Company set about developing the Market Risk Management Regulations.

#### 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. Wild-cat drilling bears the risks of additional unforeseen costs due to complex geological environment, abnormal reservoir pressure, unfavorable 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 CRNMPC 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. On March 5, 2014, at the third meeting of the Board of social partnership development and labor disputes settlement the following draft documents were discussed: Corporate Agreement on cooperation in the regulation of social - labor relations between JSC NC «KazMunayGas» and regional public organization «Craft Union of Oil and Gas Industry Workers»; approval of Standard Rules of the uniform system of internal communication between employers and employees of subsidiaries and affiliates of JSC NC "KazMunayGas"; Standard Rules of social support to employees of subsidiaries and affiliates of JSC NC "KazMunayGas"; Standard Rules of compensation employees of subsidiaries and affiliates of JSC NC "KazMunayGas"; approval of the Work Plan of the Board of social partnership development and labor disputes settlement for 2014. In February - March, August - September 2014, the KMG group of companies held reporting meetings of the heads of KMG's subsidiar-

ies and their personnel with the participation of trade unions and representatives of JSC NC "KazMunayGas". On April 4, 2014, the Round Table «Uniform socio - labor policy of JSC NC "KazMunayGas" as a constructive way to prevent labor disputes» was held. KMG's management team, leaders of trade unions, government officials and others took part in the discussion. For union leaders, as well as for deputy directors for social issues two-day training regarding negotiation process, conflict resolution and the principles of congruence of interests was arranged in Aktau.

The Company pursues a consistent policy regarding corporate social responsibility, including annual meetings with the first leaders of production teams to provide feedback between the company management and employees, explanatory and informational work at the place of production, meetings of KMG's leaders with labor teams of production facilities.

#### Safety, Health and Environment

The Company's production operations bear the risks of damage to the life and health of the employee, and harm to 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, imposition of punitive sanctions for exceeding greenhouse gas emission quotas, 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. On 24 July 2012 KMG approved KMG's Comprehensive Programme in Occupational Health and Safety for 2012-2016 for the purposes of minimizing these risks. The Company on a phased basis introduces modern engineered safety features and carries out optimization of the security activities on the most crime-prone sections of oil pipelines. In order to ensure systemic approach to accomplishment of environmental tasks, including gas disposal, the Company has developed and is implementing the Comprehensive Environmental Program for 2006-2015



# Corporate Governance



The system of corporate governance of JSC NC «KazMunayGas» is based on the respect to the rights and legitimate interests of the Sole Shareholder 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 structure of the corporate governance operating in JSC NC «KazMunayGas» constantly is improved taking into account achievements of the Kazakhstani and international practice of governance and according to the accepted international standards.

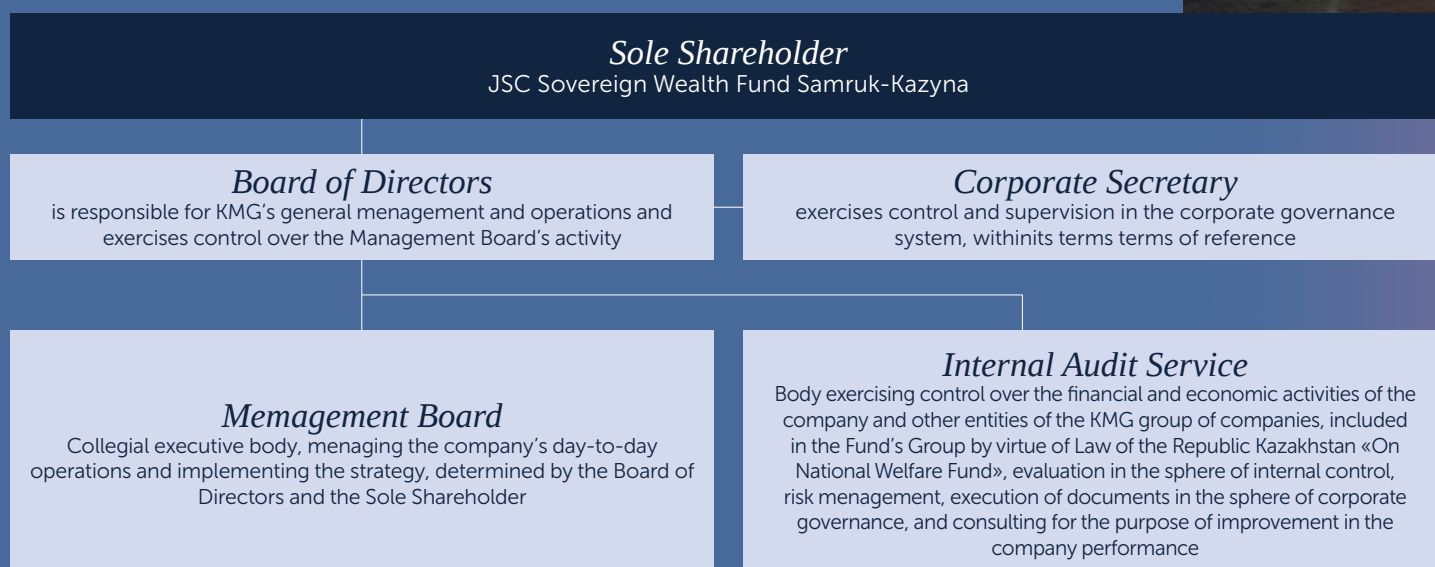
In 2014 diagnostics of corporate governance of JSC NC «KazMunayGas» was carried out by Service of

internal audit of JSC NC «KazMunayGas» according to a technique of diagnostics of corporate governance in the companies of JSC «Samruk-Kazyna» group.

Based on the results of diagnostics the corporate governance rating of JSC NC «KazMunayGas» in 2014 made 75,0%. This assessment is received for the account of interaction of three components: «Structure», «Processes», «Transparency», taking into account their quantitative values: structure — 68, 3%, processes — 73, 2%, transparency — 81, 7%.

Recommendations of Service of internal audit of JSC NC «KazMunayGas», data during diagnostics of corporate governance, are reflected in the Plan of measures on improvement of the corporate governance system in JSC NC «KazMunayGas» for 2015–2016.

## Corporate Governance Bodies



## *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 Aof JSC NC «KazMunayGas» is responsible to the Sole Shareholder for effective management and proper control over the activity of the company and for ensuring a proper dialog with the Sole Shareholder. The Board of Directors, in accordance with KMG's Charter, determines the top-priority areas of KMG's operations and approves KMG's development strategy, considers and passes resolutions related to the issues of potential acquisitions and other significant financial issues, including issuance of bonds and derivatives. KMG passes resolutions on making major transactions and transactions in which there is interest of acquiring, transferring (assignment) of a subsoil-use right (after negotiating with the Competent Authority in conformity with the laws), entering into joint operating contracts (agreements) with strategic partners for joint implementation of projects on subsoil-use contracts 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 Sole Shareholder;
2. a person ensuring maintenance of systematic communications between the Company and the Sole Shareholder, between the Sole Shareholder and the Board of Directors, the Internal Audit Service, the Management Board, and other bodies of the Company, between the Company and its stakeholders;
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 work performed for the achievement of KMG's objectives.

In compliance with clause 94 of the Charter of JSC NC "KazMunayGas", Chairman of the Management Board passes resolutions on the matters of KMG's immediate activities, in particular, on procurement of services, creation of working groups and committees on KMG's projects, hospitalities, personnel appointments and penalties, social support to employees, corporate governance, and on other matters of 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, and 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 under 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.

Out of 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 task 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.

Carrying out its activities in accordance with the annual audit plan approved by the resolution of KMG's Board of Directors of 20 Nov. 2013, minutes No. 16/203, the Internal Audit Service is to accomplish the following objectives:

- evaluation of the reliability and efficiency of the internal control and risk management procedures applied;
- evaluation of the accuracy, completeness, objectivity of the accounting system and compilation of financial reporting in KMG and its SDEs based thereon;
- evaluation of the rationality of the use of resources by KMG and its SDEs, and the methods applied for ensuring security of assets;





- control over compliance with the RoK's statutory requirements, corporate norms and the regulations of the operating, investment and financial activity.

In accordance with the 2014 audit plan, 26 audits of production, operating and financial processes were performed, 17 audits for monitoring implementation of the provided recommendation, 6 partner audits and 4 checkup committees and working groups were participated in.

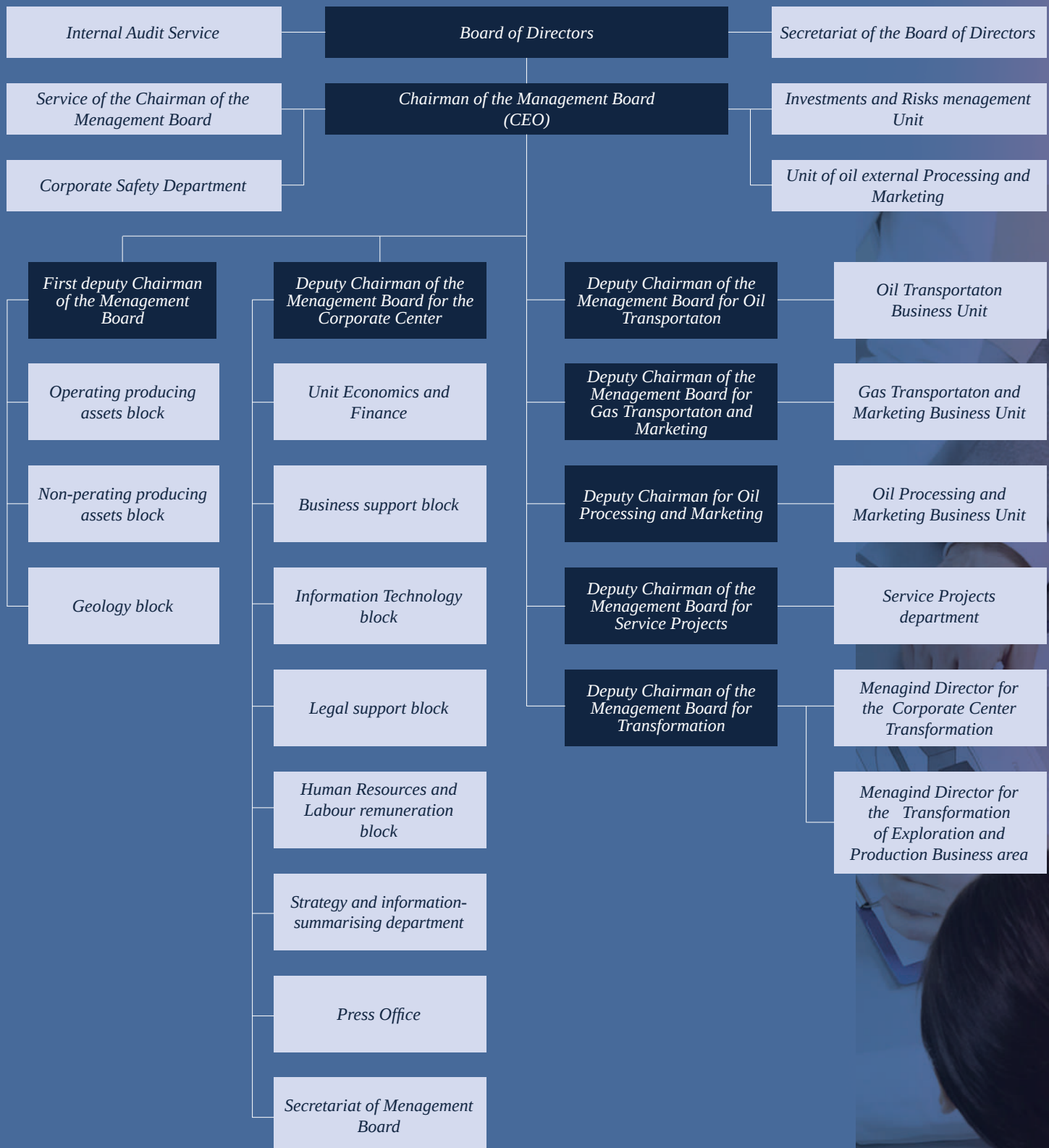
Based on the results of the 2014 audits, the IAS issued 840 recommendations, aimed to improve the risk management, internal control and corporate governance processes.

