



ANNUAL REPORT 2017

“Stable development
for 95 years”



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In 2017, Embamunaygas JSC celebrated its 95th anniversary. The official countdown of the Company's history has been taken since 1922 – from the moment of establishment of Embaneft trust for the development of Dossor and Makat fields. Over the years of a long and excellent history, Emba has accumulated a huge volume of information, vast experience in the theory and practice of geological exploration and oil production, and has brought up generations of talented oilmen and managers of Kazakhstan.

Today, Embamunaygas JSC is a promising modern oil company engaged in geological exploration, oil and gas fields development, as well as oil and gas production and treatment. In the long view, there are big plans to expand the resource base, develop new directions, drill a deep well, and many other projects that, I am sure, will be successfully implemented by our professional and friendly team!

Chairman of the Management Board of Embamunaygas JSC **Anuar Zhaksybekov**

A full-page background image showing a male worker in a red safety uniform and white hard hat. He is wearing safety glasses and is focused on operating a large red handwheel valve on a piece of industrial equipment, likely a gas pipeline. His hands are wearing white work gloves. The background is a clear blue sky with some light clouds. A blue rectangular box is overlaid on the left side of the image, containing the text 'KEY INDICATORS' in white.

KEY INDICATORS

Oil production



2,840.02
thousand tons

Revenue



309.75
billion tenge

Net profit



56.12
billion tenge

EBITDA



95,604
billion tenge

Capital expenditures



38.05
billion tenge

Free cash flow

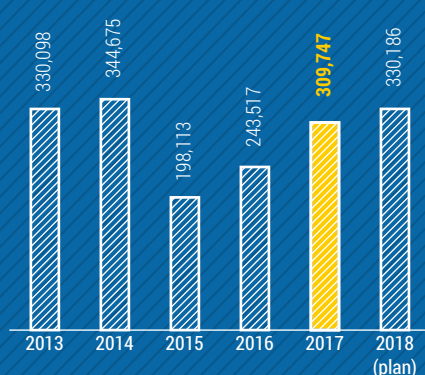


39.89
billion tenge

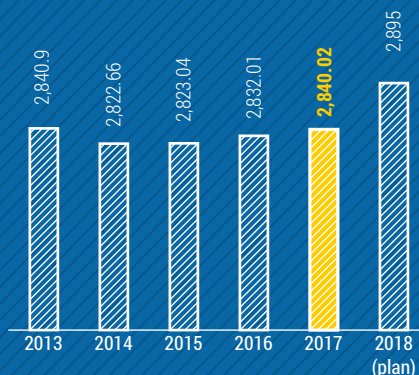
Key indicators



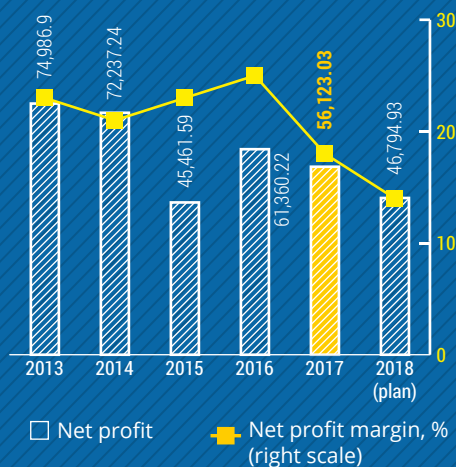
REVENUE
million tenge



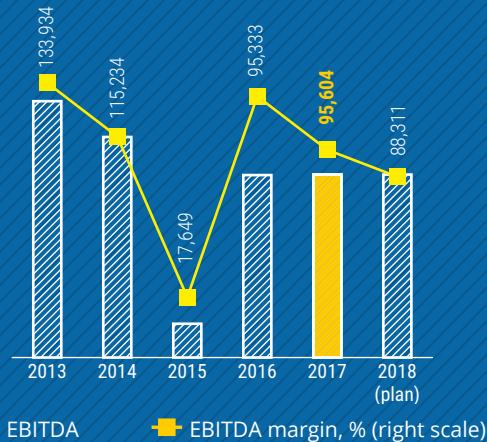
OIL PRODUCTION
thousand tons



NET PROFIT
million tenge



EBITDA
million tenge



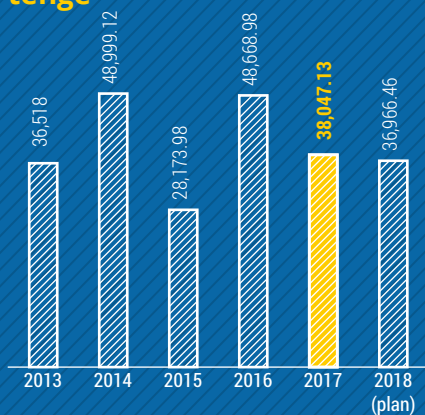


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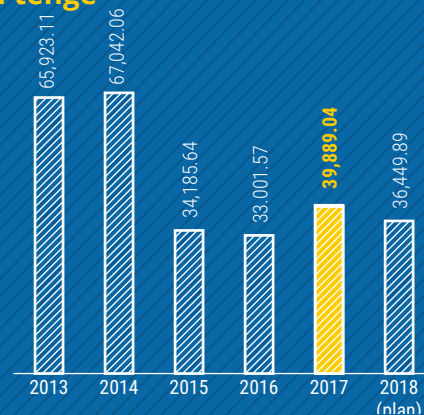


Ембі Мұнай Газ
АКЦИОНЕРЛІК ҚОҒАМЫ

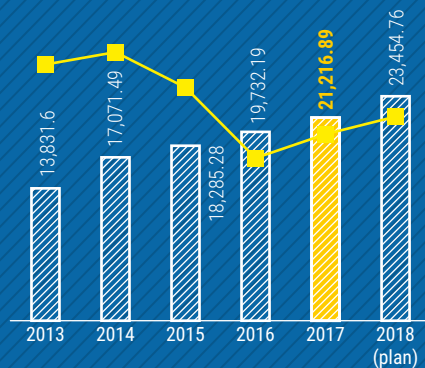
CAPITAL EXPENDITURES million tenge



FREE CASH FLOW million tenge



LIFTING



□ Specific lifting (production) expenses, KZT/ton

■ Specific lifting (production) expenses, USD/barrel (right scale)

Key events 2017



The Company launched a gas treatment plant at Prorva group of fields. The project was implemented within the framework of the Associated Gas Utilization Program of Embamunaygas JSC. Thanks to the installation of the plant, EMG has reduced gas flaring to a minimum. The gas treatment technology used at the plant is environmentally friendly: it does not contain any toxic chemicals, does not produce harmful by-products and provides the highest efficiency of hydrogen sulphide removal.



In 2017, a series of charity, sports and cultural events was devoted to the celebration of the 95th anniversary of Embamunaygas JSC (hereinafter – Embamunaygas, Emba, the Company, EMG JSC).

The Company is expanding the polymer water flooding project. The additional introduction of another four wells for polymer water flooding will allow maintaining the current level of oil production. In the future, on the basis of this project, the technology will be replicated at other similar fields.

A new top manager was elected in EMG JSC. By the resolution of the Board of Directors of EMG JSC (hereinafter – the Board of Directors), on April 24, 2017, Anuar Yerkinovich Zhaksybekov was elected as Chairman of the Company's Management Board. Anuar Yerkinovich is a geologist; previously, he headed the Geology Department of JSC NC KazMunayGas and has extensive experience in his profession. The appointment of a geologist to the position of the Company's CEO is associated with the fact that, among other things, currently, an important area for EMG JSC is to strengthen the resource base through geological exploration and acquisition of new assets.

EMG JSC held solemn events devoted to the 90th anniversary of B. Sagingaliyev, an honored oil worker of Kazakhstan, a laureate of the State Award of the Republic of Kazakhstan. The name of B. Sagingaliyev is associated directly with a history of deposit discovery in the Northern Caspian region and the start of oil production at the largest sites, including Tengiz field. Bulekbai Sagingaliyevich applied a lot of efforts to improve working and living conditions of Emba oil workers.



95 ЖЫЛ



EmbiMunayGas
АКЦИОНЕРЛІК ҚОҒАМЫ

The “Digital Field” project of Embamunaygas JSC was recognized as the best one among the IT projects in the oil and gas industry of Russia. On September 14, 2017, the ceremony of awarding laureates of the IX All-Russian competition “Best 10 IT Projects in the Oil and Gas Industry” was held in the Central Museum of Communications named after A.S. Popov, St. Petersburg, Russian Federation. By unanimous decision of the authoritative jury, the project of Embamunaygas JSC was recognized as the best one in the “Digital Field” nomination.

**Лучшие 10 IT-проектов
для нефтегазовой отрасли**

14 сентября 2017 г.

(Центральный музей связи имени А.
С. Попова, Санкт-Петербург, Петербургский



Employees of Embamunaygas JSC were awarded two nominations in the annual city competition “Person of the Year”. Darkhan Zhanabayev, a repairman of the oil treatment and pumping department of Zhaiykmunaygas OGPD, became a winner in the “Best Production Employee – 2017” nomination. The Council of Young Specialists of EMG JSC was declared the winner in the “Best Youth Committee – 2017” nomination.



A significant impact on the Company's financial performance was made by the positive decision on VAT refund in the amount of 4,033 million tenge (12,986 thousand US dollars) in the second quarter of 2017 and in the amount of 4,228 million tenge (12,708 thousand US dollars) in the fourth quarter based on the results of the thematic verification of VAT refund.

Management of Embamunaygas JSC took part in the 25th anniversary international exhibition and conference “Oil and Gas – KIOGE 2017”.



In Atyrau, on the basis of Embamunaygas JSC, the fifth jubilee Young Specialist's Day was held on the scale of KazMunayGas Exploration Production JSC (hereinafter – KazMunayGas EP JSC, KMG EP). During the Young Specialist's Day, a traditional design work competition took place in four categories: “Geology and Field Development”, “Oil and Gas Production Technique and Technology”, “Economy” and “Improvement of Production Processes, Energy and Automated Process Control Systems”. 39 young employees from various subsidiaries and dependent entities of EP KMG took part in the competition.

ISKAZIYEV
Kurmangazy
Oryngazievich

Chairman of the Board
of Directors of
Embamunaygas JSC



Embamunaygas JSC is a pioneer
of the oil and gas industry of
Kazakhstan and a major enterprise
in Atyrau region.



Embamunaygas JSC is a pioneer of the oil and gas industry of Kazakhstan and a major enterprise in Atyrau region. For almost a century of its history, the Company's strengths have always been traditions, labor dynasties and a sense of empathy for production processes. Therefore, it's natural that Emba is the pioneer in the implementation of new projects and introduction of new technologies within the group of companies of KazmunayGas Exploration Production JSC.

In recent years, Emba oil enterprise has tested and is currently successfully implementing projects aimed to optimize costs and increase the efficiency of production activities. In particular, projects for implementation of the Digital Field concept, optimization of material and technical support, maintenance and repair of equipment, transportation support, optimization of business processes, introduction of a dual training system, development of the "gas" area of operations, and many other projects are being implemented. Notably, if attention of Emba experts was previously focused on identifying bottlenecks in certain areas of activity, today the Company performs a lot of work to improve the overall performance.

In 2017, the Company effectively implemented the production program. In particular, with the aim to optimize production activities, pursuant to the recommendation of the Board of Directors, at the end of 2016 the Company introduced the practice of early conduct of tendering processes for the next calendar year. The recommendations of the Board of Directors were taken into account based on the results of analysis of information on the number of repairs and commissioning of new wells, profitability of drilling operations, personnel training, enhancement of economic and financial performance, and many other aspects.

Today, the main task of the Board of Directors and top management of Embamunaygas JSC is to ensure effective implementation of business tasks set by shareholders and further prosperity of the enterprise team having a century-old history!

ZHAKSYBEKOV

Anuar Yerkinovich

Chairman of the
Management Board
of Embamunaygas JSC



Despite the almost century-old history, today Embamunaygas JSC is a promising modern oil company engaged in geological exploration, oil and gas field development, as well as oil and gas production and treatment. In 2017, the Company produced over 2.8 million tons of oil and about 200 million cubic meters of gas.

Today, the priority issue for our team, which consists of more than five thousand employees, is the replenishment of the resource base. Currently, to solve this issue, Emba specialists actively and successfully perform geological exploration operations and consider various options for increasing reserves.

Being a responsible subsoil user who cares about the environmental protection, in 2017, EMG successfully launched a major project – installation of a gas treatment plant at Prorva group of fields with a capacity of 150 million cubic meters per year. The project was implemented within the framework of the associated gas utilization program of Embamunaygas JSC. Due to the plant installation, gas flaring was reduced to a minimum. Commercial gas is currently supplied on a commercial basis to Tolkyngas gathering station. Similar plants have been operating for several years in our production units of Zhaiykmunaygas OGPD (Isatay district) and Dossormunaygas OGPD (Makat district), where gas from the fields is supplied at a preferential price to the population of three districts of Atyrau region.

The balance sheet of Embamunaygas JSC includes mostly mature fields, which makes the task of applying advanced technologies for production intensification particularly crucial, and the current



In 2017, the Company
produced over
2.8 million tons of oil
and about 200 million
cubic meters of gas.

period of low prices forces the Company to pay attention to cost reduction. Therefore, in recent years, the Company has been actively introducing new technologies and projects. I would like to particularly mention one of them – the “Digital Field” project, the implementation of which began in 2016 on the basis of a small Uaz field and has provided good results. In 2017, the Digital Field concept was successfully implemented at Prorva group of fields, and in the current year 2018, it is being introduced within the group of deposits of Zhaiykmunaygas OGPD.

The Digital Field concept of Embamunaygas JSC took the first place in the Russian competition “Best 10 IT Projects in the Oil and Gas Industry” and was included in the state program “Digital Kazakhstan”.