Interface between the IAs and the Audit Committee under KMG's Board of Directors is in compliance with the Regulations on the Audit Committee and the IAS. The results of all audit reports are considered on a quarterly and annual basis at the meetings of the Audit Committee.

In order to eliminate the identified inconsistencies, the audited entities develop Plans of Corrective Actions on the inconsistencies found. The Internal Audit Service constantly analyses and monitors implementation of the recommendations issued during audit checks. The purpose of the monitoring is to determine the appropriateness of the actions taken, which ensure mitigation/avoidance of the identified risks. Following the results of the monitoring, as of 31 Dec. 2014 the degree of implementation of the recommendations issued in 2014 amounted to 78.1%.

To boost the efficiency of operations of the JSC NC "KazMunayGas" group of companies, monitoring of and control over timely provision of audited entities' reports on following audit recommendations and implementation of the Plans of Corrective Actions have been included in the KPIs of Chairman of Management Board of JSC NC "KazMunayGas", and Managing Directors supervising the Company's SDEs.

## Company's organizational structure





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## *Interaction with the Shareholder*

The Sole Shareholder of JSC NC «KazMunayGas» is JSC «Sovereign Wealth Fund «Samruk-Kazyna», which holds 100 percent of shares of JSC «National Company «KazMunayGas».

KMG's Board of Directors understands the importance of the permanent and effective communication with the Sole Shareholder. The Company pro-

vides to the Sole Shareholder timely and complete information about its activities, which involves the interests of the Sole Shareholder in the order stipulated by KMG's Charter and internal documents. resolutions of the Sole Shareholder, made under his competences, are mandatory for KMG's Board of Directors.

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## *Interaction with Subsidiary and Dependent Entities*

Interaction with subsidiary and dependent entities (SDEs) 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 Sole Shareholder 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 the Sole Shareholder's resolution No.27/13 of 28 May 2013, an amount of 38,961,363,784 (thirty-eight billion nine hundred and sixty-one million three hundred and sixty-three thousand seven hundred and eighty-four) KZT, or 10.5% of the consolidated total profit of KazMunayGas for 2012, has been directed to distribution of dividends to the Sole Shareholder.

The approved dividend amount per one ordinary share of JSC NC "KazMunayGas" amounted to 75 (seventy-five) KZT 19 (nineteen) tiyns.



*Board of Directors of JSC NC «KazMunayGas»  
as at 31 December 2014*



*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), Degree in Law

Post Graduate Programs:

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 executive posts in ABN AMRO Bank 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 and Resources.

Corporate Executive Vice President:

Member of Executive Committees for Europe, Central and Eastern Europe, Middle East and Africa and Corporate & Investment Banking;

Advisor in several international organizations;

Member of Foreign Investors' Council under President of the Republic of Kazakhstan;

Independent Director of 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 Chairman, 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 Arts in 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 RoyalDutchShell;

Chief Executive Officer for East Caribbean;

Director, ShellUKOil;

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 June 2011 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 June 2011 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 sole 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, KazakhstanPetrochemicalIndustriesInc. JSC.  
CEO, KazakhstanPetrochemicalIndustriesInc. 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 June  
2011 he was reelected as Sole 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 sole shareholder -  
Sovereign Wealth Fund "Samruk-Kazyna"  
JSC,  
Member of the Management Board,  
Samruk-Kazyna JSC - CFO

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 Kazakhstan 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 June 2011 he was reelected as Sole 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 June 2011 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 (KMG's Sole Shareholder).

### *Changes to the membership of Board of Directors during 2014*

5 March 2014

- The powers of Member of KMG's Board of Directors M.Zh. Salimgereyev were terminated.
- D.I. Yerdebai - elected Member of KMG's Board of Directors (sole shareholder's representative).
- Ye.U. Baimuratov - elected Member of KMG's Board of Directors (Independent Director).
- F. Kuijlaars - elected Chairman of KMG's Board of Directors.

17 April 2014

- Walton Christopher - elected Member of KMG's Board of Directors (Independent Director).



### *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, Ye. U. Baimuratov — 18,200,000 KZT.

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 of the Board of Directors were held in 2014 and were in praesentia (including those held by means of conference call).

220 matters were submitted for consideration of the Board of Directors, of which 50 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 220 resolutions passed by the Board of Directors in 2014:

- over 60 resolutions — on important matters of corporate governance and the aspects regulating KMG's internal activities;
- about 20 resolutions on the matters of subsoil use, making amendments to the subsoil use contracts;
- 22 resolutions were about appointment of staff and the structure of KMG's central office;
- 5 resolutions — on the matters of making interested-party transactions;
- about 40 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 2014*

Name of Member of KMG's Board of Directors	Number and date of meeting						
	№1 (20.02)	№2 (19.03)	№3 (23.04)	№4 (12.05)	№5 (22.05)	№6 (04.06)	№7 (16.06)
S.M. Mynbayev	+	+	+	+	+	+	+
F. Kuijlaars	+	+	+	+	+	+	+
P. Lane	+	+	+	+	+	+	+
N.K. Rakhmetov	+	-	+	+	+	-	+
M.Zh. Salimgereyev	+	Removed from KMG's Board of Directors by resolution of Management Board of the Samruk-Kazyna JSC No.07/14 of 5 Mar 14					
D.I. Yerdebai	Included in KMG's Board of Directors by resolution of Management Board of the Samruk-Kazyna JSC No.07/14 of 5 Mar 14	+	+	+	+	+	+
Ye.U. Baimuratov	Included in KMG's Board of Directors by resolution of Management Board of the Samruk-Kazyna JSC No.07/14 of 5 Mar 14	+	+	+	+	+	+
C. Walton	Included in KMG's Board of Directors by resolution of Management Board of the Samruk-Kazyna JSC No.12/14 of 17 Apr 14	-	+	+	+	+	+





## *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, and Corporate Secretary;
- ensuring an efficient staff policy, compensation and remuneration system, and social support, vocational development and training of officers and employees.

### Committee on Strategy and Innovation

**Chairman:**

Christopher Walton

(KMG's Independent Director)

**Members:**

Peter Lane

(KMG's Independent Director)

Frank Kuijlaars

(KMG's Independent Director)

Ye. 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.



## 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

Samruk-Kazyna JSC

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 performance of 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.

## 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 Appointment and Remuneration Committee held 13 meetings in 2014. During 2014 the Appointment and Remuneration Committee produced recommendations on the matters of:

- Determining number of members, early termination of powers and election of members of the Board of Directors of the SDEs.
  - Approval of motivation key performance indicators for the members of the Management Board (executive employees) of JSC NC «KazMunayGas» and their target values for 2014.
  - On the Management Board of JSC NC «KazMunayGas».
  - Determining the remuneration amounts to the members of Management Board (executive employees) of JSC NC «KazMunayGas» following the 2013 results.
  - Appointing the chief executive officers of the SDEs.
- In addition, the following matters were considered at the Committee:
- Development of recommendations on the membership of the Board of Directors of JSC NC «KazMunayGas».
  - Development of recommendations on the candidate for the post of Chairman of the Board of Directors, JSC NC «KazMunayGas».
  - Development of recommendations on remuneration to the members of KMG's Board of Directors.

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.



### *Information on Participation in Meetings of KMG's Appointment and Remuneration Committee in 2014*

Name of Member of KMG's Board of Directors	Number and date of meeting													
	No1 (19.02)	No1-1 (20.02)	No2 (18.03)	No3 (22.04)	No4 (20.05)	No4-1 (28.05)	No5 (23.06)	No6 (25.08)	No7 (23.09)	No8 (21.10)	No9 (28.10)	No10 (13.11)	No11 (2.12)	
P. Lane	+	+	+	+	+	+	+	+	+		+			
F. Kuijlaars	+	+	+	+	+	+	+	+	+		+			
M. Zh. Salimgereyev	-	-	-	-	-	-	-	-	-	Removed from the Committee by resolution of KMG's Board of Directors No.12/2014 of 24 September 2014				
C. Walton	Included in the Committee by resolution of KMG's Board of Directors No.12/2014 of 24 Sep 2014										+	+	+	+



Committee on Strategy and Innovation held 10 meetings in 2014, at which recommendations on the following key issues were produced:

- KMG's development strategy;
- business transformation using KMG's information technology;
- approval and amendment of articles of association of KMG's subsidiaries;
- Improvement of corporate governance in KMG.

Besides, the Committee discussed the current status and development outlook of the North-Caspian Project, Kashagan, Karachaganak projects, condition of JSC "KazTransOil"'s assets in Georgia, setting the tariffs of the hydrocarbons transportation services.

### *Information on Participation in Meetings of KMG's Strategy and Innovations Committee in 2014*

<i>Name of Member of KMG's Board of Directors</i>	<i>Number and date of meeting</i>									
	<i>№1 (18.02)</i>	<i>№2 (18.03)</i>	<i>№3 (22.04)</i>	<i>№4 (20.05)</i>	<i>№5 (23.06)</i>	<i>№6 (26.08)</i>	<i>№7 (22.09)</i>	<i>№8 (06.10)</i>	<i>№9 (21.10)</i>	<i>№10 (03.12)</i>
C. Walton	Included in the Committee by the resolution of KMG's Board of Directors of 24 Sep 2014 (minutes No.12/2014)							+	+	+
P. Lane	+	+	+	+	+	+	+	+	+	+
F. Kuijlaars	+	+	+	+	+	+	+	+	+	+
Ye. Baimuratov	Included in the Committee by the resolution of KMG's Board of Directors of 24 Sep 2014 (minutes No.12/2014)							+	+	+
M. Zh. Salimgereyev	+	-	-	-	-	-	-	Removed from the Committee by the resolution of KMG's Board of Directors of 24 Sep 2014 (minutes No.12/2014)		

The Financial Committee. Pursuant to item 6.3 of the Charter of the Committee, the Committee holds regular official meetings, but not less than five meeting per year. In 2014 8 meetings of the Committee were held, at which 19 matters were considered and on which recommendations were given to KMG's Board of Directors.

At meetings of the Committee the recommendations to KMG's Board of Directors were considered and developed on the issues as follows:

"Financial sustainability of JSC NC "KazMunay-Gas".

The KMG's financial sustainability is considered by the Committee on the regular basis, with detailed and effective discussions, aimed at the influence analysis of the oil price's various scenario, essential investment projects, M&A transactions etc. at KMG's liquidity level. Also KMG's current credit restrictions (covenants) and indicators of credit characteristics to avoid breaches of covenants and to maintain the investment credit rating at the level of Baa3/BBB-/BBB. Depending on the level of KMG's financial sustainability and funds available, the Committee gives corresponding recommendations to the Financial Unit of KMG and KMG's Board of Directors:

- "On KMG's financial Center"

As and when necessary the Committee considers possibilities of optimization of KMG's financial activity. In this connection the Committee considered an issue of centralization of holding's principal financial functions by means of creation of KMG's financial center. This initiative was supported by the Committee; the relevant recommendations were given to KMG's Board of Directors.

- "On the "Alfa" project"

The issue has been considered by the Financial Committee almost at every meeting during 2014. The relevant recommendations and instructions were developed and given to the members of KMG's Financial Unit and to the project consultants. As a result, KMG was ready to implement the first stage of the projects (buyback transaction), taking into account availability of the relevant credit documentation and discussions held with the minority shareholder of EP KMG. Therewith in the course of the "Alfa" project implementation

the Committee was considering the intermediate results of engaging project consultants (financial, legal, auditors), debt financing organization for the project, and results of the discussions with the interested parties' representatives. The work carried out by the Committee members on the issues included not less than 50 conference calls and 25 private meetings in London and Amsterdam.

- "On placement of Eurobonds of JSC NC "KazMunayGas"

After in-depth discussion of KMG's liquidity shortage level, created by means of expected amortization of the debt instruments and, taking into account the attractive conditions at debt capital markets, the members of the Committee decided to recommend KMG's Board of Directors debt financing in the amount of 1.5 bn USD, entering into corresponding transactions.

As a result of approval of this transaction by KMG's Board of Directors, two issues of Eurobonds were performed, both of which were successful, including historically low interest rates and the longest maturity than those of the formerly issued debt instruments of KMG.

The Committees' recommendations were announced at meetings of the Board of Directors and were taken into consideration by KMG's Board of Directors by decision making.

KMG's executive officers and employees without voting power were regularly invited to meetings of the Committee to participate in the work of the Committee.





## Information on Participation in Meetings of KMG's Financial Committee in 2014

Name of Member of KMG's Board of Directors	Number and date of meeting							
	No1 (17.02)	No2 (18.03)	No3 (24.04)	No4 (21.05)	No5 (24.06)	No6 (27.08)	No7 (23.09)	No8 (03.12)
F. Kuijlaars	+	+	+	+	+	+	+	+
P. Lane	+	+	+	+	+	+	+	+
N. Rakhmetov	-	+	+	+	+	+	-	-
C. Walton	Included in the Committee by resolution of KMG's Board of Directors No.12/2014 of 24 Sep 2014							+
Ye. Baimuratov	Included in the Committee by resolution of KMG's Board of Directors No.14/2014 of 24 Oct 2014 (протокол №14/2014)							+

The Audit Committee held 10 meetings in 2014. Members of the Audit Committee were present at all meetings.

10 meetings were held in 2014, at which 78 matters were considered, including approval of amendments and additions to the corporate accounting policy of the JSC NC "KazMunayGas" group of companies, Company's accounting staff development programme, enterprise risk management system policy, accounting staff certi-

fication plan, discussion based on the results of the consolidated financial reporting of JSC NC "KazMunayGas" for 2013, for 6 months of 2014, approval of the quarterly business reports of the Internal Audit Service, including consideration of material discoveries based on the results of the performed audits, and monitoring implementation of the external auditors' recommendations. KMG's Board of Directors accepted all recommendations and proposals of the Audit Committee.

## Information on Participation in Meetings of KMG's Audit Committee

Name of Member of KMG's Board of Directors	Number and date of meeting									
	№1 (18.02)	№2 (18.03)	№3 (22.04)	№4 (20.05)	№5 (23.06)	№6 (26.08)	№7 (22.09)	№8 (06.10)	№9 (21.10)	№10 (03.12)
P. Lane	+	+	+	+	+	+	+	+	+	+
F. Kuijlaars	+	+	+	+	+	+	+	+	+	+
K. Walton	Included in the Committee by resolution of KMG's Board of Directors No.12/2014 of 24 Sep 2014					+	-	+	+	+



*Management Board of JSC NC “KazMunayGas”  
as at 31 December 2014*



*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 Sole Shareholder.

Heads KMG’s Management Board, Committee for Major Oil and Gas Projects, Integrated Management System Board, Science and Engineering Council, and the Investment Committee.

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, service of Chairman of Management Board, and Corporate Security Department.

Determines priority areas and targets in the sphere of vocational security and safety, industrial and fire safety, environmental protection, civil defense and emergency situations (VS&EP), the results of their execution and achievement.

**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.





Has been working In the oil and gas sector since 1980.

C. Hopkins has an extensive experience of work in the oil and gas industry, and currently holds the position of Chief Operations Officer of JSC NC «KazMunayGas». Before the employment in KMG, he held positions of CEO of International Petroleum, CEO of Imperial Energy and Senior Vice President, North African Assets, BG Group. Earlier he had worked in various positions in Shell. C. Hopkins studies physics at the St Andrews University.

*Christopher Hopkins*







*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 Senior Deputy General Director of the 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 JSC «KazMunayGas – Refining & Marketing», and later – General Director of JSC «KazTransGas». He has 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 procedure established in KMG's internal documents.

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

- monitoring of execution of the acts and instructions of President of the Republic of Kazakhstan, Government of the Republic of Kazakhstan, Chairman of Management Board of the 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 Sole Shareholder and KMG's management;
- organizational and document support to the activity of KMG's Management Board. Control over implementation of the Work Plan of KMG's Management Board;
- ensuring integrity of KMG's Integrated Management System in accordance with the ISO 9001, ISO 14001 and OHSAS 18001 international standards, improvement and harmonization of the processes within the IMS. Monitoring of the management systems of the SDEs;
- protection of information constituting state secrets, ensuring implementation of information security procedures;
- execution of the plans for KMG's special training, carrying out works for the most rational use of the production capacity and material resources of KMG and its SDEs having special orders for ensuring special training;
- management of assets, finance, budget planning, statutory and fiscal accounting;
- administrative support to KMG's operations;
- approval of acts on writing-off of fixed assets, reserves and intangible assets;
- control over the purchase process arrangement activity;
- management of KMG's document support and document workflow process;

- 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 Balanced Scorecard system in the KMG group of companies;
- ensuring achievement of the target values of key performance indicators related to the terms of reference of the Corporate Centre, in order to implement KMG's development strategy;
- 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 and information-and-analytical, consulting agencies and organizations;
- coordination of development and implementation of the common IT strategy of KMG and its SDEs;
- ensuring implementation of the common information and image policy of KMG and its SDEs, including coordination of development and implementation of KMG's PR strategy and media plan;
- control over and monitoring of KMG's and SDEs' activity on the matters of staff and social policy;
- control over and monitoring of KMG's and SDEs' activity on the matters of occupational health, environmental protection and industrial safety.

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 Legal Support, Economy and Finance, Human Resources and Labour Remuneration, Information Technology, Business Support, Secretariat of the Management Board, Strategy and Information-Summarizing Department and the Press Office.

#### 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
- 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, Kylysh Commercial Partnership



*Kaigeldy Maksutovich  
Kabyldin*

Deputy Chairman of  
Management Board for Oil  
Transportation

Year of birth – 1953  
Nationality: Kazakhstan

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

V.I. Lenin Kazakh Polytechnic

Line of profession - Computing Machines, qualification - Electrical Engineer.

**Work Experience:**

Started out on a career as maintenance engineer in the Ministry of Oil Industry of the USSR. Held major posts in the Ministry of Oil and Gas Industry of the Republic of Kazakhstan, CJSC "NOTC "KazTransOil", CJSC NC «Oil & Gas Transportation». From 2002, he worked as Managing Director for Transportation Infrastructure and Support-sector Projects, and later, Vice President of JSC NC «KazMunayGas». In 2007 he was appointed Vice Chairman of the Management Board of the "Samruk" Kazakhstan Holding Company for Assets Management JSC. From 2008 to October, 2011 he was Chairman of Management Board of JSC NC "KazMunayGas". Since October, 2011 - 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;
- 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 in oil transportation within the framework of intergovernmental 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.

Ensuring achievement of the set key performance indicators for the planned period of time in the supervised area in accordance with the VS&EP Strategy and 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 "KazTransOil"



***Kairat Nemberbayevich  
Nurakhmetov***

Managing Director for Non-  
operating Producing Assets

Year of birth – 1976

Nationality: Kazakhstan

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

Al-Farabi's Kazakh National University

Line of profession: International Economic Relations, qualification -  
Economist, World Economy Specialist

Johns Hopkins University

Line of profession: International Economy and International Relations

**Work Experience:**

Started out on a career in 1999 as Sector Head of the Strategic Planning and Foreign Economic Relations Department in the NOC «Kazakhoil» CJSC. From 2001 he worked in the KazTransGas CJSC. From 2002 to 2010 K.N. Nurakhmetov was employed in JSC NC «KazMunayGas» as Project Economics Manager for the Karachaganak Project, Deputy Director of the Karachaganak Project Department, Senior Manager of the Karachaganak Project Department. In October, 2011 he was invited to take up the position of CEO in the PSA LLP. Since December, 2013 to the present day has held the post of Managing Director for Major Projects of JSC NC «KazMunayGas».

**Supervised matters of activity**

Heads the Coordinating Board for Corporate Data Bank, Panel on the Matters of Acquisition of Alienable Subsoil Use Rights (a Part Thereof) and/or Participating Interests (Stockholding) in a Legal Entity Holding a Subsoil Use Right. 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;
- safeguarding KMG's interests in major oil-and-gas projects (MOGPs) (Tengiz, North-Caspian, Karachaganak Projects), participating in meetings of the management bodies of MOGPs for considering and agreeing on annual production programmes and budgets, long-term and medium-term production programmes and business plans, and on other matters of activity within the framework of MOGPs;

- developing proposals concerning exercise by the state of the priority right to acquire alienable subsoil use rights (a part thereof) and/or facilities related to the subsoil use right, liaising with the Competent Authority and other governmental authorities of the Republic of Kazakhstan on the matters of subsoil use;
- control over meeting the approved oil production schedule and production programmes by the MOGPs;
- obtainment by KMG of the subsoil use right on new exploration and production projects onshore and offshore, both in the Republic of Kazakhstan and beyond, by direct negotiations with the Competent Authority, through purchase and/or acquisition in any manner whatsoever from third parties and its transfer or sale to its subsidiary and dependent entities;
- provision of a geologic-and-technical support to major oil and gas projects (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 Geology and Geophysics Department, Field Development Department, and Prospective Projects Development Department.

Provision of support to the VS&EP matters in KMG's corporate governance system in the supervised business area.