Besides the digitalization of oil production, the Company successfully implements in the pilot mode and replicates in all production units the projects for transportation support, optimization of material and technical support, maintenance and repair of equipment, and performs work on business process optimization.

Simultaneously, the Company's top management performs work to develop the Company's development concept for the next ten years. The reason for this is trends that have been developing in recent years in the hydrocarbon market, the responsibility for the fate of thousands of employees and the strategic tasks that the Company face today.

Embamunaygas JSC makes a significant contribution to the development of the country's economy and social infrastructure of Atyrau region. Since its reorganization into a joint stock company in 2012 till

January 1, 2018, the Company has allocated about 2.3 billion tenge for the development of regional infrastructure, paid 695.6 billion tenge in the form of taxes to the republican and local budgets and allocated over 2.3 billion tenge for sponsorship and charity.

Pursuant to its contractual obligations to train qualified specialists for the oil and gas industry, since 2015 the Company has been implementing a dual training project. From 2015 to 2017, 69 graduates of Atyrau University of Oil and Gas and APEC PetroTechnic Higher College received various working professions on the basis of our production sites, and 16 of them were employed by the Company.

As you can see, today the Company faces many challenges, and top management and many thousands of the Company's employees work systematically and successfully to solve them. We are sure that due to our joint efforts we will be able to implement all business tasks set by shareholders, ensure the welfare of Emba employees and continue the glorious history of our enterprise!



ABOUT THE COMPANY

95 жыл



ЕмбіМұнайГаз

АКЦИОНЕРЛІК ҚОҒАМЫ

Embamunaygas JSC carries out its activities in accordance with ISO 9001, ISO 14001, OHSAS 18001 and ISO 50001 international standards.



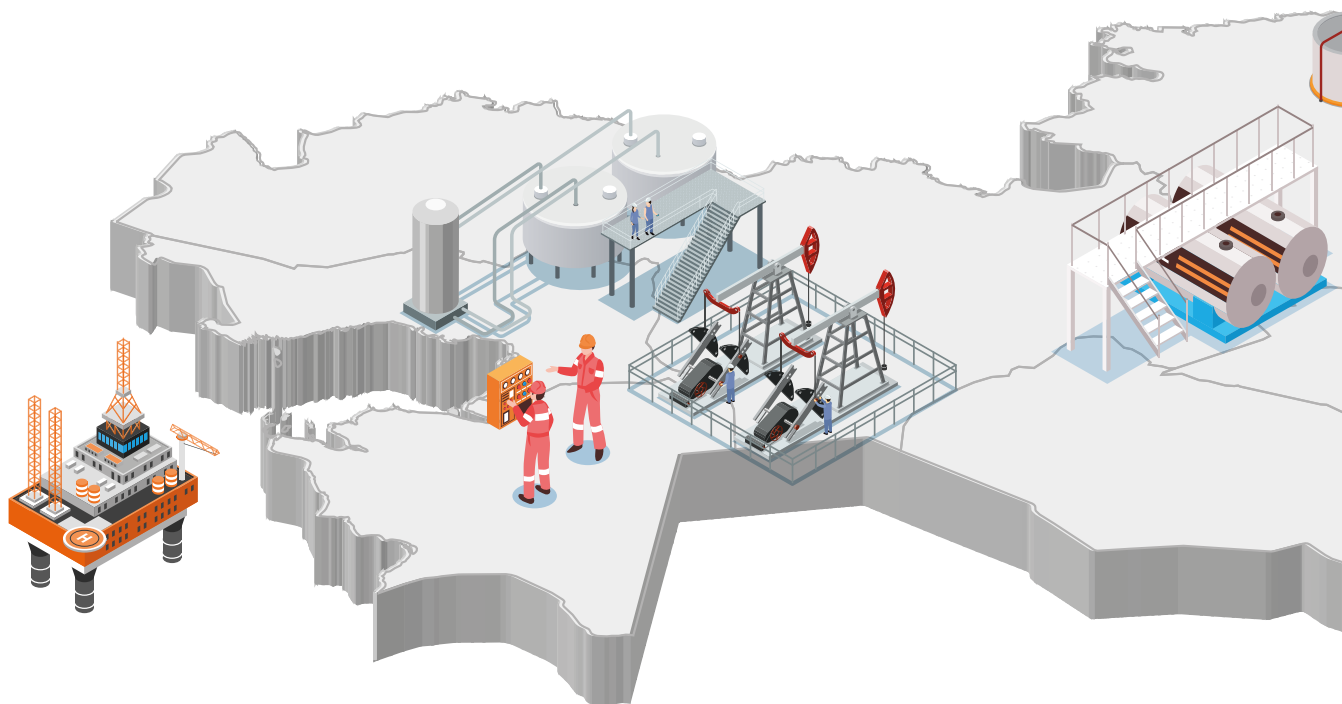
Embamunaygas JSC produces oil and gas for the Republic of Kazakhstan and contributes to the national economy by improving labor safety and environmental protection, social responsibility and sustainable development in the region and in the best interests of the shareholder.

The Company is a subsidiary of KazMunayGas Exploration Production JSC.

The main activities of the Company are geological exploration, oil and gas field development, oil and gas production and treatment. The Company supplies oil for export and sells it on the domestic market. Domestically, oil is supplied to oil refineries of the Republic of Kazakhstan. Oil is exported via two main ways: Caspian Pipeline Consortium (CPC) and Uzen – Atyrau-Samara (UAS) pipelines. Commercial gas is sold through KazTransGas JSC, a national operator of Kazakhstan in the field of gas transportation and supply.

Embamunaygas JSC includes six production units located in the city of Atyrau and four districts of Atyrau region: Dossormunaygas OGPD, Zhylyoimunaygas OGPD, Zhaiykmunaygas OGPD, Kainarmunaygas OGPD, Embamunayenergo as well as the Production-Technical Services and Equipment Configuration Department.

The balance sheet of Embamunaygas JSC includes 43 deposits with residual oil reserves in A+B C1 categories (geological exploration/



The main activities of the Company are geological exploration, oil and gas field development, oil and gas production and treatment.

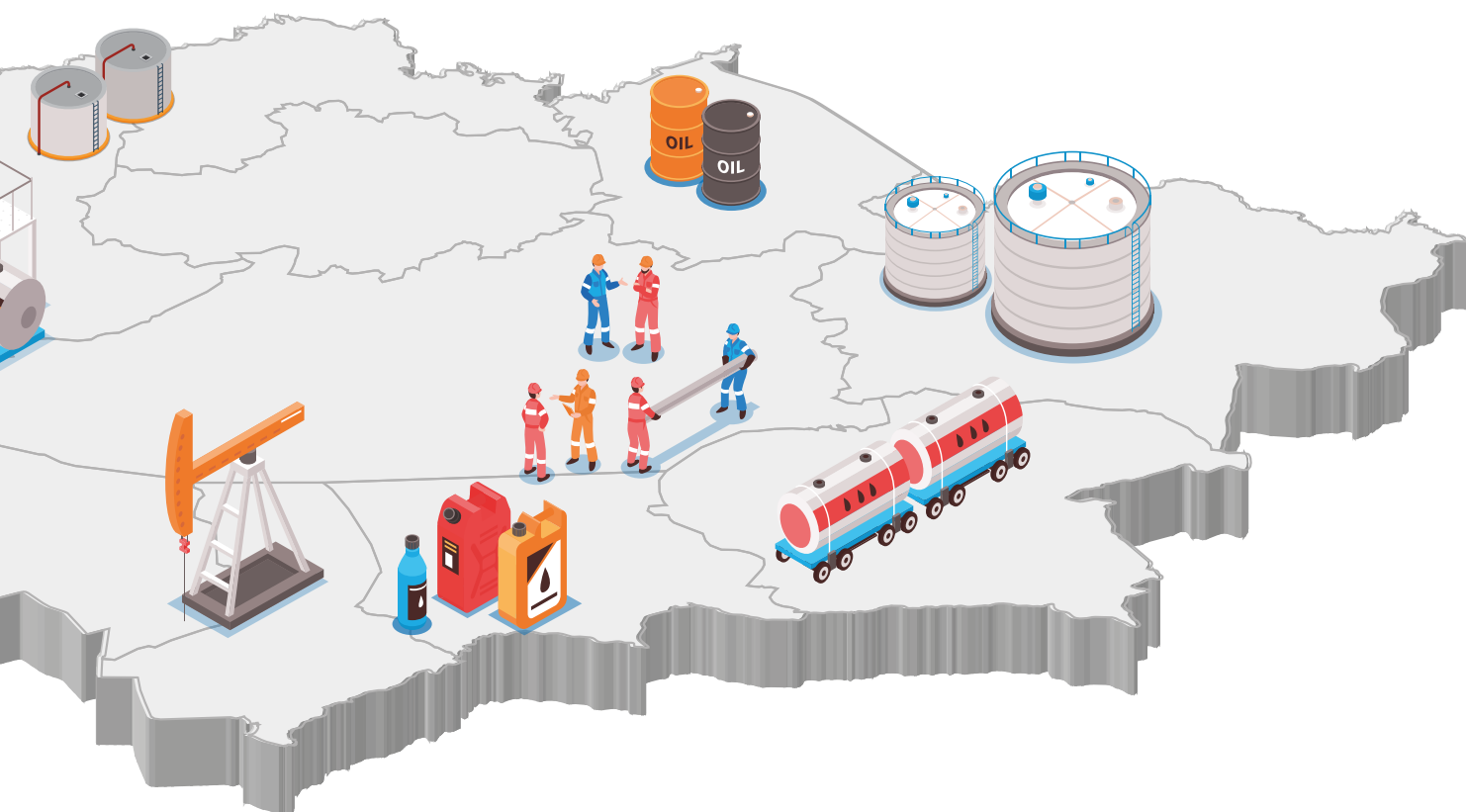
extraction) in the amount of 429,986/72,904 thousand tons or 35 million tons of oil (2P). The average depletion of deposit reserves is 70%.

Embamunaygas JSC carries out its activities in accordance with ISO 9001, ISO 14001, OHSAS 18001 and ISO 50001 international standards.

The official countdown of the Company's history has been taken since 1922, when Embaneft trust was established for the development of Dossor and Makat fields. On October 1, 2012, after eight years of being in the status of a production branch, Embamunaygas was reorganized into a joint-stock company.

The main strategic priorities of the Company in the decision-making process are:

1. Profitability as an integral condition of the Company's existence.
2. Social stability. Ensuring the employment of the Company's employees through the rational personnel allocation to current and new projects.
3. Ecology. Rational use of subsurface resources and reduction of a negative impact on the environment. While the production is growing, the Company introduces new technologies that reduce a negative environmental impact.
4. Energy efficiency. When choosing technologies for implementing new and existing projects, the Company will give priority to the use of energy-efficient technologies.
5. Process automation. Increasing the labor productivity and occupational safety.



STRATEGICAL REPORT

95 жыл



ЕмбіМұнайГаз

АКЦИОНЕРЛІК ҚОҒАМЫ



In 2017, the volume of refining at refineries amounted to 14.9 million tons of oil or 102.8% to 2016.



Economic environment overview

Kazakhstan is a huge and rapidly developing state. The area of the country exceeds 2.7 million km², and the population is 18 million people. Oil and gas areas occupy more than 60% of the country's territory. There are 172 oil fields in Kazakhstan, the oil reserves of which amount to about 1.8% of the world's proven reserves. More than 90% of Kazakh oil reserves are accumulated at 15 largest oil fields.

According to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, the volume of the gross domestic product produced in January-December 2017 (according to recent reports) amounted to 51.6 trillion tenge and increased by 4% in real terms as compared to the corresponding period of the previous year.

The main macroeconomic factors that affect the Company's financial position include: the behavior of oil prices, inflation rates, exchange rate fluctuations, in particular, KZT/USD exchange rate.

	2015	2016	2017	Deviation
Brent average price (DTD)	52.39	43.73	54.192	24%
Inflation rate – Kazakhstan (%)	13.60	8.50	7.10	-16
Average exchange rate (KZT/USD)	222,25	341.76	326	-5%

In 2017, a positive situation was observed in world markets. The average price for Brent crude oil increased by 24% for the year. An important positive factor in the medium term was the agreement of OPEC countries for the limitation of production. Another important factor was the events in the Middle East.

According to the Ministry of Energy of the Republic of Kazakhstan, oil production in Kazakhstan in 2017 amounted to 86.2 million tons, or 110.5% to the level of 2016 and 102% against the plan. Data for three largest projects: Kashagan – 8.3 million tons, TCO – 28.7 million tons (104.1% to the level of 2016) and Karachaganak – 12.5 million tons (109.5% to the level of 2016). In 2018, it is planned to produce 87 million tons of oil.

Oil exports in 2017 reached the level of 69.8 million tons and increased by 12.4% against the level of 2016. The key destinations of Kazakh oil supply are given in the Table below.

Oil supply destinations in 2017

Destination	Thousand tons	% to 2016
Atyrau-Samara	15,368.0	106.9
Orenburg Gas Processing Plant	624.20	83
Caspian Pipeline Consortium (CPC)	49,636.3	121.6
Atasu – Alashankou	2,291.0	74.6
Sea Port	1,192.3	54.3
Railway	670.0	75.4

In 2017, the volume of refining at refineries amounted to 14.9 million tons of oil or 102.8% to 2016 and 102.6% to the plan for the past year. In 2018, the volume of oil refining is planned at the level of 15.8 million tons.

The volume of gas production amounted to about 52.9 bcm, which is 114% to the level of 2016 or 110% to the plan for 2017. In 2018, the planned volume of gas production is 53.4 bcm.

Exports of the republican gas amounted to 17.3 bcm or 126.3% against the level of 2016. In 2017, Kazakhs gas was exported for the first time to China. The volume of supplies amounted to 1.1 bcm. In 2018, it is planned to expand economic cooperation between Kazakhstan and China and increase gas exports to 10 bcm.

Kazakhstan produced 2.9 million tons of liquefied gas (108.2% to 2016) and 31.6 bcm of commercial gas (110.9% to 2016).

Operating results

Oil production

EMG has eight contracts for oil exploration and production at 43 fields, of which 33 oil and gas fields are at the development stage and nine fields are yet to be developed (Tazhigali, Iskine, Dossor, Makat, Tyulyus, Komsomolsky, Sagiz, Bek-Beke, Tanatar), one field is under the pilot development.

The operating well stock as of January 1, 2018 amounted to 2,237 wells, including 2,107 operating wells, 65 non-operating wells, 60 wells waiting for physical abandonment and five wells at the stage of development. The operating injection well stock as of January 1, 2018 was composed of 455 wells, including 410 operating wells, 37 non-operating wells and eight wells waiting for physical abandonment.

The plan provides for the commissioning of 45 new oil wells. In fact, 41 oil wells were put into operation in full. As of January 1, 2018, two wells were under development (No. 534, No. 538 named after S. Nurzhanov), two wells were completed by drilling. Oil production at new wells for 2017 amounted to 51.96 thousand tons with a plan of 69.175 thousand tons. Non-fulfillment of the plan was due to the late start of operations and prolongation of the period of well development.

286 wells were overhauled. Well heads of 54 wells were re-equipped.

Most of the Company's fields are at a late stage of development, and a share of hard-to-recover deposit reserves is constantly growing. Stabilization of the oil production level in recent years has been achieved through the use of a set of measures: new well drilling, overhaul and current repair of wells, systemic operation of the well stock, increasing the operating factor, increasing a well workover interval, introduction of advanced technologies and optimization of the field development system.

Today, in order to increase the oil recovery factor, Embamunaygas JSC, along with traditional methods of increasing oil recovery, applies new technologies with the involvement of leading Kazakhstan research institutes. New technologies are actively introduced to increase a well workover interval.

Oil production within Embamunaygas JSC was planned for 2017 in the amount of 2,840,000 tons, and the actual production reached the level of 2,840,015 thousand tons (100% fulfillment). 0.015 thousand tons of oil were produced above the plan. At the same time, an average daily oil production rate amounted to 7.780 thousand tons/day. Oil delivery for 2017 was fulfilled by 100%: 2,805,867 tons of oil were delivered with the plan of 2,805,850 thousand tons. 0.017 thousand tons of oil were delivered above the plan.



Oil production in Embamunaygas JSC, thousand tons

	2015	2016	2017		
Transfer and acceptance point	Fact	Fact	Plan	Fact	Deviation
Embamunaygas JSC	2,823.04	2,832,008	2,840.00	2,840.02	0.015
Including oil and gas production departments:					
Zhaiymunaygas	960,335	954,171	955.8	953,679	-2.121
Zhylyoimunaygas	962.6	989.14	1 029.20	1,034.93	5.725
Dossormunaygas	411.75	404,283	376	371,531	-4.469
Kainarmunaygas	488,355	484,414	479	479.88	0.877

As you can see from the Table above, the oil production plan for Zhaiymunaygas OGPD (S. Balgimbayev, South-East Kamyshitoviy, Zhanatalap) and Dossormunaygas OGPD (V. Makat and Botakhan fields) was not fulfilled. The main deviation was caused by the excess of the fall in the base production rate and the delay in the schedule for implementing geological and technical measures due to the late performance of tender procedures and late commencement of drilling operations.

Associated gas production

Associated gas production is carried out at 25 fields of Embamunaygas JSC.

Associated gas production, bcm

	2015	2016	2017		
Indicator	Fact	Fact	Plan	Fact	Deviation
Associated gas production	187,916	191,649	199,737	199,755	0.18

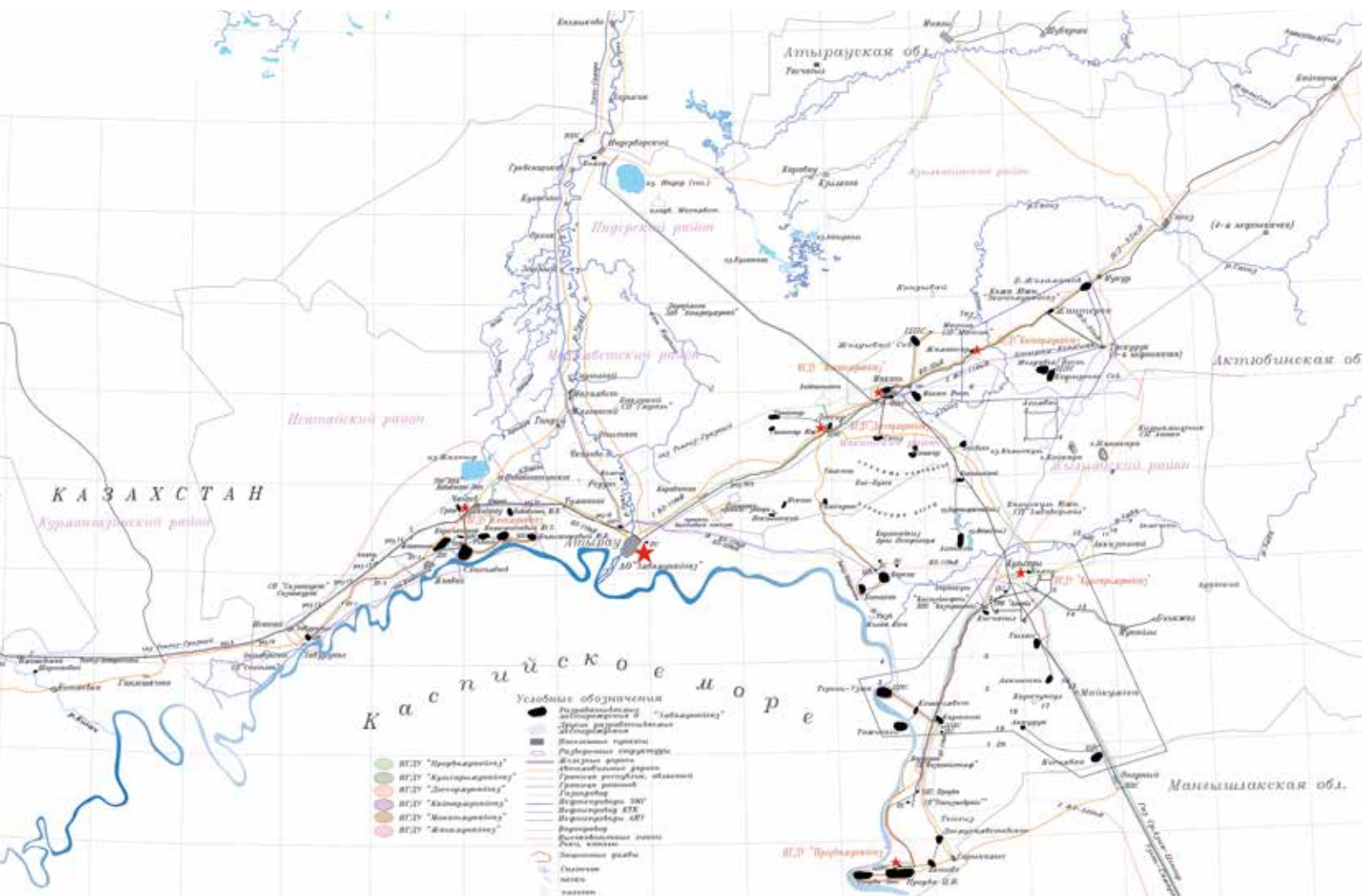
Geological exploration

Currently, the basic area of activities for EMG JSC is to strengthen the resource base through geological exploration. The Company works on a systematic basis to analyze data for the performance of geological exploration operations at promising above-salt and sub-salt sites.

In the reporting year, the Company continued performing geological exploration on the licensed areas of Taisoigan, Liman, Karaton-Sarkamys, which revealed a number of promising structures for prospecting and exploratory drilling for the purpose of searching for hydrocarbon deposits in Cretaceous, Jurassic, Triassic and deep sub-salt sediments. Also, supplementary exploration operations are being performed at existing fields with the aim to expand oil-bearing contours based on 3D seismic and well drilling data, identify overlooked horizons based on GIS data, as well as transfer hydrocarbon reserves from C2 category to C1 category.

Area of operations of Embamunaygas JSC

In the course of its activities, EMG JSC actively applies new technologies, uses advanced developments in the field of geology and geophysics (seismic data processing using Multifocusing technology, ES360, a complex of geological and geophysical studies, geochemical studies, etc.). The use of innovative technologies increases the efficiency of geological exploration operations. Today, with the help of new computer technologies, geological models are created for well planning (design), estimation of hydrocarbon reserves, evaluation of uncertainties and risks, and preparation of a basis for hydrodynamic modeling.



In the reporting year, EMG drilled 13 exploratory wells with a total interval of 28,354 meters. As a result of drilling U-23 and U-26 wells, the oil-bearing capacity of the Middle Triassic deposits on the northeastern wing of Taisoigan structure was established. When testing 1025–1028, 1003–1005 and 984–986-meter intervals of U-23 well and 943–945-meter interval of U-26 well, water-free oil and gas flow to surface was received.

In 2016, the oil-bearing capacity of Triassic deposits on the northwestern wing of S. Nurzhanov field was established by drilling a directional exploratory well of NSV-1 block of Karaton-Sarkamys area: an oil flow to surface at the rate of 132 m³/day with a 7-mm choke was obtained from the 3291–3304 m interval (T-II-A horizon).

In 2017, the NSV-2 block was drilled, in which an oil flow to surface from the 3258–3269 m interval (T-II-A) was also obtained. Following the results of work performed, an operational evaluation of hydrocarbon reserves was carried out and the deposit was put into trial operation.

Two deposits were discovered on Liman contract area: Novobogat South-East and Central Novobogatinskoye. Hydrocarbon reserves of these deposits have been included in the State Register of Mineral Reserves. The deposits are in trial operation.

Overview of capital expenditures

In 2017, capital expenditures of EMG JSC exceeded 38 billion tenge. More than 30% of investments were spent on construction work in connection with the implementation of strategic projects. Approximately 20% of expenditures were accounted for each of the following activities: operational drilling, procurement of fixed and intangible assets as well as prospecting and exploration.

Capital expenditures, million tenge

Expenditure item	2013	2014	2015	2016	2017
Construction work	13,749	12,333	10,685	30,989	12,618
Operational drilling	13,232	13,279	9,213	8,253	8,632
Procurement of fixed and intangible assets	5,004	4,556	5,564	3,536	8,375
Prospecting and exploratory drilling	3,792	3,225	2,163	4,620	8,118
Other	740	15,606	549	1,271	304
Total CAPEX	36,518	48,999	28,174	48,669	38,047

In the period of 2014–2017, a major investment project was implemented – construction of a complex facility for treatment of associated petroleum gas from Prorva group of fields with a capacity of 150 million m³ of gas per year, totaling to 35 billion tenge.

The constructed facility is intended for associated gas utilization at Prorva group of fields (S. Nurzhanov field, West Prorva, Aktobe, Dosmukhambetovskoye fields) in Zhylyoi district of Atyrau region.

This project has allowed the Company to completely eliminate gas flaring and increase oil production of Zhylyoimunaygas OGPD at Prorva cluster.

Commercial gas is transported through the field gas pipeline of Tolkyn gas treatment plant – gas gathering station; stable gas condensate is used for own needs.

More than 500 temporary jobs were created during the construction of the gas treatment plant. After the plant was put into operation, Embamunaygas JSC created a new gas treatment and sulphur production shop of the Production Department for the development of Prorva group of fields of Zhylyoimunaygas OGPD with a staff number of more than 100 new permanent jobs.



Innovation

The New Technique and Technology Department (NTTD) was established in August 2015 on the basis of the previously existing new technique and technology division of the oil and gas production department. This Department first tests and then approves the introduction of new types of machinery and oil and gas production technologies implemented for the first time in Embamunaygas JSC, which have high technical and economic characteristics and are well proven in operation in conditions similar to those existing at the Company's fields, whether they are the results of applied developments of research organizations, legal entities and individuals, serial types of machinery and equipment or the introduction of innovation technologies.

The main objectives of the New Technique and Technology Department are:

- ▶ ensuring the fulfillment of tasks for the introduction of new technique and advanced technologies in the field of oil production, well construction and workover;
- ▶ improvement of technological preparation of production.

To ensure sustainable growth of production, it is required to introduce new methods of operation, new production and well drilling technologies for mature fields, as well as to invest time and efforts in modernization of onshore facilities. Much of what is applied in EMG JSC to solve specific technological tasks and problematic issues arising as the fields are operated has been introduced upon the recommendation of the NTTD.

Over the past period, the Department performed:

- ▶ in 2016 – 16 pilot tests were carried out, 10 of which had positive results and were recommended for use in production;
- ▶ in 2006, 13 pilot tests were planned, 8 of which have a positive result, three pilot tests are in progress under monitoring, two pilot tests are negative.

All pilot tests of prototype models of equipment, technical devices and rationalization proposals are carried out according to the test program, which is based on technical conditions developed by the inventors.

Engineers and geologists from oil and gas production departments, specialists of EMG JSC and KazMunayGas Research and Development Institute of Production and Drilling Technology are working together to improve water flooding technology, increase well productivity, reduce the idle well stock and increase the time between overhauls, well cleaning interval and mean time between failures of mechanized extraction systems.

The New Technique and Technology Department is working to increase the profitability of fields under development, which are at the last stages of productive formation exploitation, by applying modern technology and by constant striving to increase economic efficiency and obtain additional production.



Procurement activities

The Company carries out procurement activities in accordance with the Rules for procurement of goods, works and services of Samruk-Kazyna Sovereign Welfare Fund (hereinafter – the Holding) and organizations, fifty or more percent of voting shares (participatory interests) of which are directly or indirectly owned by Samruk-Kazyna JSC on the right of ownership or trust management. The Rules determine the procedure for procurement by customers of goods, works and services at the cost of their own funds.