#### 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 Partnership Council, Tengizchevroil LLP
- Member of the Steering Committee in the North-Caspian Project Production Sharing Agreement
- Member of the Joint Management Committee in the Karachaganak Project Final Production Sharing Agreement
- Member of the Supervisory Board, 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 has worked as Deputy General Director for Operations in JSC “TH “KazMunayGas”, has 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 and gas refining industry of the Republic of Kazakhstan, including increasing the conversion ratio of oil and gas, enhancement of the products quality, improvement of the production operations, ensuring financial return on oil and gas refining, petrochemistry, crude and oil products marketing projects, increasing the level of technological development;
- coordinating of works for development of the common technical policy in the sphere of oil and gas refining and petrochemistry of the supervised SDEs, coordinating works for carrying out technical and environmental expert review of projects for development of refineries;
- development of Kazakhstan’s oil and gas 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 and gas refining;
- coordinating the matters of international cooperation in petrochemistry, and oil and gas refining 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 their financial and economic activities;

- ensuring execution of instructions of the Government of the Republic of Kazakhstan and the Ministry of Oil and Gas of the Republic of Kazakhstan on shipping diesel 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.

Ensuring achievement of the set key performance indicators for the planned period of time in the supervised area in accordance with the VS&EP Strategy and 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



***Nurtas Nuribekovich  
Shmanov***

Deputy Chairman of  
Management Board for  
Support-Sector Projects

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:**

He has worked as General Director of JSC “KazTransOil”, Deputy General Director-at-Large of CPC-R, Regional Manager for Transportation in ChevronNefteGaz in Moscow and Almaty. Has held various posts in ChevronMunaiGaz and Atyrau Oil Pipeline Administration.

**Supervised matters of activity**

Heads the Coordinating Board for Development of the Kazakh Content.

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;
- development and implementation of KMG’s Innovation-based-and-technological Development Strategy, coordinating development of KMG’s innovation-and-technological capacity;
- management of the service asset portfolio, assistance to development of oil support-sector production capacity, ensuring competitive capacity of the support sector area for satisfying the existing and forecast requirements of the oil-and-gas sect and KMG through development of the existing and creation of a new support sector infrastructure;
- analysis of the long-term requirement of the oil-and-gas industry for goods, works and services, monitoring of the existing and prospective capability of the domestic producers in order to place order on them;



- coordinating the matters of international cooperation in development of support sector area within the framework of intergovernmental commissions with countries of far and near abroad, and as part of participation in international projects;
- assisting to development of the national oil-and-gas machine-building, increasing the technical level and competitive capacity of its products;
- assistance in the matters of setting up joint ventures for creation of new facilities for production of oil and gas equipment and support sector services on the territory of 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 and JCEs, and in international and other organizations.

Determines priority areas and target results of work of the Support-Sector Projects Department.

Ensuring achievement of the set key performance indicators for the planned period of time in the supervised area in accordance with the VS&EP Strategy and 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 Steering Committee, Kazakhstan Pipeline Ventures LLC
- Member of the Board of Directors, Caspian Pipeline Consortium-Russia CJSC
- Chairman of the Board of Directors, JSC «KazTransOil»
- Member of the Board of Supervisory Directors, AstanaGas KMG LLP
- Chairman of the Board of Directors, JSC "KazTransGas"
- Chairman of the Board of Supervisory Directors, LLP NMSC «KazMorTransFlot»



*Timur Mustakhiyevich  
Bimagambetov*

Managing Director for  
Operating Producing 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 the key performance indicators for the supervised business area;
- coordinating works for development of oil-and-gas fields, oil and gas production, execution of the approved oil production schedules and produc-

tion programs of the supervised SDEs and JCEs, forecasting the output level, development and implementation of the technical policy in well construction, oil and gas development and production;

- coordinating the matters of international cooperation in oil and gas production;
- developing new oil production plant and technology;
- introduction of new oil-and-gas equipment, plant and materials, technical modernization of the existing equipment fleet in the oil and gas producing SDEs and JCEs;
- assisting to development of the national oil-and-gas machine-building, increasing the technical level and competitive capacity of its products.

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 Producing Assets, New Production Equipment and Technology, Oil & Gas Machine-Building Technology Development Departments.

#### 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 «KazMunay-Teniz» JSC
- KMG's Representative in the General Meeting of Members, Kazakhoil Aktobe LLP
- Chairman of the Board of Supervisory Directors, Kazakhoil Aktobe LLP and Aktaunefte servis LLP
- Chairman of the General Meeting of Members, Kazakhturkmunai Ltd.
- Chairman of the Board of Directors, JSC «Mangistaumunaigaz»





*Kurmangazy Oryngazyevich  
Iskazyev*

Managing Director for  
Geology, Chief Geologist

Year of birth – 1965  
Nationality: Kazakhstan

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

V. Lenin Kazakh Polytechnic (1982 – 1993)

Line of profession: Oil and Gas Geology, qualification – Mining Engineer - Geologist

Candidate of Geological and Mineralogical Sciences

**Work Experience:**

Started out on a career as Collector Operator of the Balykshi Exploration Drilling Directorate (BEDD) of the Embanef PA, later worked as Well Cementing Operator of the Plug-back Operation Office. From 1991 to 1993 – employed as Geologist of drilling expedition No.1 of the Balykshi Exploration Drilling Directorate. From 1993 to 1995 – transferred to the position of Senior Geologist, and later – Lead Geologist of the CDO of the Atyrau Drilling Directorate. From 1995 to 2004 he worked as Chief Geologist – Deputy Director of the Atyrau Enhanced Oil Recovery and Well Workover Directorate, Directors of the Geology and Oil-and-Gas Field Development Department of the Embamunaygas OJSC. From 2004 to 2008 held the position of Deputy Director, and later – Director of the Geology and Development Department of the KazMunaiGas EP JSC. Has worked in JSC NC «KazMunayGas» from 2008, held various positions: Executive Director for Oil and Gas Production, Managing Director for Geology, Geophysics and Reservoirs, Chief Geologist. Since early 2012 to the present day has held the post of Deputy Chairman of Management Board for Geology and Prospective Projects of JSC NC «KazMunayGas».

**Supervised matters of activity**

Heads the Coordinating Board for Corporate Data Bank, Panel on the Matters of Acquisition of Alienable Subsoil Use Rights (a Part Thereof) and/or Participating Interests (Stockholding) in a Legal Entity Holding a Subsoil Use Right. 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;
- monitoring replenishment of the resource base in accordance with KMG's long-term strategy and management of the geologic-and-geophysical database, including creation of a high-quality geologic-and-geophysical database - KMG's corporate data bank (CDB) and National Oil and Gas Projects Data Bank (NDB), forming and developing the own center for collection, processing and interpretation of geologic-and-geophysical and field data;
- arranging measures to maintain rapid tempo and efficient conduct of exploration works, good development of reserves, introduction of reservoir simulation and management technology;

- technical assessment of the oil and gas assets purchased by/assigned to KMG, new contracts for subsoil use right in the area of HC reserves/resources appraisal, exploration plans, development systems, drilling of wells, facilities construction and capital construction;
- developing proposals concerning exercise by the state of the priority right to acquire alienable subsoil use rights (a part thereof) and/or facilities related to the subsoil use right, liaising with the Competent Authority and other governmental authorities of the Republic of Kazakhstan on the matters of subsoil use;
- obtainment by KMG of the subsoil use right on new exploration and production projects onshore and offshore, both in the Republic of Kazakhstan and beyond, by direct negotiations with the Competent Authority, through purchase and/or acquisition in any manner whatsoever from third parties and its transfer or sale to its subsidiary and dependent entities;
- organizing and managing KMG's operating activities under exploration contracts for subsoil use;
- organization and efficient management of the "KazMunayGas" Research and Development Institute of Production and Drilling Technology LLP;
- provision of geologic-and-technical support to major oil and gas projects (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 Geology and Geophysics Department, Field Development Department, and Prospective Projects Development Department.

Provision of support to the VS&EP matters in KMG's corporate governance system in the supervised business area.

#### 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 GMM, Caspian Oil and Gas Company LLC
- Member of the Partnership Council, Tengizchevroil LLP (Chairman)
- Representative of JSC «National Company «KazMunayGas», Chairman of the Operating Committee on the project of the Satpayev Operating LLP, Urikhtau Operating LLP, N Operating LLP
- Member of the Board of Directors, JSC «Mangistaumunaigaz»



*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 Matter 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 observance of the tax 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 results of work of the Corporate Finance Department, Asset Management Department, Budget and Tax Planning Department, and the Accounting Office.

#### 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.



*Kairat Kamatayevich  
Sharipbayev*

Deputy Chairman of  
Management Board for Gas  
Transportation and Marketing,  
JSC NC «KazMunayGas»

K. Sharipbayev joined the members of the Management Board of JSC NC “KazMunayGas”, having an extensive experience of work in the oil and gas industry, in the civil service and in the business entities of Kazakhstan. His responsibility in the Company is coordination of gas-transportation systems. From 2001 to 2004 he held the positions of Director of a department, Head of administration, Deputy General Director for Marketing of the KazTransGas CJSC and Intergas Central Asia CJSC. Continuing his career, K. Sharipbayev worked as Managing Director for Commerce, Advisor in JSC NC “Kazak-stantemirzholy”, and later headed the Board of Directors of the Danko JSC. From 2009 to October, 2014 – General Director (Chairman of Management Board) of the KazTransGasAimak JSC. Studied economics in the Abai Almaty State University, candidate of Political Science.



*Krenkel  
Ernst Theodorovich*

Deputy Chairman of the  
Management Board for  
business transformation JSC  
NC "KazMunayGas"

Year of birth – 1974  
Nationality:  
the Russian Federation

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

Moscow Technical University for Communication and Informatics (1991-1996)  
Line of profession: Applied mathematician, Diploma with honors ShV No. 202796

**Work Experience:**

In the mid of 1990s worked in large international and regional companies in Russia and abroad. Work experience in consumer staples (Wm. Wrigley Company, L'Oreal), oil and gas industry (TNK-BP), management and technology consulting (Accenture, SAP)

Participated and governed transformation programs/projects, including ERP implementation projects, optimization of business-processes, corporate structures, projects of corporate competence and service centers construction.

**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 business processes transformation program in the KazMunayGas group of companies and its subsidiaries and associated companies;
- the business processes transformation program office formation and management;
- control and monitoring of the budget execution for the business processes transformation of the KMG group of companies and KMG's subsidiary and associated companies;
- participation in the work of the commissions, working groups, in the meetings and seminars on the issues of the business processes transformation;
- coordination of the cooperation work between JSC NC "KazMunayGas" and its subsidiaries and associated companies, JSC NWF "Samruk-Kazyna" and other authorities within the implementation of the transformation program.
- Determines priority directions and achievement targets of the project transformation office's work
- Ensures compliance with the key achievement targets of the activities for the scheduled period of time on the supervised direction in accordance with the Company's Strategy and HSE 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 Management Board of JSC NC "KazMunayGas"



## *Changes to the membership of KMG's Management Board during 2014*

23 April 2014

- K. Hopkinson elected Member of the Management Board.

26 November 2014

- Krenkel E. T. elected Member of the Management Board.

## *Remuneration to Members of the Management Board*

Remuneration for the membership in the Management Board of JSC NC "KazMunayGas" is not provided for.

However, in accordance with the Rules of Remuneration of Labour 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 employee is evaluated against two types of key performance indicators (KPIs): corporate and individual KPIs.