Procurement of goods, works and services is based on the following principles:

- ▶ publicity and transparency of the procurement process;
- ▶ optimal and efficient application of funds for procurement;
- ▶ acquisition of goods, works and services of good quality;
- ▶ provision all potential suppliers with equal opportunities to participate in the procurement process providing support to organizations of disabled persons (individuals with disabilities who carry out entrepreneurial activities) included in the Register of organizations of disabled persons (individuals with disabilities who carry out entrepreneurial activities) of the Holding;
- ▶ fair competition among potential suppliers;
- ▶ assistance in procurement between organizations included in the Holding with the aim to develop cooperation within the Holding;
- ▶ control and responsibility for decisions made;
- ▶ minimization of intermediaries' participation in the procurement process;
- ▶ effective implementation of strategic investment projects.

The procurement process includes the development and approval of the procurement plan(s), selection of suppliers, conclusion and execution of the procurement contract.

Procurement volume in 2017, million tenge excluding VAT

Indicator	Amount	% of execution	
Amount of the procurement plan for 2017,	82,052.92	100	
including:			
<i>goods</i>	8,123.94	9.9	
<i>works</i>	30,437.67	37.1	
<i>services</i>	43,491.31	53.0	
Amount of procurement, for which suppliers have been determined,	82,052.92	100	Local content share
including:			
<i>goods</i>	8,123.94	100.0	69.0%
<i>works</i>	30,437.67	100.0	76.9%
<i>services</i>	43,491.31	100.0	87.1%
Saving under contracts,	4,327.21	5	
including:			
<i>goods</i>	488.94	6.0	
<i>works</i>	469.41	1.5	
<i>services</i>	3,368.86	7.7	

In 2017, the Company's revenue grew by 27 % against the level of 2016 or 13 % to the planned figure.



Overview of financial performance

This section is based on the audited financial statements of the Company.

Basic financial indicators, million tenge

Indicator	2013	2014	2015	2016	2017			
	Fact	Fact	Fact	Fact	Plan	Fact	Deviation	%
Oil production, thousand tons	2 841	2 823	2 823	2 832	2 840	2 840	0	0
Revenue (income)	330 098	344 675	198 113	243 517	274 016	309 747	35 731	13
Cost of sales	-96 443	-119 229	-94 991	-95 772	-119 333	-121 290	-1 957	2
Gross income	233 655	225 446	103 121	147 745	154 683	188 457	33 774	22
General and administrative expenses	-5 190	-15 738	-24 542	58	-10 391	-9 896	-794	8
Transportation and sales expenses	-120 443	-135 071	-75 869	-70 366	-95 171	-102 991	-8 120	9
Profit (loss) from operating activities	108 022	74 638	2 711	77 437	49 121	75 570	26 448	54
Net financial income/(expenses)	-1 045	-2 714	303	312	-2 446	461	-1985	-81
Other net income /(loss)	-135	20 538	62 905	-586	0	-482	-482	0
Income/(loss) before tax	106 841	92 462	65 919	77 164	46 675	75 548	28 873	62
Corporate income tax expenses	-31 854	-20 225	-20 457	-15 803	-11 698	-19 425	-7 727	66
Income for the year	74 987	72 237	45 462	61 360	34 977	56 123	21 146	60

In 2017, the Company's revenue grew by 27% against the level of 2016 or 13% to the planned figure. Overachievement of the revenue targets is mainly due to the growth of exports, which in turn is associated with an increase in world oil prices (compared to the target level, on average, by 20.4%). The revenue growth was observed despite a decline in the USD exchange rate by 9.4% against the indicator envisaged in the calculation of the planned values (326 tenge per US dollar with the planned figure of 360 tenge per US dollar).

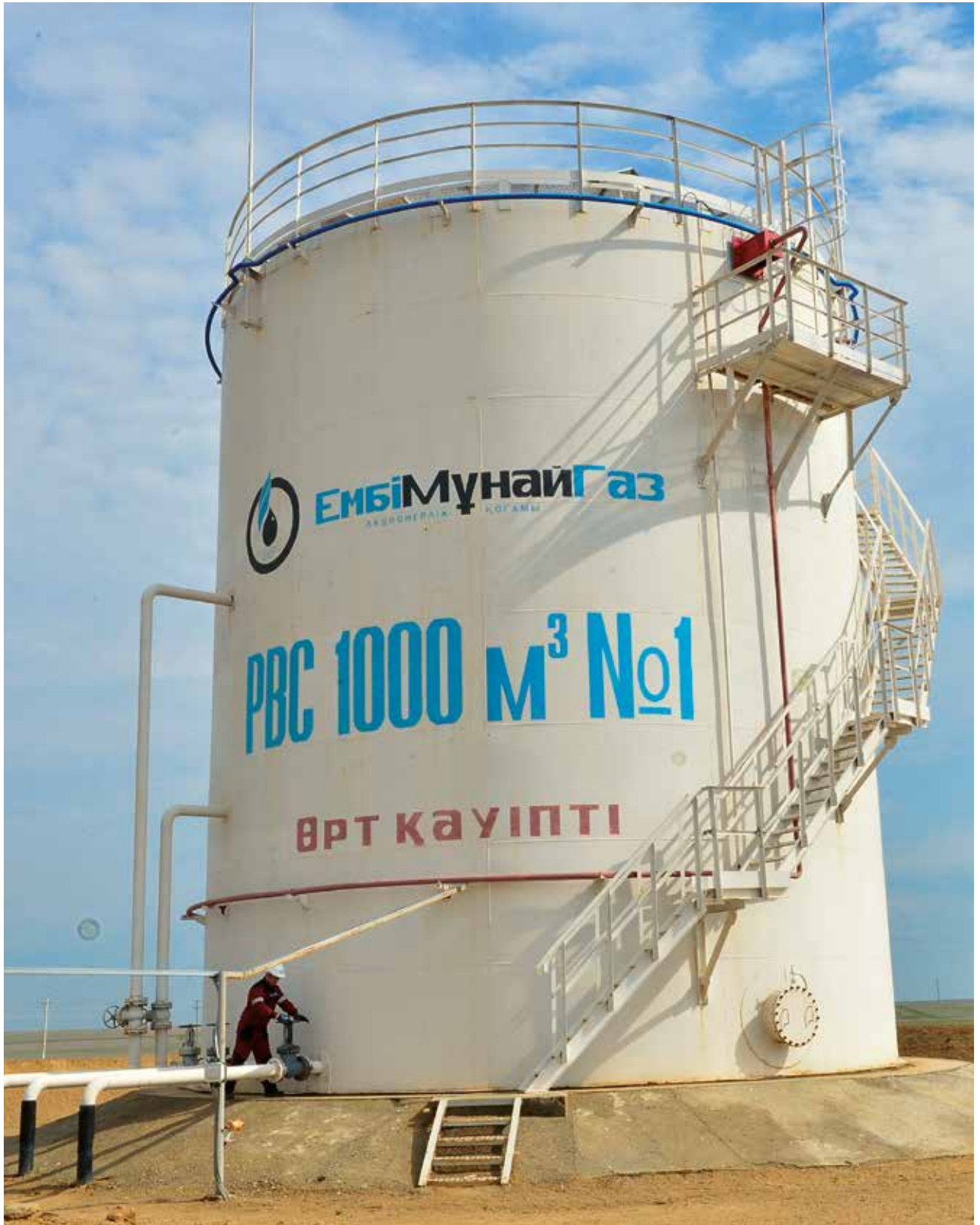
At the same time, net profit exceeded the planned values by 60% and amounted to 56.1 billion tenge by the end of 2017.

Sales

Oil sales volume and sales prices

Indicator	2013	2014	2015	2016	2017
Export oil sales					
<i>KTO</i>					
Sales, million tenge	231,099.26	236,808.79	118,432.35	126,832.45	187,983.24
Volume, thousand tons	1,970.32	1,920.20	1,571.33	1,225.76	1,526.40
Average selling price, thousand tenge/ton	117.29	123.33	75.37	103.47	123.15
<i>CTC</i>					
Sales, million tenge	97,110.31	106,151.97	60,766.98	92,944.40	101,250.01
Volume, thousand tons	811.98	816.30	766.25	859.51	791.65
Average selling price, thousand tenge/ton	119.60	130.04	79.30	108.14	127.90
Total oil exports, million tenge	328,209.57	342,960.76	179,199.33	219,776.85	289,233.25
Total oil exports, thousand tons	2,782.30	2,736.50	2,337.58	2,085.27	2,318.05
Oil sales to the domestic market					
<i>PPCP</i>					
Sales, million tenge	–	–	7,783.32	18,549.09	13,582.94
Volume, thousand tons	–	–	210.36	609.05	357.96
Average selling price, thousand tenge/ton	–	–	37.00	30.46	37.95
<i>Atyrau Refinery</i>					
Sales, million tenge	–	–	9,805.00	3,731.72	4,601.52
Volume, thousand tons	–	–	265.00	117.00	121.00
Average selling price, thousand tenge/ton	–	–	37.00	31.90	38.03
<i>Crude oil</i>					
Sales, million tenge	38.84	12.21	5.52	8.99	6.39
Volume, thousand tons	0.86	0.26	0.10	0.10	0.10
Average selling price, thousand tenge/ton	45.21	47.09	58.00	58.00	62.00
Total sales to the domestic market, million tenge	38.84	12.21	17,593.84	22,289.80	18,190.85
Total sales to the domestic market, thousand tons	0.86	0.26	475.46	726.21	479.06
All selling destinations, million tenge	328,248.41	342,972.97	196,793.17	242,066.65	307,424.10
All selling destinations, thousand tons	2,783.16	2,736.76	2,813.04	2,811.48	2,797.11

Oil is sold both for the domestic market and for export. According to the Rules of the Ministry of Energy of the Republic of Kazakhstan, oil is primarily delivered to domestic refineries, namely Pavlodar and Atyrau Refineries. Oil is exported along two main routes: through the Caspian Pipeline Consortium and Uzen – Atyrau – Samara pipelines. These pipelines lead to Novorossiysk sea port, the Krasnodar Territory, the Russian Federation, while CPC transports



oil to the CPC sea terminal in South Ozereyevka village (Novorossiysk, RF), and Uzen – Atyrau – Samara pipeline leads to the Sheskharis transshipment complex (Novorossiysk, RF). Upon completion of transportation to the terminals, oil is loaded onto tankers for dispatch to customers.

In 2017, the volume of sales in all directions decreased by an insignificant 1 % and amounted to 2.8 million tons. At the same time, the volume of sales in monetary terms increased by 27 % due to the price factor and reached the level of 307 billion tons.

The volume of exports in physical terms increased by 11 %, in monetary terms – by 32 %. In the past year, 66 % of exports accounted for KTO; the average selling price in this direction increased by 19 % and amounted to 123.15 thousand tenge/ton. 34 % of export sales accounted for CPC. The average cost of sales increased by 18 % to 127.9 thousand tenge/ton.

In 2017, export deliveries were increased due to the improvement in the global market environment. The volume of sales in the domestic market in 2017 decreased by 34 % in physical terms and by 18 % in monetary terms.

Commercial gas sales

Sales of commercial gas of EMG JSC are carried out in accordance with Article 15 of the Law of the Republic of Kazakhstan No. 532-IV dated January 9, 2012 “On Gas and Gas Supply”. The pre-emption right of the state is exercised through the national operator, KazTransGas JSC. In accordance with the Order of the Minister of Energy of the Republic of Kazakhstan No. 121 dated November 13, 2014 “On approval of the Rules for determining the price for sour and commercial gas acquired by the national operator under the pre-emption right of the state”, the Company sold commercial gas to the national operator at prices not exceeding the limit approved by the Ministry of Energy of the Republic of Kazakhstan. Embamunaygas JSC carries out gas treatment at two gas treatment plants and one complex gas treatment plant. Two gas treatment plants located at S. Balgimbayev and East Makat fields are used to treat commercial gas that meets the natural gas needs of the population of Isatay, Kzyrkogy and Makat regions of Atyrau region. Commercial gas from Prorva gas treatment plant (Prorva group of fields) is transported to the Central Asia-Center main gas pipeline.

No.	Destination	Unit of measurement	2015	2016	2017	2018* plan
1	KazTransGas JSC	thous. m ³	5,142.08	5,360.69	8,482.24	93 204,69

Cost

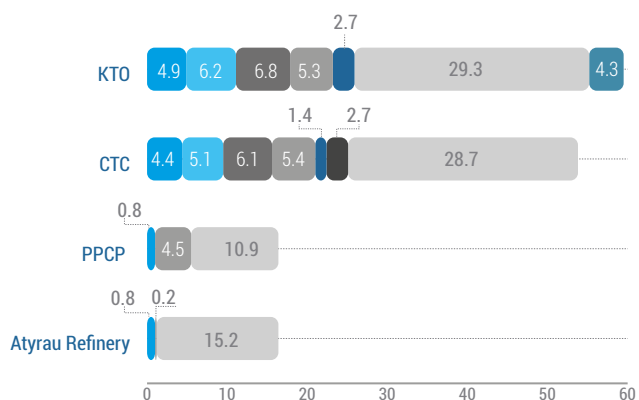
Cost analysis, million tenge

Indicator	2017	2016	Change, %
Employee benefits	45,474	42,572	7
Mineral extraction tax	27,544	18,871	46
Depreciation, depletion and amortization	16,987	16,879	1
Repair and maintenance services	10,622	9,140	16
Change in the provision for environmental obligation	6,270	-	-
Materials and inventories	3,393	3,150	8
Electric energy	2,705	2,705	0

Indicator	2017	2016	Change, %
Transport expenses	1,810	1,392	30
Property tax	1,471	1,484	-1
Commercial discovery bonus	-49	-945	-95
Reduction in assets retirement obligations exceeding the capitalized asset amount	-778	-3,733	-79
Other	6,510	3,662	78
Total cost	121,290	95,772	26,6

The cost of sales in 2017 increased by 26.6% to the level of 2016 or by 25.5 billion tenge. The growth was caused by an increase in mineral extraction tax expenses by 8.7 billion tenge and an increase in employee benefits by 2.9 billion tenge. In addition, in 2017 the Company recognized an additional environmental obligation to clean oil contaminated areas at oil fields for a total amount of 6.3 billion tenge. The amount of provision is equal to the present value of estimated future expenses of 9.1 billion tenge with a discount rate of 10% and a term up to 2023. In general, the cost level in 2017 was practically within the planned values.

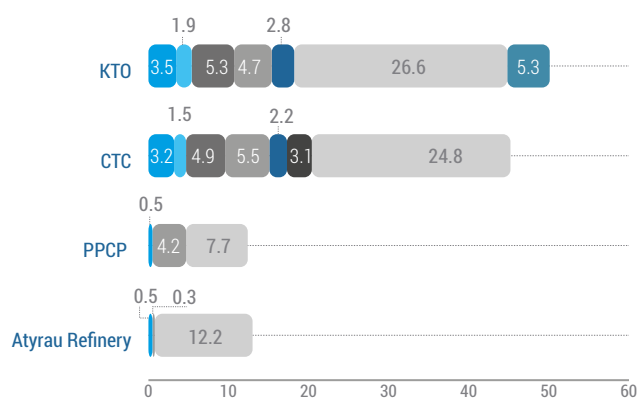
Netback analysis for 2017, USD per barrel¹



¹ Average price Brent 54.192

- MET
- Rental tax
- ECD
- Transportation

Netback analysis for 2016, USD per barrel²



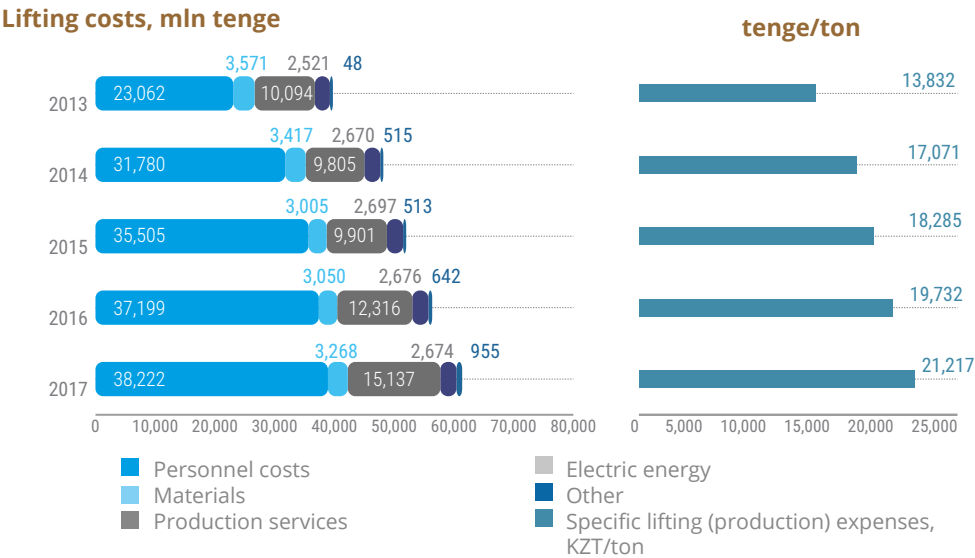
² Average price Brent 43.73

- Discounts
- Quality bank
- Netback
- Barrelization Prize

Lifting

In 2017, specific lifting, which is calculated as a ratio of operating costs to production, amounted to 21.2 thousand tenge per ton and increased by about 7,5% to 2016. 63% of operating costs for 2017 are personnel costs, 25% – costs for production services, 5% – material costs, 4% – electricity costs.

The specific cost of one ton of oil in 2017 amounted to 41.9 thousand tenge and increased by 25% against the level of 2016.



Selling expenses, general and administrative expenses

Selling expenses, general and administrative expenses, million tenge

Indicator	2017	2016	Change, %
Export customs duty	36,586	27,573	33
Transport expenses	33,907	33,438	1
Rent tax	32,584	9,396	247
Employee benefits	4,018	3,858	4
Depreciation, depletion and amortization	3,048	1,016	200
Repair and maintenance services	432	364	19
Sponsorship	324	288	12
Agency fee for sales	214	232	-7
Consulting and auditing services	106	61	72
Fines and penalties	47	-165	-129
Property tax	39	40	-2
Reversal/provision for doubtful accounts receivable	-144	573	-125
Other	2,972	1,055	182
Total expenses	114,132	77,730	47

Selling and administrative expenses in 2017 increased by 47% or by 36.4 billion tenge. The growth was affected by an increase in rental tax by 23.2 billion tenge and the growth of export customs duties by 9 billion tenge. Transportation costs, which account for almost 30% of selling and administrative expenses, remained practically unchanged in 2017 having increased by 1%. Employee benefits increased by 4%.

Taxation

Tax expenses, except for income tax, million tenge

Indicator	2017	2016	Change, %
Rent tax	32,584	9,396	247
Export customs duty	36,586	27,573	33
Mineral extraction tax	27,544	18,871	46
Property tax	1,510	1,525	-1
Environmental pollution tax	708	613	15
Other taxes	201	-756	-127
Total taxes, excluding corporate income tax	99,133	57,222	73

Income tax expenses, million tenge

Indicator	2017	2016	Change, %
Income before tax	75,548	77,164	-2
Income tax expenses	19,425	15,803	23
Effective tax rate	26 %	21 %	24

In 2017, the volume of taxes, except for corporate income tax, increased by 70% and exceeded 102 billion tenge. Rent tax increased more than three times and amounted to 32.6 billion tenge, export customs duty increased by 33% to 36.7 billion tenge, mineral extraction tax expenses increased by 46% to 27.5 billion tenge. The growth of taxes was affected by an increase in exports and rise in oil prices.

Income tax expenses in 2017 increased by 23% to 19.4 billion tenge. The growth was associated with income tax savings in 2016, while profit before tax in 2017 decreased by 2%. The effective tax rate reached the level of 26%.

Capital and liquidity**Statement of financial position, million tenge**

Indicators	As of December 31, 2017	As of December 31, 2016	Change, %
Assets			
Long-term assets			
Fixed assets	173,028.95	164,010.87	5
Intangible assets	15,045.69	8,463.86	78
Other financial assets	32,258.45	33,599.22	-4
Deferred tax assets	10,415.90	6,875.62	51
Advances paid for long-term assets	1,670.72	421.48	-
Total long-term assets	232,419.71	213,371.04	9
Current assets			
Inventories	7,272.09	6,464.32	12
Income tax prepayment	772.88	11,635.16	-
Prepayment for taxes and VAT recoverable	12,244.84	5,262.31	133
Advances paid and expenses of future periods	2,819.25	5,615.36	-50
Trade and other accounts receivable	35,948.75	33,336.07	8
Other financial assets	31,884.02	57,239.30	-44
Cash and cash equivalents	73,423.07	51,900.43	41
Total current assets	164,364.90	171,452.95	-4
Total assets	396,784.61	384,824.00	3

Indicators	As of December 31, 2017	As of December 31, 2016	Change, %
Capital			
Authorized capital	162,399.82	162,399.82	0
Retained earnings	157,246.24	162,758.74	-3
Total capital	319,646.06	325,158.56	-2
Liabilities			
Long-term liabilities			
Historical liabilities	1,807.47	3,844.38	-53
Reserves	23,530.09	16,971.54	39
Total long-term liabilities	25,337.56	20,815.92	22
Current liabilities			
Historical liabilities	2,623.49	2,428.82	8
Reserves	8,413.48	6,846.07	23
Mineral extraction tax and rent tax payable	17,947.34	8,570.50	109
Trade and other accounts payable	22,816.67	21,004.13	9
Total current liabilities	51,800.99	38,849.52	33
Total liabilities	77,138.55	59,665.43	29
Total liabilities and capital	396,784.61	384,824.00	3

In 2017, the Company's assets increased by 3% and amounted to 396.8 billion tenge. The volume of long-term assets is 59% of the total balance. In the structure of liabilities, equity accounts for 81%, while liabilities amount to 19% of the total balance, including current liabilities – 13%.

In 2017, the Company's financial assets were represented by accounts receivable (35.9 billion tenge), cash and cash equivalents (73.4 billion tenge) and other financial assets in the amount of 64.1 billion tenge. Financial liabilities were represented by historical obligations (5.4 billion tenge) and accounts payable (22.8 billion tenge). The Company needs financial resources for maintaining operating activities and making investments. To date, the Company has the necessary liquidity cushion and its financial position is assessed as sustainable.

In 2017, the Company's assets increased by 3%
and amounted to **396.8 billion tenge.**



A full-page photograph of an industrial gas processing facility. A worker in a red uniform, white hard hat, and sunglasses is working on a large, complex system of silver-colored metal pipes and valves. The worker is positioned on a metal platform, reaching towards a valve on a large horizontal pipe. The background shows more industrial structures under a bright sky.