The 2014-based remuneration to the members of KMG's Management Board (executive employees) is proportional to the hours worked (with the taxes and other compulsory levies as required by the tax legislation of the Republic of Kazakhstan) amounted to 197,457,738 KZT.

## *Summary Business Report of the Management Board of JSC NC "KazMunayGas"*

In 2014 The Management Board of JSC NC "KazMunayGas" adopted 457 resolutions, 448 of them (98%) were made at meetings in praesentia. 111 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 2014, approved by the resolution of 30 Dec 2013 (minutes No.90).

Subject to the work regulation, meetings in praesentia of the Management Board were held on a weekly basis on Tuesdays and/or Thursdays, which complies to the provisions of the Corporate Governance Code.

Of the total number of the Management Board's resolutions over the reporting period, 102 matters were submitted to consideration of KMG's Board of Directors, which is by 22 matters more than in 2013.

37 matters were related to draft documents or amendments to the existing resolutions or internal documents.

Consistent with the terms of reference of the Board of Directors, 36 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 6 cases, proposed by the Management Board, resolutions of the Board of Directors were passed with regard to making amendments, approving changes, receipt and transfer of the subsoil use right under a number of Hydrocarbons Exploration and Production Contracts.

In addition, in 2014 the Management Board presented for consideration by the Board of Directors 3 matters on making KMG's interested-party transactions and/or transactions of strategic nature.

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 2013, and on the interested-party transactions made, resolutions on which were passed by the Management Board in the 4Q 2013 and during the 9 months of 2014, and the risk management report for the same period.

Among other issues considered by the Board of Directors at the suggestion of the Management Board, one may mention such issues as an increase in KMG's obligations through a Eurobonds issue and making interested-party transactions, placement of Eurobonds, terms of their issuance and placement, on making a loan agreement with UBS AG, Credit Suisse Securities Limited and Deutsche Bank, on closure of KMG's Turkmenistan branch and some others.

As part of the authority to adopt resolutions on the matters referred to the exclusive competence of the general shareholders' (members') meeting the of KMG SDEs, KMG's Management Board adopted

45 resolutions of determination of KMG's position as a member, and 26 — as a shareholder in the subsidiaries for further voting of KMG's authorized representatives at General Shareholders' (Members') Meetings.

Besides, 31 resolutions of the Management Board were passed as resolutions of the Sole Shareholder of KMG's subsidiaries, including: on the matters of JSC "Euro-Asia Air" — 10, JSC "KazMunayGas — Refining & Marketing" — 6, Kazakh-British Technical University JSC — 5, N Block B.V. and Kazakh Institute of Oil and Gas JSC — 3 apiece, JSC "Euro-Asia Air" — 2, JSC OOC "KazMunayTeniz" and KMG Kashagan B.V. Plc — 1 apiece.

Resolutions of the Sole Member of KMG's subsidiaries were carried by the Management Board in 107 cases, including: on the matters of Urikhtau Operating LLP — 16, AktauNefteServis LLP — 13, KMG-Kumkol LLP — 11, KMG — Security LLP and KMG Karachaganak LLP — 10 apiece, respectively,

Kazmortransflot LLP — 7, “KazMunayGas” Research and Development Institute of Production and Drilling Technology LLP, KMG’s Businesses under Construction Directorate LLP and KMG-Trans Caspian LLP — 6 apiece, Teniz Burgylau LLP and LLP OOC “KazMunayTeniz” — 4 apiece, TOO Satpayev Operating LLP — 3, KazMunayGas-Service LLP, KMG Drilling & Services LLP and PSA LLP — 2 apiece, and “Kazakhstan-turkmunai” LLP, AstanaGas KMG LLP, Naukograd LLP, KMG Systems & Services LLP, KMG-Kansu Operating LLP and RDI Kaspimunaygas LLP — 1 apiece.

In accordance with the Action Plan for rendering sponsorship and charitable aid for 2014 implemented via the SK-Astana Corporate Fund and entities of the Samruk-Kazyna JSC group, approved by the resolution of the Management Board of the Samruk-Kazyna JSC of 27 Jan 2014 (minutes No.03/14) and the Rules of rendering sponsorship and charitable aid 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), over the last year KMG’s Management Board adopted 33 resolutions on allocation of sponsorship and charitable funds for the total amount of 6,770,036,870 (six billion seven hundred and seventy million thirty-six thousand eight hundred and seventy) KZT and through transfer of property (an 80 ha land plot in the Talgar region of the Almaty Province). KMG’s executive body also passed 3 resolutions on making single-source purchases in accordance with the Rules for Purchase of Goods, Works and Services by Joint Stock Company “Sovereign Wealth Fund “Samruk-Kazyna” and Entities Whose Fifty or More Percent of Voting Shares (Interest) are Directly or Indirectly Owned or Beneficially Owned by the Samruk-Kazyna JSC, approved by the Board of Directors of the Samruk-Kazyna JSC on 26 May 2012 (minutes No.80). Audit services for compliance audit against the requirements of ISO 9001, ISO 14001 and OHSAS 18001 from the Intercertifica — jointly with TUV Thuringen OOO, services for construction of a kindergarten for 240 persons in Astana from the Astanastroyengineering LLP (for on-site construction supervision) and from the Urban Realty MUS (on acquisition and vacation of cottage construction land plots for state needs near intersection of No.27 Street and Turan and Kabanbay Batyr Avenues in Astana), and from the Deloitte TSF LLP — for valuation of the assets subject to realization by KMG in 2014 were purchased.

During 2014 the Management Board’s resolutions approved 3 policies (on interface between JSC NC “KazMunayGas” and its subsidiary and dependent entities within the framework of the divisional management system, in the sphere of rationalization and inventive activities in JSC NC “KazMunayGas” and its subsidiary and dependent entities, and the youth policy of JSC NC “KazMunayGas”), the restated Programme for Development of the Accounting Staff of JSC NC “KazMunayGas” and its level 1 subsidiaries for 2014–2020, 2 Guidelines (on the integrated management system of JSC NC “KazMunayGas” and the information security management system of JSC NC “KazMunayGas”, on the Planning Committee of JSC NC “KazMunayGas”, on the Coordination Board of JSC NC “KazMunayGas” for Local Content Development, on the Risk Committee of JSC NC “KazMunayGas”, on the Investment Committee of JSC NC “KazMunayGas”, on the Council for Modernization and Transformation of JSC NC “KazMunayGas”, on the Youth Council of JSC NC “KazMunayGas”),





34 rules, 12 plans, 30 amendments to certain documents.

During the reporting year resolutions on entering into 4 agreements, including that on termination of the Cooperation Agreement in respect of certain oil and gas exploration projects and industrial infrastructure facilities in the Republic of Kazakhstan of 5 November 2009 between KMG and Eni S.p.A., on second stage cooperation between KMG and ENI INTERNATIONAL B.V., Heads of Agreement between KMG and Eni International B.V., on the Issatai project and heads of agreement between KMG and Union-Field Group Ltd on the Ustyurt project, were adopted.

5 resolutions were finalized on approval of the manning table of JSC NC "KazMunayGas" and amendments thereto.

During the reporting period, the Management Board also considered several matters on increasing the guarantee liabilities of JSC NC "KazMunayGas". For example, as part securing the Beineu-Shymkent Gas

Pipeline LLP's obligations, through making a Deed of Guarantee and Indemnity as a security of KMG International N.V.'s obligations, and making a Deed of Guarantee and Indemnity for the purposes of securing the obligations of JSC "KazMunayGas — Refining & Marketing".

In addition, during the last year the motivation KPIs for the executive personnel of JSC NC "KazMunayGas" for 2014, the liquidation balance sheet of the Naukograd LLP, risk classifier of JSC NC "KazMunayGas" and its subsidiaries with risk owners in JSC NC "KazMunayGas" and the model risk classifier of JSC NC "KazMunayGas" and its subsidiaries, the Model Form of Bargaining Agreement for the subsidiary and dependent entities of JSC NC "KazMunayGas", the Procedure for Assessment of Key Accounting Staff Specialists in Subsidiaries of JSC NC "KazMunayGas", the List of Goods, Works and Services to be Purchased prior to Approval of the Goods, Works and Services Purchase Plan of JSC NC "KazMunayGas" for 2015 and some other documents were approved.



# Integrated Management System



For the purposes of integration of the Republic of Kazakhstan into the global economy, and as part of the preparation for the WTO accession, as early as in 2014 appropriate resolutions of the Government on the accelerated transition of enterprises to international standards were adopted. Further an order of the former Minister of Energy and Mineral Resources and a corresponding resolution of an extended meeting in KMG were issued.





In addition, the availability of the IMS meets the action plan to implement the Development Strategy of the Samruk-Kazyna JSC for 2011-2020 and the Plan to Create Quality Infrastructure and develop Technical Regulation for 2010-2014 in compliance with the SPBIID Programme, where

the strategic area «Assistance to Diversification and Modernization of Economy for Ensuring the Country's Sustainable Development» determines as a basic task the implementation of management systems based on the international standards.



Having done the actions required implementing the integrated management system (IMS) in accordance with the international standards (ISO 9001, ISO 14001 and OHSAS 18001) and having passed the audit, KMG received the required certificates in March, 2006.

9 audits have been passed during the period, two of which were re-certification audits (2009, 2012).

As at 31 December 2014, quality management systems are in place in 14 subsidiaries of the 1st level of the JSC NC "KazMunayGas" group of companies.

Of them, KMG and 8 subsidiaries (JSC "KazTransOil", JSC "KazMunayTeniz", JSC "KazMunayGas — Refining & Marketing", JSC NMSC "Kazmortransflot", LLP "KazakhOilAktobe", JSC "Kazakh Institute of Oil and Gas", LLP "Teniz-Service", and LLP "KazMunayGas-Service") were certified against three standards (ISO 9001, ISO 14001 and OHSAS 18001). LLP "Semser Security" — against two standards (ISO 9001 and OHSAS 18001). 4 more entities (JSC "EuroAsiaAir", LLP "KazRosGas", Kazakh-British Technical University JSC) 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, Embamunaygas JSC, Atyrau Refinery LLP, JSC "KazTransOil" and JSC "KazMunayGas — Refining & Marketing".

Information security management system (ISO 27001) has been implemented in KMG's corporate centre and the JSC "KazTransOil", risk management system — in JSC NC "KazMunayTeniz" and JSC "KazTransOil", social responsibility management system (SA 8000, ISO 26000) — in the Pavlodar Petrochemical Plant JSC.

During 2014, all companies of the group successfully passed compliance audits, confirming that the existing integrated management systems meet the international standards.



# 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.

The Development Strategy of JSC NC «KazMunayGas» for 2012-2022 determines main directions in the area of sustainable development, including 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, development of human resources and introduction of the motivation system.

In 2014 KMG's Board of Directors approved the Concept in the area of sustainable development of JSC NC «KazMunayGas», which is 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.

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

KMG's Board of Directors on an annual basis approves the Company's reporting in the sphere of sustainable development, which is disseminated among the Company's stakeholders.

Objectives of the Quality Policy of JSC NC «KazMunayGas» are: ensuring sustainable economic development, ensuring strategic benefits for the Republic of Kazakhstan as a whole from the development

of the country's oil and gas complex, achievement of the Sole Shareholder's objectives - raise the long-term value of the Company's assets and facilitate modernization and diversification of the national economy, improvement of KMG's corporate governance and asset management system.