CORPORATE GOVERNANCE

95 жыл



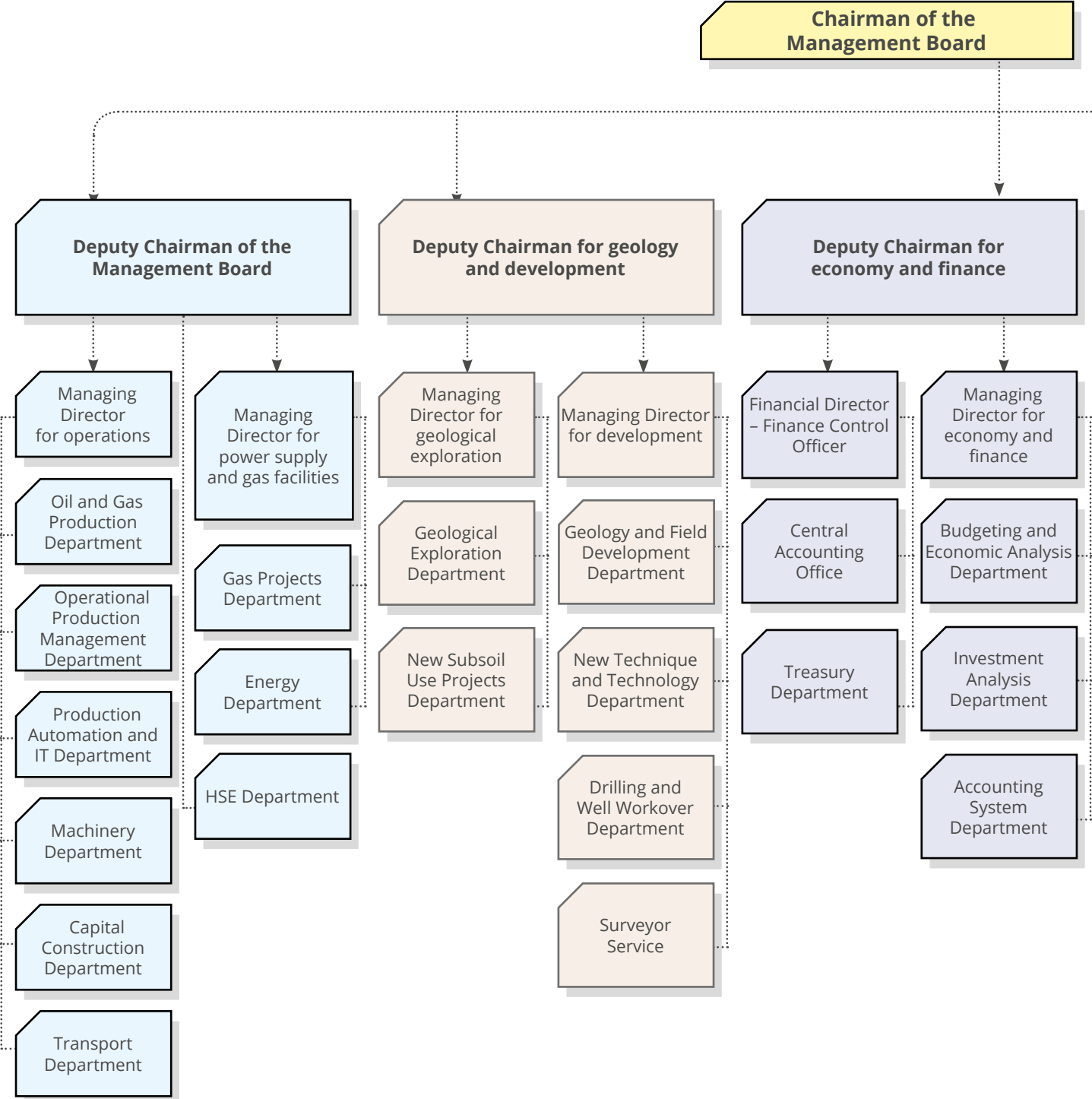
ЕмбіМұнайГаз

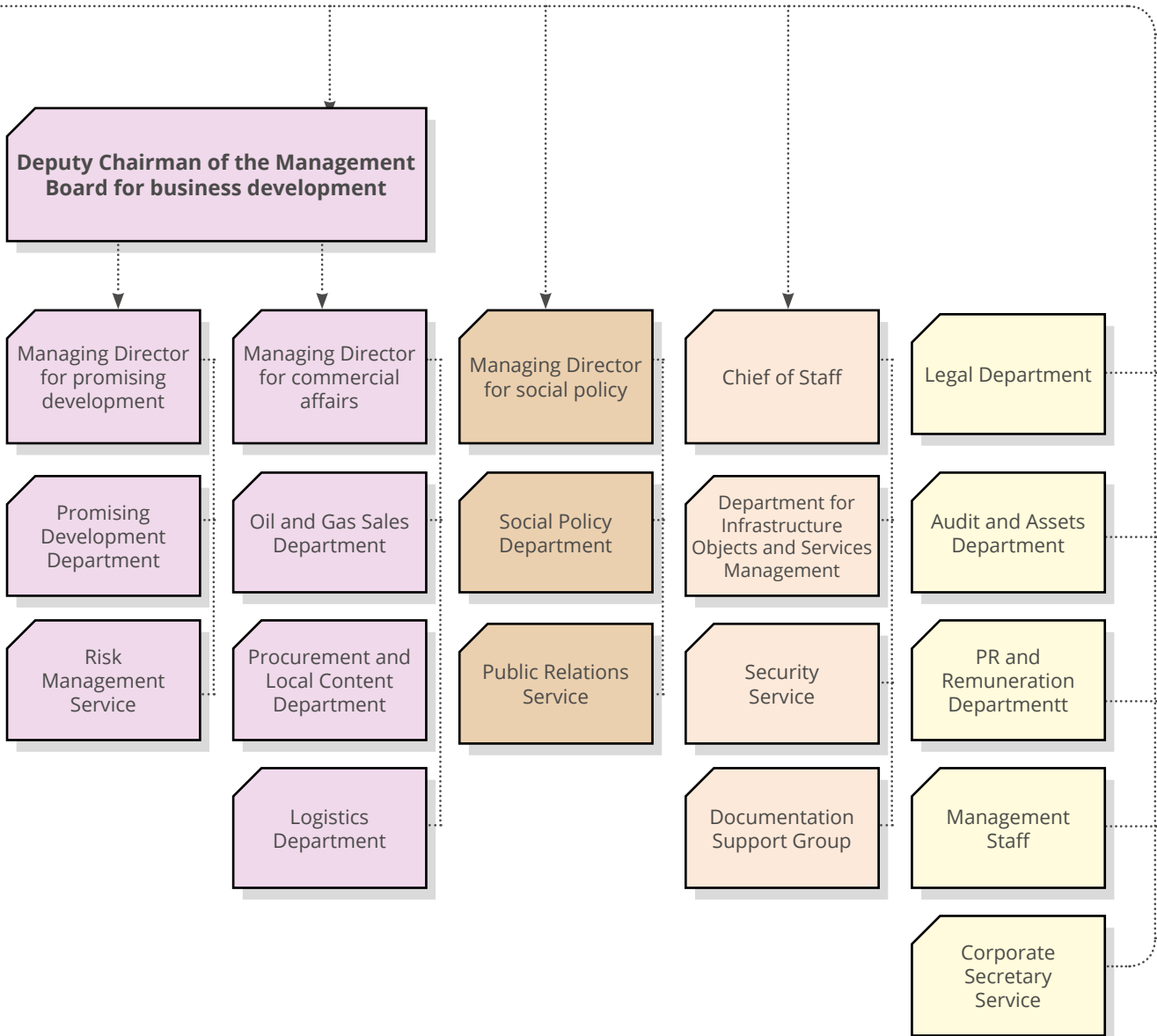
АКЦИОНЕРЛІК ҚОҒАМЫ



Governance structure

Managerial staff structure of Embamunaygas Joint-Stock Company





Board of Directors

By the decision of the Sole Shareholder of Embamunaygas JSC No. 10 dated May 23, 2017, the powers of A.T. Ileuov as a member of the Board of Directors were terminated ahead of schedule, and K.O. Iskaziyeu. (General Director – Chairman of the Management Board of KazMunayGas EP JSC), A.Ye. Zhaksybekov (Chairman of the Management Board of Embamunaygas JSC) were elected as representatives of the Sole Shareholder.

On the basis of the decision of the Board of Directors of Embamunaygas JSC No. 35 dated June 21, 2017, the powers of Dastan Yelemessovich Abdulgafarov as Chairman of the Board of Directors of Embamunaygas JSC was terminated ahead of schedule and Kurmangazy Oryngazyevich Iskaziyeu was elected as Chairman of the Board of Directors of Embamunaygas JSC.

By the decision of the Sole Shareholder of Embamunaygas JSC No. 18 dated August 29, 2017, the quantitative composition of the Board of Directors of Embamunaygas JSC was increased to nine persons, and from August 29, 2017, Damir Danilbekovich Teberikov was additionally elected to the Board of Directors (as a representative of the Sole Shareholder).

Members of the Board of Directors as of December 31, 2017



Kurmangazy ISKAZIYEV

*Chairman of the Board of Directors of Embamunaygas JSC,
General Director (Chairman of the Management Board) of KazMunayGas EP JSC*

He graduated from Kazakh Polytechnic Institute named after V.I. Lenin, majoring in Mining Engineer-Geologist.

K. Iskaziyeu started his career as a sampling operator at Balykshy Exploratory Drilling Directorate, after which he worked as a geological engineer of the Thematic Team, a cementing operator of Embaneft plug-back operation office. In 1991–1993 – geologist of the drilling expedition No. 1 of Balykshy Exploratory Drilling Directorate, in 1993–1995 – geologist of Atyrau Drilling Department CDO of Embamunaygas JSC. In 1995–2004 – Chief Geologist, Deputy Director of Atyrau Enhanced Oil Recovery and Well Workover Directorate, Director of the Geology and Oil and Gas Field Development Department of Embamunaygas JSC. In 2004–2008 – Deputy Director, Director of the Geology and Development Department of KazMunayGas Exploration Production JSC. In 2008–2015 – Executive Director for oil and gas production, Managing Director for geology, geophysics and reservoirs, Chief Geologist, Deputy Chairman of the Management Board for geology and promising projects, Managing Director for non-operating assets (Tengiz, Kashagan, Karachaganak), Managing Director for geology of NC KazMunayGas. From January to September 2015 – General Director (Chairman of the Management Board) of Embamunaygas JSC. Since September 2015 – General Director (Chairman of the Management Board) of KazMunayGas Exploration Production JSC.

K. Iskaziyeu is a holder of Honorary Diplomas of NC KMG, KMG EP, the Geology and Subsoil Use Committee, Anniversary Medals: “20 years of Kazakhstan Constitution” (2015), “20 years of Kazakhstan Independence” (2016), the Kurmet Order (2016), the Anniversary Medal of the Ministry of Energy of the Republic of Kazakhstan “95 years of Embamunaygas JSC” (2017).

K. Iskaziyeu is an honorary prospector of the Republic of Kazakhstan, Laureate of the Al-Farabi State Prize of the Republic of Kazakhstan in the field of science and technology for a series of papers on “Scientific justification of hydrocarbon potential of the Republic of Kazakhstan” (2015).

He is also Doctor of Geological and Mineralogical Science, author of 12 scientific publications, co-author of the book “Geological structure and oil-and-gas bearing prospects of the Northern and Middle Caspian”.

Dastan ABDULGAFAROV

*Member of the Board of Directors of Embamunaygas JSC,
Deputy General Director for economy and finance of KazMunayGas EP JSC*

Dastan Abdulgafarov holds a position of Deputy General Director for economy and finance since January 2015.

From 2006 till the last appointment, D. Abdulgafarov worked as Managing Director for business development. He graduated from Kazakh Institute of Law and International Relations with a degree in International Law and the Diplomatic Academy of the Ministry of Foreign Affairs of the Republic of Kazakhstan, majoring in International Economics and Law. He received a Master's degree in oil business at Agip Corporate University, as well as Executive MBA at SKOLKOVO, Moscow School of Management. He worked for “MOC KazMunayTeniz” JSC and NC KazMunayGas JSC.



Kuanyshbai NURGALIYEV

*Member of the Board of Directors of Embamunaygas JSC,
Managing Director for operations and field development of KazMunayGas EP JSC.*

Kuanyshbai Nurgaliyev holds the position of Managing Director for operations and field development at KMG EP from December 2015, previously he held the position of Managing Director for operations at KMG EP.

In different years he worked as Deputy General Director for Operations of Ural Oil and Gas LLP, Director of Field Development Department, Head of Field Development Division of KMG EP.

K. Nurgaliyev started his career at Uzenmunaigas JSC (Ozenmunaigas Production Branch) and held the positions from an oil and gas production operator to Department Director. He graduated from Kazakh National Technical University named after K. Satpayev with a degree in Mining Petroleum Engineer and Karaganda State Technical University, majoring in Mining Engineer-Geophysicist. He took a degree of Master of Business Administration in Oil and Gas Business Management at MIRBIS Institute, Moscow.





Shane Andrew DRADER

*Member of the Board of Directors of Embamunaygas JSC,
Financial Director – Financial Control Officer of KazMunayGas EP JSC*

Shane Drader holds the position of Financial Director – Financial Control Officer since August 2014. He already held the same position in the Company in 2007–2011.

Prior to joining KMG EP JSC, Mr. Drader worked as a resource partner at Deloitte & Touche in Kazakhstan. He has decades of experience in the Big Four. He also worked at British American Tobacco in different countries, where he held the positions of chief finance officer, financial control officer, internal audit and business risk manager. He graduated from the University of Calgary with a degree in Accounting.

Mr. Drader is a member of the Institute of Certified Public Accountants of Alberta.



Anuar Yerkinovich ZHAKSYBEKOV

*Member of the Board of Directors,
Chairman of the Management Board of Embamunaygas JSC*

After graduation from Baichunas secondary school No. 3 in 1982, Anuar Zhaksybekov started his career as an oil and gas production operator at the Baichunas field of Dossorfeft OGPD of Kazakhoil-Emba OJSC. Upon completion of military service, he continued working as an operator of the oil and gas production department of Karsak field. Later, he worked as a district geologist in Atyrau Drilling Department, a leading geologist, deputy head of the enhanced oil recovery and well workover division of Makat district of Kazakhoil-Emba JSC.

In 1993, he graduated from Patrice Lumumba University of People's Friendship (Moscow), specializing in "Geology and Exploration of Oil and Gas Fields".

In 1999, he was appointed Chief Geologist of Makatneft OGPD of Kazakhoil-Emba OJSC. In 2000, he was invited to NC Kazakhoil JSC as Chief Engineer of the Production Management Department. He also held the positions of Chief Engineer, Manager, Deputy Director of the Geology and Field Development Department.

From 2004 to 2007 he headed the Geology and Geophysics Department of the Geological – Engineering Service of NC KazMunayGas JSC. In 2007–2009 he held the position of Director of the Department of Geology, Geophysics and Storage Facilities of the Exploration and Production Division of NC KazMunayGas JSC.

In 2009–2013, Anuar Zhaksybekov held the positions of Geological Exploration Manager of NC KMG in N Operating Company LLP, Chairman of the Technical Subcommittee on Geological Exploration. In February 2013, he was appointed Deputy General Director for Geology and Development of KMG EP, Chairman of the Technical Committee on Geological Exploration, Chairman of the Exploration Assets Supervisory Board of KMG EP. He supervised joint ventures with the participation of KMG EP: JV Ural Oil and Gas, joint participation with FIOC (PRC) and MOL (Hungary), joint venture "Karpovsky Severny".

In October, 2013, A. Zhaksybekov was appointed Deputy General Director for Promising Projects and Operations of the Branch of Kashagan B.V. PCLL and a member of the Engineering Advisory Committee of Shareholders of the North-Caspian Project.

Since September 2015, he is Deputy General Director for New Projects and Technologies of Embamunaygas JSC. Since April 24, 2017, by the decision of the Board of Directors A. Zhaksybekov was elected as Chairman of the Management Board of EMG JSC.

A. Zhaksybekov is a holder of an Honorary Diploma of the Ministry of Oil Industry of the USSR; Honorary Certificate of NC KazMunayGas JSC; Certificate of Appreciation of Samruk-Kazyna SWF JSC; Certificate of Gratitude of the Committee for Geology and Subsoil Management of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan; the Badge of Honor of RoK MEMR “90 years of Makat Field”; the Badge of Honor of the Ministry of Oil and Gas “100 years of Dossor Field” (2011); “50 years of Prorva Field”; Diploma and Badge of Honor of the Ministry of Industry and New Technologies of the Republic of Kazakhstan “Honorary Prospector of the Republic of Kazakhstan” (2012); Medal for Contribution to Oil and Gas Industry of the Republic of Kazakhstan awarded by the Ministry of Oil and Gas of the Republic of Kazakhstan (2014); Anniversary Medal of the Ministry of Energy of the Republic of Kazakhstan “95 years of Embamunaygas JSC” (2017), Kurmet Order (2017).

Damir Danilbekovich TEBERIKOV

*Member of the Board of Directors of Embamunaygas JSC,
Deputy Director of the Production Optimization Department of NC KazMunayGas JSC.*

Damir Teberikov graduated from Almaty State University named after Abay with a specialization in Law (International Law).

He started his career as a manager at Caspian Industrial and Financial Group Trade LLP. Then he worked as a specialist, member of the department of joint enterprise management, deputy head of departments of NC KazMunayGas JSC.



Zhannat Dzhurgaliyevna YERTLESSOVA

*Independent Director of the Board of Directors of Embamunaygas JSC,
Director of Expert Kazakhstan LLP*

Zhannat Yertlessova started her career as a research officer at the Research Institute of Economy and Market Relations under the State Planning Committee of KazSSR. In 1992 she was appointed Deputy Director of the Institute. Then she worked as Chief of the Financial and Credit Policy Department of the Ministry of Economy of the Republic of Kazakhstan.

In 1994 Zh. Yertlessova was appointed First Deputy Minister of Economy of the Republic of Kazakhstan. She also held different positions such as Chief of the Center for Economic Reforms under the Cabinet of Ministers and the Government of the Republic of Kazakhstan, First Vice-Minister of Finance, Vice President of Kazakhtelecom JSC, Deputy Head of the RoK Presidential Executive Office, Deputy Minister of Defense of the Republic of Kazakhstan, First Deputy Chairman of the Agency on Regulation of Natural Monopolies of the Republic of Kazakhstan, Chairman of the Governing Council of the Association of Taxpayers of Kazakhstan, Deputy Chairman of the Management Board of the National Chamber of Entrepreneurs, etc. Currently, Zhannat Yertlessova is Director of Expert Kazakhstan LLP.





Baltabek Mukhanovich KUANDYKOV

Independent Director of the Board of Directors of Embamunaygas JSC

Doctor of Geological and Mineralogical Sciences, Associate Member of the International Economic Academy of Eurasia, Academician of the International Academy of Mineral Resources, member of the American Association of Petroleum Geologists.

Baltabek Kuandykov worked as Chief Geologist, Head of the Geological Department, Deputy Head of the Geological Department, field geologist of the oil prospecting expedition of Kazneftegazrazvedka Geological Administration of Guriyevneftegazgeologiya Association, Deputy Minister of Geology, Energy and Fuel Resources of the Republic of Kazakhstan, President of Kazakhstankaspi shelf JSC, NOC Kazakhoil ZAO, Nelson Resources Ltd. (Canada).

From February 2006 to the present time he is the President of Meridian Petroleum. Since 2009 he is the President of Kazakhstan Society of Petroleum Geologists.



Igor Aleksandrovich UKRASIN

Independent Director of the Board of Directors of Embamunaygas JSC, Managing Director of SBERBANK (Switzerland) AG, Head of the Corporate Banking Division

In 1994–1996, Igor Ukrasin held the position of Head of the Sales Planning Division of the Operations Department of Pepsi-Cola International, in 1998–2013 – Managing Director of the Investment Banking Division of the European Energy Group “Credit Suisse Securities Limited”, in 2013–2015 – Managing Director of SBERBANK KIB.

Progress report of the Board of Directors

The powers of the Board of Directors of Embamunaygas JSC are determined by section 12 of the Charter of Embamunaygas JSC. The Board of Directors is responsible to the Sole Shareholder for effective management and proper control over the activities of Embamunaygas JSC and performs its functions in accordance with the approved decision-making system. The most important functions of the Board of Directors are: determination of areas for strategic development and policy of the Company, approval of the budget and significant internal documents of Embamunaygas JSC and other significant issues.

The Board of Directors holds meetings on a regular basis and as required.

In 2017, the Board of Directors held 75 meetings, including four meetings by voting in person and 71 by absentee voting.

During the year, the Board of Directors considered, inter alia, the following issues:

- ▶ On indexation of payments to members of the Management Board, the Corporate Secretary, deputy general directors and chief accountant of Embamunaygas JSC;
- ▶ On approval of key performance indicators of Embamunaygas JSC for 2017;
- ▶ On introduction of amendments to the staff schedule and organizational structure of the management staff of Embamunaygas JSC;
- ▶ On approval of corrections to the budget of Embamunaygas JSC for 2017 and business plan for 2017–2021;
- ▶ On payment of remuneration to managerial employees of Embamunaygas JSC for 2016;
- ▶ Approval of the 2016 Annual Report of Embamunaygas JSC;
- ▶ Approval of the progress report of the Board of Directors and the Management Board of Embamunaygas JSC for 2016;
- ▶ On approval of corrections to the budget of Embamunaygas JSC for 2017;
- ▶ On determination of the quantitative composition of the Management Board of Embamunaygas JSC;
- ▶ On approval of the budget of Embamunaygas JSC for 2018 and a business plan for 2018–2022;
- ▶ On approval of conclusion of a contract for purchase and sale of securities with DSFK Special Financial Company LLP for acquisition of CDO bonds in accordance with the Decree of the Government of the Republic of Kazakhstan No. 718ДҚП dated November 07, 2017;
- ▶ On introduction of amendments to the staff schedule and organizational structure of the management staff of Embamunaygas JSC;
- ▶ Progress report of the Company for eight months of 2017 and expected results for 2017;
- ▶ HSE Report of the Company for eight months of 2017 and expected results for 2017;
- ▶ Report on implementation of the report for construction and commissioning of the gas treatment plant at Prorva field (overview, current status / actual application of allocated funds);
- ▶ Report on implementation of the plan for procurement of goods, works and services for eight months of 2017 and expected results for 2017;
- ▶ Report on activities of the Internal Audit Service of KazMunayGas EP JSC with regard to Embamunaygas JSC;
- ▶ On committees of the Board of Directors of Embamunaygas JSC;
- ▶ On conclusion of the Company's interested party transactions in the amount of up to 1 billion tenge.

In 2017, the Board of Directors also approved a number of internal corporate documents.

In 2017, the Board of Directors held 75 meetings, including four meetings by voting in person and 71 by absentee voting.



Attendance of members of the Board of Directors and members of committees of the Board of Directors at meetings of the Board of Directors and committees

Number of meetings held in 2017	BoD	Audit and Risk Management Committee	Комитет по внутреннему аудиту	Strategic Planning and Risk Management Committee	Production and Technical Affairs Committee
Kurmangazy Oryngazyevich Iskazyev	50				
Dastan Yelemessovich Abdulgafarov	71				
Kuanyshbai Zhaumitbayevich Nurgaliyev	75				
Shane Andrew Drader	74	4		1	
Damir Danilbekovich Teberikov	21				
Anuar Yerkinovich Zhaksybekov	50				
Zhannat Dzhurgaliyevna Yertlessova	74	5	1	2	2
Baltabek Mukhanovich Kuandykov	74	1	1	1	2
Igor Aleksandrovich Ukrasin	75	5	1	2	2

General information for 2017

Management body	Number of meetings	Total issues considered	Decisions taken
Meetings of the Board of Directors, including:	75	96	96
in presentia	4	25	25
in absentia	71	71	71

Information on assignments of the Board of Directors taken at meetings in presentia in 2017

Description	Number
Total assignments	13
In progress	1
Accepted for execution	13
Executed	12

Committees of the Board of Directors

Internal Audit Committee

By the decision of the Board of Directors of Embamunaygas JSC No. 51 dated September 26, 2017, the Internal Audit Committee was approved.

As of December 31, 2017, the Internal Audit Committee was composed of four members:

Full name	Position
Zhannat Dzhurgaliyevna Yertlessova	Chairman of the Internal Audit Committee
Igor Aleksandrovich Ukrasin	Member of the Internal Audit Committee
Baltabek Mukhanovich Kuandykov	Member of the Internal Audit Committee
Rysty Nurgaliyevna Tasmagambetova	Member of the Internal Audit Committee

The powers of the Internal Audit Committee of the Board of Directors of Embamunaygas JSC are determined by the Regulations on the Committee. The Committee annually reviews and evaluates activities of the Committee and its members and provides information to the Board of Directors.

The Internal Audit Committee of the Board of Directors of Embamunaygas JSC performs the following functions:

- 1) provides recommendations to the Board of Directors for the procedure of work of the internal audit service, its competence, functions, as well as the size and terms of remuneration and bonus payment to employees of the internal audit service;
- 2) provides recommendations to the Board of Directors for the formation of qualification requirements for candidates for positions in the internal audit service and the adoption of decisions related to appointment of employees of the internal audit service;
- 3) reviews reports submitted by the internal audit service;
- 4) exercises control over the implementation of recommendations of the internal audit service;
- 5) carries out monitoring and control over the efficiency of functions performed by the internal audit service;
- 6) monitors and evaluates the effectiveness of risk management and internal control systems.

The Internal Audit Committee of the Board of Directors holds meetings on a regular basis and as required.

During the year, the Committee considered the following issues:

- ▶ On approval of corrections to the budget of Embamunaygas JSC for 2017 and a business plan for 2017–2021;
- ▶ Report on review of the budget and business plan for 2018–2022;
- ▶ Progress report on the internal audit service of KazMunayGas EP JSC with regard to Embamunaygas JSC;
- ▶ On approval of the Rules for sale of assets of Embamunaygas JSC;
- ▶ On approval of the Rules for disclosure and provision of information of Embamunaygas JSC;
- ▶ On determination of the amount of payment for services rendered by an audit organization for auditing the financial statements of Embamunaygas JSC for the years ended on December 31, 2017–2018;
- ▶ On preliminary approval of financial statements for 2016;
- ▶ On preliminary approval of proposals for distribution of the Company's net profit and the size of a dividend per one ordinary share of the Company for 2016;
- ▶ On approval of functional KPIs for members of the Management Board of Embamunaygas JSC;
- ▶ Report on implementation of recommendations of the internal audit service;

- ▶ On approval of the Work Plan of the internal audit service of KazMunayGas EP JSC with regard to Embamunaygas JSC;
- ▶ Work Plan of the Committee for the first half of 2018.

Strategic Planning and Risk Management Committee

By the decision of the Board of Directors of Embamunaygas JSC No. 51 dated September 26, 2017, the Strategic Planning and Risk Management Committee of the Board of Directors of Embamunaygas JSC was established.

As of December 31, 2017, the Strategic Planning and Risk Management Committee of the Board of Directors of Embamunaygas JSC was composed of nine persons:

Full name	Position
Igor Aleksandrovich Ukrasin	Chairman of the Strategic Planning and Risk Management Committee
Zhannat Dzhurgaliyevna Yertlessova	Member of the Strategic Planning and Risk Management Committee
Shane Andrew Drader	Member of the Strategic Planning and Risk Management Committee
Kairat Boranbayevich Nurmukhanov	Member of the Strategic Planning and Risk Management Committee
Aman Galimzhanovich Imandossov	Member of the Strategic Planning and Risk Management Committee
Magzum Makayevich Myrzabayev	Member of the Strategic Planning and Risk Management Committee
Bauyrzhan Kuspanovich Balzhanov	Member of the Strategic Planning and Risk Management Committee
Alikhan Zheksenbayevich Baidussenov	Member of the Strategic Planning and Risk Management Committee
Abat Amantayevich Balabayev	Member of the Strategic Planning and Risk Management Committee

The powers of the Strategic Planning and Risk Management Committee of the Board of Directors of Embamunaygas JSC are determined by the Regulations on the Committee. The Committee annually reviews and evaluates the activities of the Committee and its members and provides information to the Board of Directors.

The Strategic Planning and Risk Management Committee of the Board of Directors of Embamunaygas JSC performs the following functions:

- 1) review and approval of strategic goals aimed at the Company's development in the long view;
- 2) analysis of the Company's strategic development concepts, programs and plans and submission of recommendations based on the analysis results to the Board of Directors;
- 3) preparation of recommendations to the Board of Directors regarding the conclusion of major transactions;
- 4) preparation of recommendations to the Board of Directors regarding the participation in other legal entities, associations and other commercial organizations;
- 5) preparation of recommendations to the Board of Directors regarding the participation of the Company in establishment of other organizations as well as for opening and closure of the Company's branches and representative offices;
- 6) preparation of recommendations to the Board of Directors regarding the Company's policy for non-core activities;
- 7) preparation of recommendations to the Board of Directors regarding the management of the Company's assets;

- 8) evaluation of the Company's policy in the field of relations with investors and shareholders and submission of recommendations based on the evaluation results to the Board of Directors for consideration;
- 9) preparation of recommendations to the Board of Directors regarding the size of dividends per one ordinary share of the Company and the procedure for payment thereof;
- 10) preparation of recommendations to the Board of Directors regarding the procedure for distribution of the Company's net profit for the past financial year;
- 11) preparation of recommendations to the Board of Directors regarding the proposed reorganization of the Company, including the conditions, procedure and terms of such reorganization;
- 12) preparation of opinions at request of the Board of Directors or recommendations upon its own initiative for any other issues within its competence, and at the end of the year – submission of the Committee's progress report to the Board of Directors for review.

The Strategic Planning and Risk Management Committee of the Board of Directors holds meetings on a regular basis and as required.

During the year, the Committee considered the following issues:

- ▶ Report on the expected fulfilment of key performance indicators of Embamunaygas JSC for 2017;
- ▶ Report on review of the budget and business plan for 2018–2022;
- ▶ On approval of the Rules for disclosure and provision of information of Embamunaygas JSC;
- ▶ Report on implementation of the action plan for key risk management for 2017, including problematic issues and the list of key risks for 2018;
- ▶ On preliminary approval of proposals for the procedure of distribution of the Company's net profit and the size of a dividend per one ordinary share of the Company for 2016;
- ▶ On approval of functional KPIs for members of the Management Board of Embamunaygas JSC;
- ▶ On approval of corporate and motivational KPIs for the management staff (members of the Management Board) of the Company for 2017;
- ▶ On approval of the Regulations on the risk appetite, risk limits and tolerance level of Embamunaygas JSC EMG-PO–132–02 (revision 1);
- ▶ On approval of the Regulations on key risk indicators of Embamunaygas JSC EMG-PO–132–03 (revision 1);
- ▶ On approval of the Regulations on the formation and application of key performance indicators of members of the Management Board and executives of Embamunaygas JSC EMG-PO–119–02 (revision 1);
- ▶ Work Plan of the Committee for the first half of 2018.

Production and Technical Affairs Committee

As of December 31, 2017, the Production and Technical Affairs Committee of the Board of Directors of Embamunaygas JSC was composed of six members:

Full name	Position
Baltabek Mukhanovich Kuandykov	Chairman of the Production and Technical Affairs Committee
Aidos Zhenissovich Kurmankulov	Member of the Production and Technical Affairs Committee
Alnur Saduakhassovich Shamshiyev	Member of the Production and Technical Affairs Committee
Abat Amangeldiyevich Kutzhanov	Member of the Production and Technical Affairs Committee

Full name	Position
Shaikhan Kairatovich Mukhametrakhimov	Member of the Production and Technical Affairs Committee
Bauyrzhan Adeubayevich Seitkazyev	Member of the Production and Technical Affairs Committee

The powers of Production and Technical Affairs Committee of the Board of Directors of Embamunaygas JSC are determined by the Regulations on the Committee. The Committee annually reviews and evaluates activities on the Committee and its members and provides information to the Board of Directors.