The Quality Policy of JSC NC «KazMunayGas» has the following objectives: ensuring sustainable economic development, ensuring strategic benefits for the RoK as a whole from the development of the country's oil and gas complex, achievement of the Sole Shareholder's objectives - raise the long-term value of the Company's assets and facilitate modernization and diversification of the national economy, improvement of KMG's corporate governance and asset management system.

The Occupational Health and Safety and Environmental Protection Policy of JSC NC «KazMunayGas» determines the top-priority areas of the occupational health and safety, and environmental protection activities.

The principal objective of the Staff Policy of JSC NC «KazMunayGas» is to enhance the efficiency of the staff management through creation of a human resources management system, common for the Company, and aimed to maximize profit



and ensure leadership in the competitive environment, based on economic stimuli and social safeguards, and promoting harmony between the interests of both employer and the employee, and development of their relations for the good of the Company.

Staff turnover could be defined as one of the most important indicators of the employees' involvement and loyalty. In 2012 the indicator of the average staff turnover in the group of companies was 9.4%, in 2013 it was 9.8%, and in 2014 it was 8.96%, whereas this indicator has been set at the level of no more than 14% in the staff policy for 2011-2015. These facts show positive situation of fixing personnel in the KMG Group of companies.

Within the framework implemented by the Single Staff Policy in the KMG Group of companies an audit of all HR-processes in the KMG Group of companies was conducted. The audit resulted in development of a Concept of "Amendments to the Staff Policy of the JSC NC "KazMunay-Gas" Group, approved by the Sole Shareholder. The developed Concept served as a basis of the implemented "Business transformation" Program.

Corporate trainings belong to one of the staff management indicators. In 2013 63.372 employees in the KMG Group of companies accomplished trainings for the amount of 3.8 bn KZT, in 2014 – 79.975 employees for the amount of 3.875 bn KZT. The training results show that more employees have been involved in the corporate trainings.

In the KMG Group of companies a pilot project on implementation of a dual training system has been implemented. "Pavlodar Petrochemical refinery" LLP and "Intergas Central Asia" JSC were defined as pilot companies.

At present on the basis of "Pavlodar Petrochemical refinery" LLP 3d course students study according to the dual sys-



tem in the following lines of profession: oil and gas processing technology; maintenance and repair of equipment at oil and gas processing enterprises, in total: 44 students.

It should be noted that the abovementioned professions have been defined regarding the need for employees within the modernization of the refinery, which allows 100% employment of the students who were trained according to the dual training system.

For the purpose of transparency of the staff recruitment and employment of highly-skilled workers a Pilot projects on open competitive selection of personnel was successfully implemented in KMG in 2014. It is planned to be implemented in the whole KMG Group of companies.

The following novelties in the employment procedure were tested within the pilot project:

- Extension of the channels and sources of candidates' CVs accumulation: inner site, direct distribution to the subsidiaries, competent mass media, social networking services and other sources (Facebook, Twitter);
- CVs were selected together with the structural subdivisions, where a vacancy was announced;
- Tests format extension: the state language test and foreign languages test have been added; the estimation value in this test made not more than 5 % from the general result;
- The tender committee has been formed out of the KMG's managing personnel.

One of the most important factors in HR management is labor payment. In 2014 KMG approved an Integrated Labour Payment System (ILPS) for the "Oil and gas exploration and production" business area. The unified principles in the tariff network building for the workers and fixed official salaries of the production and administrative and managerial staff have been envisaged. The tariff networks and fixed official salaries schemes are based on the creation of a Directory of Occupations and a Guide of employees that distribute every profession and position in accordance with difficulty and significance of labor in the work activity.

It should be noted that after ILPS implementation in the enterprises of the Group of companies of KazMunayGas Exploration Production JSC the corresponding rate of remuneration of 98% of employees was increased. However there was no reduction in the current remuneration of any employee.

Also the ILPS implementation allowed establishing a fair principle of equal remuneration for the equal labor and, consequently preserving social stability in the staff.

To develop a single approach to the issues of social support to the employees in the KMG Group of companies, in 2014 KMG's Management Board accepted a standard document on social support of KMG's subsidiaries, where a warranted social package is defined. Besides, in case of sufficient means to secure the warranted social package and in accordance with the financial possibilities, each enterprise may foresee an additional social package by internal documents and collective contracts.

One of the main parts of the social package is voluntary medical insurance of the employees and their family members. Insurance programs allow the Company's employees getting a qualified medical care in outpatient, stationary and health resort conditions, fast medical aid and round-the-clock services in all the regions of the RoK, preventive activities, which enable to reduce risks of diseases. Annually the employees and their family members are immunized due to the epidemiological situation in the country.

KMG's Board of Directors has approved the Policy on Settlement of Conflict of Interest between Employees and Officials of JSC NC "KazMunayGas". For the purposes of taking actions for preventing corruption and fraud, KMG promotes awareness of its employees of following the internal control and business ethics policy, and the key principles and requirements the Company has adopted for avoiding corruption and fraud risks.

To settle corporate conflicts (i.e. disagreements and disputes between the participants of the corporate governance process), the Rules of Settlement of Corporate Conflicts of JSC NC "KazMunayGas" is in place in the Company.

To maintain a stable social environment in collective bodies, the internal communications between employees and employers are being developed. The methodology of internal communications between employees and employers has been developed. The internal communications instruments are introduced including holding of summary meetings of the KMG SDE first executives with labor collectives, meetings of line managers with labor collectives, holding of unscheduled meetings of executives with labor collectives, reception of em-



employees by first executives on personal matters, first executive's blog, corporate informational site, monitors for video ads, information stands, complaint and proposal boxes, questionnaire and collective body consolidation (competitions, sports events and corporate special events).

Annual summary meetings of the first executives with labor collectives are held twice a year with obligatory participation of representatives of labor unions/employees of the enterprise, KMG responsible employees, and members of the SDE Board of Directors. In 2014, 32 KMG SDE held semiannual summary meetings of first executives with labor collectives which attracted 40 thousand persons.

By efforts of KMG, a workshop for strengthening of interaction and regulating the social and labor relations between KMG and trade unions of subsidiary and dependent entities was held in Aktau. Under the workshop a round table on "Uniform Social and Labor Policy of JSC NC "KazMunayGas" – a Constructive Way of Labor Dispute Prevention" was held under which a corporate meeting of the KMG executives, its SDE and leaders of the KMG labor unions was organized. Representatives from the RoK Ministry of Oil and Gas, Ministry of Labor and Social Protection of the RoK residents; Akimat of Mangistau Oblast; Federation of Trade Unions of RoK, Center of Social Partnership attached to JSC "Samruk-Kazyna", Branch Union of the Oil and Gas Industry, heads of the KMG training centers also participated in the round table.

As part of the event, training for the heads of labor units of the KMG enterprises, in total 60 persons, was organized. Executives of the KMG group of companies, in total 40 persons, responsible for social and labor issues at the enterprise also underwent training. Under the Round Table, an exhibition of presentation stands was organized which demonstrated a positive experience in the field of staff and social policy, interaction with





the KMG SDE trade unions, as well as the activity of training centers of those enterprises which are included into the KMG group.

A three day workshop ended with signing of the Corporate Agreement on Interaction in the Field of Regulating of Social and Labor Relations between KMG and RFO "Branch Trade Union of the Oil and Gas Employees".

Workshops "Mediation in Social and Labor Relations" and "Mediative Competences for Managers" were organized in Astana and Atyrau where 60 executives participated as well as KMG SDE employees responsible for social and labor issues at the KMG enterprises. To conduct the workshops, coaches-mediators of the Uniform Center for Mediation and Peace-Building "Mediation" were attracted.

A training cycle on "Generation and Integration of the Internal Communications System in Industries" with participation of 96 persons from executives, social support experts and chairmen of the KMG SDE trade unions was conducted. Coaches were invited from the Moscow Business School, Moscow. To ensure a uniform standard approach to establishment of labor and social conditions for the SDE employees upon conclusion of collective contracts in the whole KMG group of companies, a standard form of a collective contract for the KMG subsidiary and dependent entities was developed and approved by the KMG Management Board.

Within the framework of implementing the youth policy, The Youth Council of the KMG group of companies was established, the composition of the Youth Council was approved, and regulatory documents were passed – Regulation of the Youth Council and Youth Policy. The first meeting of young employees of the KMG group of companies with participation of 150 delegates – young specialists was held, "Leadership in Action" workshop for young specialists was organized.

The second forum of young specialists of the KMG EP group of companies was held. 70 representatives from 11 subsidiaries of KMG EP in Mangistau, Atyrau, Kyzylorda oblast and Astana participated in the forum. Young specialists defended their projects aimed at improving the production activity and enhancement of economic efficiency of the Company. KMG, being one of the largest holdings, conducts work on provision of sponsor and charity support. The consolidated volume of support on operational data across the KMG group of companies as a

whole made up more than KZT 12.5 bln.

Under the business processes of the KMG subsidiaries, the contracts for subsurface use envisage the subsoil users' obligations on annual deductions for social and economic development of the regions and their infrastructure in accordance with the concluded agreements with local executive authorities. In 2014 the contractual deductions for developing the social infrastructure of regions on operational data made up more than KZT 10.5 bln.

The Company's available resources for formal resolution of conflict situations are supplemented by the availability and activity of the Corporate Ombudsman.

The Code of Corporate Social Responsibility of JSC NC "KazMunayGas" adopted in order to systematize KMG's approach to the social responsibility and



sustainable development activities have been approved in the Company.

KMG has adopted the Security Programme for 2013-2017, which provides for corruption and fraud prevention matters.

The Economic Security Policy of JSC NC "KazMunayGas" was approved by a resolution of the Board of Directors. The policy is the core document establishing for the first time the main focus areas to ensure economic security, control of fraud, corruption and other unlawful phenomena, and provides for integration into strategic and corporate governance at all levels.

The Rules of procedure for conducting internal investigations into wrongful acts were adopted. The rules determine the uniform procedure for conducting internal investigations and implementation

of preventive measures to prevent such acts and mitigate their consequences.

To arrange for systemic exchange of information, prompt provision of information to the management and making management decisions on criminal events, incl. corruption, the Rules of procedure for provision of special messages about incidents and wrong-doings affecting the property and non-property rights and interests of the KMG group of companies were adopted.

Uniform procedure for the receipt, registration and consideration of appeals from KMG's employees and citizens for the cause of violations of the laws of the Republic of Kazakhstan, and KMG's internal regulatory documents is established in the Operating Instruction for Arranging Operation of the Counseling Information System of JSC NC "KazMunayGas".

The Programme for Development and Implementation of the Social Responsibility Management System as per the Requirements of ST RoK 1352 (ASA 8000) and ISO 26000 in the JSC NC "KazMunayGas" for 2014-2016 was adopted in 2014.

Over 2014, as part of improvement of the enterprise risk management system, a number of documents were developed/updated, such as the Policy on Enterprise Risk Management System of KMG and its Subsidiary and Dependent Entities, Regulation on the Risk Committee of KMG's Management Board, Model Risk Classifier of KMG and its SDEs, Rules of Procedure for Consideration, Consolidation and Accounting of KMG's Contingencies, Rules of KMG's Market Risk Management, Corporate Level Risk and Control Matrix.

The Rules of Preparing KMG's Sustainable Development Report were approved by KMG's Management Board in 2014.

KMG publishes a separate Sustainable Development Report, prepared based on the international standards (GRI), where the most essential aspects of operations from the sustainable development perspective were touched upon: interfacing with stakeholders, environmental protection, occupational health and safety, human capital development, and investment in development of the regions of the Company's presence.





# Independent Auditor's Opinion



*To the Shareholder and Management of  
“National Company “KazMunayGas” JSC:*

We have audited the accompanying consolidated financial statements of “National Company “KazMunayGas” JSC and its subsidiaries (“the Group”) which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated

statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's responsibility  
for the consolidated financial statements*

Management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such

internal control management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or errors.

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of "National Company "KazMunayGas" JSC and its subsidiaries as at

December 31, 2014 and their consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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*Alexander Nazarkulov*  
Auditor  
Auditor qualification certificate  
No. МФ-0000059 dated January 6, 2012

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*Evgeny Zhemaletdinov*  
General Director  
Ernst and Young LLP

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

### *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 KZT, which includes by years:

- for 2013 - 49,604 thsd KZT;
- for 2014 - 49,604 thsd KZT;
- for 2015 - 49,603 thsd KZT;

Apart from the services for auditing KMG's financial reporting, in 2014 the Ernst & Young LLP provided to KMG advisory services for amending the Corporate Accounting Policy of the KMG group of companies and KMG's accounting policy for an amount of 7,252 thsd 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 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 contemplated 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 the 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 for consideration 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 2014



## Consolidated financial standing report

In thousand KZT

As of 31 December  
2014

2013\*

### ASSETS

#### Long-term assets

Fixed assets	4.296.118.047	3.747.999.966
Exploration and appraisal assets	277.064.868	221.699.938
Investment properties	27.197.634	28.243.320
Intangible assets	182.966.270	200.442.883
Long-term bank deposits	97.524.249	81.935.736
Investment into joint ventures and associated companies	1.217.661.400	998.490.176
Deferred tax asset	93.131.484	29.688.534
VAT reimbursable	79.168.765	18.921.820
Advance payments for long-term assets	100.705.148	84.500.167
Bonds receivable from related party	37.145.896	36.922.676
Note receivable from joint venture participant	13.807.568	13.222.376
Note receivable from an associate	28.237.627	22.411.853
Loans to related parties	101.900.198	22.558.713
Miscellaneous long-term assets	34.569.632	28.237.430
	6.587.198.786	5.535.275.588

#### Current assets

Inventories	194.960.759	195.377.825
VAT reimbursable	110.052.511	151.553.582
Income tax down payment	42.744.212	52.345.584
Trade receivables	202.622.353	284.447.047
Short-term financial assets	728.577.074	814.592.127
Bonds receivable from related party	4.440.000	4.440.000
Note receivable from joint venture participant	4.658.127	3.969.193
Dividends receivable from an associate	–	19.262.694
Derivative financial instruments	6.427.473	–
Miscellaneous current assets	98.581.850	74.084.738
Cash and cash equivalents	823.031.494	407.326.766
	2.216.095.853	2.007.399.556
Assets classified as intended for sale	35.546.227	15.510.696
	2.251.642.080	2.022.910.252

### TOTAL ASSETS

8.838.840.866

7.558.185.840

## Consolidated financial standing report (continued)

<i>In thousand KZT</i>	<i>As of 31 December</i>	<i>2013*</i>
	<i>2014</i>	
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Authorized capital	557.072.340	546.485.470
Additional paid capital	226.761.347	19.645.866
Miscellaneous capital	2.105.737	2.185.813
Reporting currency recalculation reserve	448.739.927	269.950.758
Retained earnings	2.627.270.657	2.611.367.993
Related to the parent company's shareholder	3.861.950.008	3.449.635.900
Non-controlling participatory interest	555.162.424	586.555.014
<b>Total capital</b>	<b>4.417.112.432</b>	<b>4.036.190.914</b>
<b>Non-current liabilities</b>		
Loans	2.427.190.567	2.005.432.081
Due for acquisition of additional interest in the "North-Caspian Project"	396.345.201	214.885.792
Reserves	183.530.985	114.584.815
Deferred tax liabilities	194.793.626	157.991.090
Financial guarantee	9.077.566	–
Miscellaneous long-term liabilities	12.938.824	13.850.020
	3.223.876.769	2.506.743.798
<b>Current liabilities</b>		
Current portion of loans	670.529.840	301.710.769
Reserves	50.329.517	93.273.602
Income tax payable	2.250.849	55.365.055
Trade payables	233.653.734	225.091.612
Other taxes payable	80.534.178	109.643.397
Financial guarantee	755.010	–
Derivative financial instruments	277.887	441.058
Due for acquisition of additional interest in the "North-Caspian Project"	–	107.443.991
Miscellaneous current liabilities	147.781.512	119.197.681
	1.186.112.527	1.012.167.165
Liabilities related to the assets classified as intended for sale	11.739.138	3.083.963
<b>Total liabilities</b>	<b>4.421.728.434</b>	<b>3.521.994.926</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>8.838.840.866</b>	<b>7.558.185.840</b>

\* Certain amounts listed in this column do not correspond to the amounts in the consolidated financial statements for 2013, as they reflect the re-groupings made for compliance with the presented consolidated financial reporting statement as of 31 December 2014.



*Consolidated total income statement**In thsd KZT**For the years ending 31 December*

	<i>2014</i>	<i>2013 (Recalculated)*</i>
Proceeds from sold goods and rendered services	3.186.763.690	3.247.716.806
Cost price of sold products and rendered services	(2.322.161.894)	(2.347.831.136)
<b>Gross profit</b>	<b>864.601.796</b>	<b>899.885.670</b>
General and Administrative Expenses	(173.720.320)	(162.176.343)
Transportation and selling expenses	(358.874.273)	(332.164.322)
Impairment of fixed assets and intangible assets, other than goodwill	(321.205.244)	(62.482.577)
Goodwill depreciation	(30.744.793)	–
Loss from retirement of fixed assets, intangible assets and investment properties, net	(3.639.406)	(4.940.947)
Miscellaneous operating income	18.329.825	30.649.171
Miscellaneous operating loss	(17.711.610)	(17.195.161)
<b>Profit from operating activities</b>	<b>(22.964.025)</b>	<b>351.575.491</b>
Foreign exchange loss / gain, net	67.611.458	(22.208.626)
Financial income	55.490.877	42.374.342
Financial expenses	(202.470.692)	(171.671.297)
Depreciation of investment in jointly-controlled companies	(1.034.370)	–
Depreciation of assets classified as intended for sale	(4.992.179)	–
Share in the income of joint ventures and associates, net	427.857.457	483.517.390
<b>Profit before income tax</b>	<b>319.498.526</b>	<b>683.587.300</b>
Income tax expenses	(117.101.042)	(193.200.138)
<b>Profit for year from continuing activities</b>	<b>202.397.484</b>	<b>490.387.162</b>
<b>Discontinued operations</b>		
Loss after taxes from discontinued operations	(3.182.392)	(1.744.975)
<b>Profit for year</b>	<b>199.215.092</b>	<b>488.642.187</b>

## Consolidated aggregate income statement (continued)

<i>In thsd KZT</i>	<i>For the years ending 31 December</i>	
	<i>2014</i>	<i>2013 (Recalculated)*</i>
<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	209.509.690	49.338.488
<b>Net miscellaneous aggregate income subject to re-classification into future profit or loss</b>	209.509.690	49.338.488
Miscellaneous aggregate income not subject to re-classification into future profit or loss:		
Expenses from revaluation under defined benefit plans	(1.100.442)	(3.066.496)
Tax effect of aggregate loss components	(27.426)	421.186
<b>Net miscellaneous aggregate loss not subject to re-classification into future profit or loss</b>	(1.127.868)	(2.645.310)
<b>Miscellaneous aggregate income for period</b>	208.381.822	46.693.178
<b>Total: aggregate income for period, less income tax</b>	407.596.914	535.335.365
 Net income for the period attributable to:		
Company's shareholder	207.362.949	440.955.063
Non-controlling participatory interest	(8.147.857)	47.687.124
	199.215.092	488.642.187
 <b>Total aggregate income for period, attributable to:</b>		
Company's shareholder	385.103.657	486.251.522
Non-controlling participatory interest	22.493.257	49.083.843
	407.596.914	535.335.365

*Consolidated cash flow statement**In thsd KZT**For the years ending 31 December**2014**2013 (Recalculated)\**

<b>Cash flow from operating activities:</b>		
Profit before income tax from continuing activities	319.498.526	683.587.300
Loss before income tax from discontinued activities	(3.101.537)	(1.549.184)
Profit before taxes	316.396.989	682.038.116
Adjustments against:		
Ageing, depletion and amortization	211.195.042	180.622.767
Share in the income of joint ventures and associates	(427.857.457)	(483.517.390)
Financial expenses	202.470.692	171.743.877
Financial income	(55.490.877)	(42.388.429)
Unrealized gain from derivative financial instruments	(6.621.755)	675.161
Realized gain from derivative financial instruments	(2.618.352)	(2.185.519)
Loss from retirement of fixed assets, intangible assets and investment properties, net	3.639.406	4.940.947
Impairment of fixed assets and intangible assets, other than goodwill	321.205.244	62.482.577
Depreciation of investment in jointly-controlled companies	1.034.370	–
Goodwill depreciation	30.744.793	–
Depreciation of assets classified as intended for sale	4.992.179	–
Reserves	470.260	9.936.903
Allowance for doubtful debts and other current assets	1.306.152	3.533.899
Provision for obsolete inventories	(1.517.304)	1.355.756
Disposal of equity instruments	(80.076)	25.867
Unrealized foreign exchange (gain) / loss	(107.906.526)	15.605.299
<b>Profit from operating activities before changes in the floating capital</b>	<b>491.362.780</b>	<b>604.869.831</b>
Change in inventories	26.102.234	(2.416.525)
Change in VAT reimbursable	(8.742.624)	(38.610.356)
Change in trade receivables	104.263.617	(68.694.161)
Change in miscellaneous current assets	(27.235.502)	65.418.351
Change in other taxes payable	(29.109.219)	208.390
Change in trade payables	(3.336.984)	14.537.267
Change in miscellaneous long-term liabilities	(984.571)	2.109.672
Change in miscellaneous liabilities	6.048.344	1.456.824
Cash inflow from operating activities	558.368.075	578.879.293
Proceeds from derivative financial instruments, net	2.328.788	–
Income tax paid	(178.584.194)	(136.127.337)
Fee received	41.645.502	33.683.149
Fee paid	(155.277.014)	(132.442.421)
<b>Net cash inflow from operating activities</b>	<b>268.481.157</b>	<b>343.992.684</b>



## Consolidated cash flow statement (continued)

In thsd KZT

For the years ending 31 December

	2014	2013 (Recalculated)*
<b>Cash flow from investment activities:</b>		
Withdrawal / (placement) of deposits from/in banks	224.033.563	(267.937.850)
Acquisition of fixed assets, intangible assets, investment properties and exploration and appraisal assets	(558.885.281)	(589.790.095)
Cash inflow from sale of fixed assets, intangible assets and investment properties	7.280.896	11.701.790
Proceeds from sale of assets classified as intended for sale	4.016.540	–
Dividends received from joint ventures and associates, less taxes	302.418.013	370.549.999
Investment and contribution into joint ventures and associated companies	(3.234.425)	(34.200)
Repayment of a loan granted to a related party	3.093.298	24.728.274
Realization of a joint venture	147.813	–
Loan provided to related party	(108.803.459)	(11.309.069)
Acquisition of a subsidiary	(28.507.982)	–
Cash of the acquired subsidiary	8.235.554	–
Cash of a subsidiary classified as held for sale	(2.649.907)	–
<b>Net cash flow used in investment activities</b>	<b>(152.855.377)</b>	<b>(462.091.151)</b>
<b>Cash flow from financial activities:</b>		
Proceeds of loans	682.264.686	790.901.238
Repayment of loans	(326.531.746)	(598.401.903)
Dividends paid to the non-controlling interest shareholders	(48.203.538)	(43.105.904)
Dividends distributed to Shareholder	(69.577.485)	(38.961.363)
Repurchase of the own stock by a subsidiary	–	(153.058)
Sponsor support rendered to the order of the Parent company	–	(2.554.420)
<b>Net cash flow from financial activities</b>	<b>237.951.917</b>	<b>107.724.590</b>
Effect of change in exchange rates on cash and its equivalents	62.127.031	2.615.192
<b>Net change in cash and cash equivalents</b>	<b>415.704.728</b>	<b>(7.758.685)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>407.326.766</b>	<b>415.085.451</b>
<b>Cash and cash and cash equivalents at the end of the year</b>	<b>823.031.494</b>	<b>407.326.766</b>

\* Certain amounts listed in this column do not correspond to the amounts in the consolidated financial statements for 2013, as they reflect the adjustments made

*Consolidated statement of changes in equity**In thsd KZT**Due to the Company's shareholder*

	<i>Authorized capital</i>	<i>Additional paid-in capital</i>	<i>Miscellaneous capital</i>
<b>As at 31 December 2012</b>	527.760.531	19.062.712	2.180.382
Profit for year	–	–	–
Miscellaneous aggregate income	–	–	–
<b>Total amount of aggregate income for the year</b>	–	–	–
Contribution to the authorized capital (Note 18)	18.724.939	–	–
Dividends (Note 18)	–	–	–
Transactions with Parent company (Note 18)	–	583.154	–
Distributions to the Parent company	–	–	–
Recognition of payments based on equity instruments in subsidiaries	–	–	5.431
Acquisition of non-controlling participatory interest	–	–	–
<b>As at 31 December 2013</b>	546.485.470	19.645.866	2.185.813
Profit for year	–	–	–
Miscellaneous aggregate income	–	–	–
<b>Total amount of aggregate income for the year</b>	–	–	–
Contribution to the authorized capital (Note 18)	10.586.870	207.115.481	–
Dividends (Note 18)	–	–	–
Transactions with Parent company (Note 6 and 18)	–	–	–
Distributions to Parent company (Note 18)	–	–	–
Recognition of payments based on equity instruments in subsidiaries	–	–	(80.076)
Acquisition of non-controlling participatory interest	–	–	–
<b>As at 31 December 2014</b>	557.072.340	226.761.347	2.105.737

	<i>Reporting currency recalculation reserve</i>	<i>Retained earnings</i>	<i>Total</i>	<i>Non-controlling participatory interest</i>	<i>Total</i>
	222.112.349	2.241.272.475	3.012.388.449	581.147.319	3.593.535.768
–		440.955.063	440.955.063	47.687.124	488.642.187
47.838.409		(2.541.950)	45.296.459	1.396.719	46.693.178
47.838.409		438.413.113	486.251.522	49.083.843	535.335.365
–		–	18.724.939	–	18.724.939
–		(38.961.363)	(38.961.363)	(43.577.144)	(82.538.507)
–		–	583.154	–	583.154
–		(29.322.614)	(29.322.614)	–	(29.322.614)
–		96.979	102.410	(76.543)	25.867
–		(130.597)	(130.597)	(22.461)	(153.058)
	269.950.758	2.611.367.993	3.449.635.900	586.555.014	4.036.190.914
–		207.362.949	207.362.949	(8.147.857)	199.215.092
178.789.169		(1.048.461)	177.740.708	30.641.114	208.381.822
178.789.169		206.314.488	385.103.657	22.493.257	407.596.914
–		–	217.702.351	–	217.702.351
–		(83.114.547)	(83.114.547)	(53.891.914)	(137.006.461)
–		(26.916.423)	(26.916.423)	–	(26.916.423)
–		(80.363.549)	(80.363.549)	–	(80.363.549)
–		(19.310)	(99.386)	8.072	(91.314)
–		2.005	2.005	(2.005)	–
	448.739.927	2.627.270.657	3.861.950.008	555.162.424	4.417.112.432



# Material Aspects of Accounting Policy



## BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

### 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).

Preparation of the consolidated financial reporting in conformity with the IFRS requires application of certain important accounting estimates and requires from the management the use of judgments on assumptions in the course of the accounting policy application.

### *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 31 was 182.35 KZT for 1 US dollar. These rates have been used

for translation of the monetary assets and liabilities, expressed in US dollars as at 31 December 2014 (in 2013: 153.61 KZT for 1 US dollar). KASE's exchange rate as at 13 March 2015 was 185.35 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 2014. 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 Shareholder's 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. Consolidated financial reporting, including the comparative data, is presented proceeding from the assumption that a subsidiary was acquired by the Group on the date when it was originally acquired by the Predecessor.



### *Participatory Interests in Jointly-controlled Operationsx*

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 of such assets, liabilities, income and expenses.

### *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 financial standing statement 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 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 impairment 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:

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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

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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 cannot 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 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 incomes

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 form 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*  
**S. Mynbaev**







# GLOSSARY

<i>2D</i>	seismic acquisition in two planes
<i>3D</i>	seismic acquisition in three planes
<i>AGP</i>	Asia Gas Pipeline (trunk gas pipeline for transportation of the Central Asian gas to China)
<i>AR</i>	Atyrau Refinery
<i>CRNMPC</i>	Committee on Reputation of Natural Monopolies Protection of Competition
<i>BBSH</i>	Kazakhstan section of the Asia Gas Pipeline, running through Beineu - Bozoi – Shymkent bcm pa – billion cubic metres per annum
<i>BTL</i>	Batumi Terminal Limited
<i>CASPAR</i>	JSC «Caspiyskoye parakhodstvo», Azerbaijani national shipping company
<i>CAWs</i>	construction-and-assembly works
<i>CCED</i>	Central Commission for Exploration and Development of the RoK's Ministry of Oil and Gas)
<i>CDPM</i>	a seismic acquisition method using common depth point
<i>CPC</i>	Caspian Pipeline Consortium (trunk oil pipeline from transporting oil from the Tengiz field to the port of Novorossiysk on the Black Sea)
<i>CS</i>	compressor station
<i>DE</i>	dependent entity
<i>DED</i>	design-and-estimate documentation
<i>EBITDA</i>	analytical indicator presenting the amount of profit before tax, amortization costs and credit interest
<i>EIA</i>	environmental impact assessment
<i>EPC</i>	contract (engineering, procurement, construction) — type of a turnkey construction contract
<i>FFS</i>	fuel filling station
<i>FGP</i>	Tengiz field future growth project
<i>FS</i>	feasibility study
<i>GEWs</i>	geologic exploration works
<i>GFS</i>	gas filling station
<i>GIS</i>	geographic information system
<i>HC</i>	hydrocarbons
<i>HDPE</i>	high-density polyethylene
<i>HVL</i>	high voltage line
<i>HVS</i>	high voltage substation
<i>IPL</i>	integrated process line at the Tengiz field
<i>JBIC</i>	Japan Bank for International Cooperation
<i>JCE</i>	jointly-controlled entity
<i>JSC NC “KazMunayGas”, National Company “KazMunayGas”, KazMunayGas, KMG, Company</i>	Joint-Stock Company “National Company “KazMunayGas”
<i>JUR</i>	jack-up self-elevating drilling rig
<i>JV</i>	joint venture
<i>KGP</i>	Karachaganak field growth project
<i>KING</i>	Kazakh Institute of Oil and Gas JSC
<i>KMG</i>	Joint-Stock Company “National Company “KazMunayGas”
<i>KMG RM</i>	JSC “KazMunayGas - Refining & Marketing”
<i>KMTF</i>	National Maritime Shipping Company «Kazmortsflot» LLP
<i>KPIs</i>	key performance indicators

<i>KPO</i>	Karachaganak Petroleum Operating b.v., the operator of the Karachaganak gas and condensates field
<i>KSCS</i>	Kazakhstan sector of the Caspian Sea
<i>KTG</i>	JSC "KazTransGas"
<i>KTO</i>	JSC "KazTransOil"
<i>Ktpa</i>	thousand tons per annum
<i>LDPE</i>	low-density polyethylene
<i>MA-VSP</i>	multi-azimuth vertical seismic profiling, a seismic acquisition method
<i>ME</i>	miscellaneous entity
<i>Mm<sup>3</sup></i>	omillion cubic metres
<i>Mtpa</i>	million tons per annum
<i>NC</i>	North Caspian
<i>NCERB</i>	North-Caspian Environmental Oil Spills Response Base
<i>NCP</i>	North-Caspian Project
<i>NGVRS</i>	NGV refill station
<i>ORF</i>	Oil Recovery Factor
<i>OGPP</i>	Orenburg Gas-Processing Plant
<i>PCC</i>	petrochemical complex
<i>PCD</i>	pilot commercial development
<i>PKOP</i>	PetroKazakhstan Oil Products JSC, the owner of the Shymkent Refinery
<i>PPCP</i>	Pavlodar Refinery
<i>PreEIA</i>	preliminary hearing on environmental impact assessment
<i>PS</i>	pump station
<i>PSA</i>	production sharing agreement
<i>PTC</i>	production-and-technology complex (artificial islands in the Kashagan field development area with the oil blend separation and gas injection units)
<i>R&amp;D</i>	research-and-development works
<i>ROACE</i> (Return on Average Capital Employed)	is a financial indicator used for evaluating the results of the company's operations and showing return on capital employed Return on average capital employed is the ratio of the net profit less preference dividends to the average ordinary shareholder's equity
<i>RoK</i>	Republic of Kazakhstan
<i>RoK ME</i>	Ministry of Energy of the Republic of Kazakhstan
<i>RoK MINT</i>	Ministry of Industry and Trade of the Republic of Kazakhstan
<i>RWC</i>	raw hydrocarbons
<i>SDE</i>	subsidiary dependent entity
<i>SEC</i>	science and engineering council
<i>SGP</i>	second generation plant at the Tengiz field
<i>SRC</i>	State Commission of Mineral Reserves
<i>SS</i>	soil surveying
<i>TCO</i>	Tengizchevroil LLP, the opetor for development of the Tengiz field
<i>TP</i>	test production
<i>TRG</i>	The Rompetrol Group, an integrated Romanian oil and gas company
<i>WPCP</i>	well-head pressure control project at the Tengiz field