The Production and Technical Affairs Committee of the Board of Directors of Embamunaygas JSC performs the following functions:

- 1) review and preparation of materials for approval of the annual work program, budget and procurement plan related to the Company's production activities as well as any amendments thereto;
- 2) analysis and control of data on the current status of the drilling plan, control over the implementation of new drilling methods, techniques and technologies;
- 3) analysis of data on the development and introduction of plans for efficient field construction;
- 4) analysis of reports on implementation of production plans, operations related to fluid production, collection and transportation, as well as data on verification of quality of work performance and well technological parameters;
- 5) analysis of introduction of new programs for oil production intensification and optimization of the reservoir pressure maintenance system;
- 6) review and appraisal of projects and proposals for introduction of new technologies, application of machinery and equipment aimed at increasing the oil and gas production efficiency;
- 7) control over the observance of technical discipline, occupational health and safety rules, requirements of the State Committee for Industrial and Mining Safety Supervision, environmental protection and other authorities;
- 8) review of other issues related to production activities of the Company.

The Production and Technical Affairs Committee of the Board of Directors holds meetings on a regular basis and as required.

During the year, the Committee addressed the following issues:

- ▶ On approval of corrections to the budget of Embamunaygas JSC for 2017 and a business plan for 2017–2021;
- ▶ Report on review of the budget and business plan for 2018–2022;
- ▶ On considering an issue of return of seven non-profitable fields of Embamunaygas JSC (Tanatar, Iskine, Makat, Dossor, Komsomolskoye, Bek-Beke, Sagis fields) under the contract No. 211 dated August 13, 1998;
- ▶ Progress report of the Company for eight months of 2017 and expected results for 2017;
- ▶ HSE report of the Company for eight months of 2017 and expected results for 2017;
- ▶ Report on implementation of the Project of construction and commissioning of a gas treatment plant at Prorva field (review, current status / actual application of allocated funds);
- ▶ Progress report of the internal audit service of KazMunayGas EP JSC with regard to Embamunaygas JSC;
- ▶ On preliminary approval of financial statements for 2016;
- ▶ On preliminary approval of proposals for the procedure of distribution of the Company's net profit and the size of a dividend per one ordinary share of the Company for 2016;
- ▶ On approval of functional KPIs for members of the Management Board of Embamunaygas JSC;
- ▶ Work Plan of the Committee for the first half of 2018.

Management Board

On the basis of the decision of the Board of Directors of Embamunaygas JSC No. 24 dated May 23, 2017, the powers of Kurmangazy Oryngazyevich Iskazyev as a member of the Management Board of Embamunaygas JSC were terminated ahead of schedule.

By the decision of the Board of Directors of Embamunaygas JSC No. 56 dated October 10, 2017, the powers of Anuarbek Nurollayevich Karimov as a member of the Management Board of Embamunaygas JSC were terminated ahead of schedule and Kairat Adilbekovich Adilbekov was elected as a member of the Management Board.

By the decision of the Board of Directors of Embamunaygas JSC No. 73 dated December 27, 2017, Ruslan Beksultanovich Makashev was elected as a member of the Management Board.

Members of the Management Board as of December 31, 2017

After graduation from Baichunas secondary school No. 3 in 1982, Anuar Zhaksybekov started his career as an oil and gas production operator at the Baichunas field of Dossorneft OGPD of Kazakhoil-Emba OJSC. Upon completion of military service, he continued working as an operator of the oil and gas production department of Karsak field. Later, he worked as a district geologist in Atyrau Drilling Department, a leading geologist, deputy head of the enhanced oil recovery and well workover division of Makat district of Kazakhoil-Emba JSC.

In 1993, he graduated from Patrice Lumumba University of People's Friendship (Moscow), specializing in "Geology and Exploration of Oil and Gas Fields".

In 1999, he was appointed Chief Geologist of Makatneft OGPD of Kazakhoil-Emba OJSC. In 2000, he was invited to NC Kazakhoil JSC as Chief Engineer of the Production Management Department. He also held the positions of Chief Engineer, Manager, Deputy Director of the Geology and Field Development Department.

From 2004 to 2007 he headed the Geology and Geophysics Department of the Geological – Engineering Service of NC KazMunayGas JSC. In 2007–2009 he held the position of Director of the Department of Geology, Geophysics and Storage Facilities of the Exploration and Production Division of NC KazMunayGas JSC.

In 2009–2013, Anuar Zhaksybekov held the positions of Geological Exploration Manager of NC KMG in N Operating Company LLP, Chairman of the Technical Subcommittee on Geological Exploration. In February 2013, he was appointed Deputy General Director for Geology and Development of KMG EP, Chairman of the Technical Committee on Geological Exploration, Chairman of the Exploration Assets Supervisory Board of KMG EP. He supervised joint ventures with the participation of KMG EP: JV Ural Oil and Gas, joint participation with FIOC (PRC) and MOL (Hungary), joint venture "Karpovsky Severny".

In October, 2013, A. Zhaksybekov was appointed Deputy General Director for Promising Projects and Operations of the Branch of Kashagan B.V. PCLL and a member of the Engineering Advisory Committee of Shareholders of the North-Caspian Project.

Since September 2015, he is Deputy General Director for New Projects and Technologies of Embamunaygas JSC. Since April 24, 2017, by the decision of the



**Anuar Yerkinovich
ZHAKSYBEKOV**

*Member of the Board of
Directors, Chairman of
the Management Board of
Embamunaygas JSC*

Board of Directors A. Zhaksybekov was elected as Chairman of the Management Board of EMG JSC.

A. Zhaksybekov is a holder of an Honorary Diploma of the Ministry of Oil Industry of the USSR; Honorary Certificate of NC KazMunayGas JSC; Certificate of Appreciation of Samruk-Kazyna SWF JSC; Certificate of Gratitude of the Committee for Geology and Subsoil Management of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan; the Badge of Honor of RoK MEMR "90 years of Makat Field"; the Badge of Honor of the Ministry of Oil and Gas "100 years of Dossor Field" (2011); "50 years of Prorva Field"; Diploma and Badge of Honor of the Ministry of Industry and New Technologies of the Republic of Kazakhstan "Honorary Prospector of the Republic of Kazakhstan" (2012); Medal for Contribution to Oil and Gas Industry of the Republic of Kazakhstan awarded by the Ministry of Oil and Gas of the Republic of Kazakhstan (2014); Anniversary Medal of the Ministry of Energy of the Republic of Kazakhstan "95 years of Embamunaygas JSC" (2017), Kurmet Order (2017).



Aibolat Gizatovich GABDULLIN

Deputy Chairman of the Management Board for production of Embamunaygas JSC, member of the Management Board

In 1978 Aibolat Gabdullin graduated from Kazakh Polytechnic Institute named after V.I. Lenin, majoring in Engineering and Integrated Mechanization of Oil and Gas Field Development.

He started his career in 1978 as an oil processing and pumping operator of Prorvaneft OGPD, then he worked as a foreman, site supervisor, engineer of Central Dispatch Service, chief engineer and head of department. Before the appointment to the position of Deputy General Director for production of Embamunaygas JSC, he worked as Deputy Director for production of Embamunaygas production branch of KazMunayGas Exploration Production JSC. In September 2012, A. Gabdullin was appointed Deputy General Director for production of Embamunaygas JSC.

A. Gabdullin was awarded Kurmet Order in honor of 100th anniversary of Kazakhstan oil (1999); Certificate of Merit of RoK MEMR (2003); Commemorative Badge "100 years of Dossor Field development" (2011); Certificate of Merit of KazMunayGas EP JSC in honor of the 20th anniversary of independence of the Republic of Kazakhstan (2011); Honorary Citizen of Zhylyoi district (2011); Certificate of Merit of KazMunayGas EP JSC (2012); an Award "50 years of Prorva Field" (2013), Medal of Aviation Major-General Talgat Bigeldinov (2015), Anniversary Medal "20 years of Kazakhstan Maslikhat" (2015); Medal of the Ministry of Energy for contribution to the development of oil and gas industry (2015); Letter of Gratitude from Chairman of N. Nazarbayev Nur Otan political party (2016); KAZENERGY Medal (2016); Certificate of Honor of NC KazMunayGas JSC (2016); Medal "25years of Independence of the Republic of Kazakhstan" (2016); Anniversary Medal of the Ministry of Energy of the Republic of Kazakhstan "95 years of Embamunaygas JSC" (2017).

Rysty Nurgaliyevna TASMAGAMBETOVA

Deputy Chairman of the Management Board for economy and finance of Embamunaygas JSC, member of the Management Board

R. Tasmagambetova graduated from two higher education institutions – Ural Pedagogical Institute named after A.S. Pushkin with a specialization in History and Pedagogy (1986) and Atyrau University of Oil and Gas with a specialization in Enterprise Economy and Management (2002).

Over the years of her career, R. Tasmagambetova held various positions: Director of the representative office of EITEK research and production company (Moscow), Director of Atyrau Oil Corporation LLP, CFO of Caspian Commercial Center LTD, Deputy General Director for Economy and Finance of KMG-Zhayik LLP and Deputy Director for Economy and Finance of Embamunaygas production branch of KazMunayGas Exploration Production JSC. In October 2012, she was appointed Deputy General Director for Economy and Finance of Embamunaygas JSC.

R. Tasmagambetova was awarded a Commemorative Pin “100 years of Dossor field” (2011); Honorary Diploma of KazMunayGas EP JSC (2012); Medal “50 years of Prorva Field” (2013), Certificate of Honor of Samruk-Kazyna SWF JSC (2014), Diploma of Honor of KazMunayGas EP JSC (2014), KAZENERGY Diploma of Honor (2015) and Anniversary Medal of the Ministry of Energy of the Republic of Kazakhstan “95 years of Embamunaygas JSC” (2017).



Kairat Adilbekovich ADILBEKOV

Deputy Chairman of the Management Board for geology and development of Embamunaygas JSC, member of the Management Board

K. Adilbekov graduated from Gubkin Russian State University of Oil and Gas with a specialization in Geology and Exploration of Oil and Gas Fields. He started his career as a well test operator in Ural Oil and Gas Exploration Expedition of Uralskneftegasgeologiya PGA.

In 1985–1993, he worked as a senior geologist, leading geologist, chief of the oil and estimation team, chief geologist of the experimental and methodological expedition and chief of the oil production management department of Uralskneftegasgeologiya PGA. He was involved in exploration, estimation and defense of hydrocarbon reserves of Karachaganak oil and gas condensate field (1985 and 1988) and Teplovsk-Tokarevsk group of fields (1991) in the State Reserves Committee of the USSR. In 1993–2001, he held various managerial positions in commercial and consulting companies. In 2001–2005, K. Adilbekov was a project coordinator for oil reserves estimation, chief of TCO Field Development Department. He coordinated works for preparation, verification and approval of reports on revised estimation of reserves and field development process flow diagrams of Tengiz field (2002) and Korolevskoye field (2004). In 2005–2014, he held executive positions in oil and oilfield service companies of Kozhan LLP (Branch Manager, Deputy General Director for development – Chief Geologist), Kazakhstan Branch of Jupiter Energy Pte. Ltd (Technical Director) and Azatpetrotrans LLP (Director). Since August 2014 – Director of the Geology and Geophysics Department of Embamunaygas JSC. In September 2015, he was appointed Deputy General Director for geological exploration of Embamunaygas JSC. He is an independent expert of the State Commission of Mineral Reserves of the Republic of Kazakhstan.



K. Adilbekov was awarded the Badge of Honor “Excellent Worker in Exploration of Mineral Resources of the Republic of Kazakhstan”; Certificate of Honor “Ural Oil and Gas Exploration Expedition” (1986); Honorary Diploma of the Central Committee of the Young Communist League of Kazakhstan (1987); Certificate of Honor devoted to the 70th anniversary of the Great October Revolution “Ural Oil and Gas Exploration Expedition” (1987); Certificate of Honor devoted to the Geologist’s Day “Ural Oil and Gas Exploration Expedition” (1989); Anniversary Medal of the Ministry of Energy of the Republic of Kazakhstan “95 years of Embamunaygas JSC” (2017).



Bauyrzhan Kuspanovich BALZHANOV

Deputy Chairman of the Management Board for business development of Embamunaygas JSC, member of the Management Board

B. Balzhanov graduated from the Institute of Oil and Gas of Atyrau University majoring in oil and gas geology. In 2010 he took a degree of Master of Business Administration (MBA) (“Management”).

In 1996, he started his career as an engineer-geologist at Gural JV. In 1999–2000, he worked as an engineer-technologist, shift supervisor of the Operations Management Department (CDO) of KazakhOil-Emba JSC. From 2000 to 2001, he held the position of a leading engineer of the New Field Development Department of KazakhOil-Emba JSC. In 2001, he was appointed Head of the Oil and Petroleum Product Balance Department of Embamunaygas JSC. In 2004 no 2009, B. Balzhanov held the position of Head of the Operational Accounting and Control Division of the Treasury Department of KazMunayGas Exploration Production JSC. In 2009 – 2012, Deputy Director of the Treasury Department of KazMunayGas Exploration Production JSC. In 2012 – Deputy Director of the Oil and Petroleum Product Export Department of KazMunayGas Exploration Production JSC. In 2012–2013 – Director of logistics group of The Rompetrol Group Corporate Center SRL. In 2013–2015 – Commercial Director of KMG-Kashagan B.V. Since September 2015 – Deputy General Director for Commerce of Embamunaygas JSC.

B. Balzhanov was awarded Commemorative Pin “90 years of Makat field” (2005), Diploma of Honor of KazMunayGas Exploration Production JSC (2009), Commemorative Pin “100 years of Dossormunay oilfield” (2011) and Anniversary Medal of the Ministry of Energy of the Republic of Kazakhstan “95 years of Embamunaygas JSC” (2017).



Ruslan Beksultanovich MAKASHEV

Director of Legal Department of Embamunaygas JSC, member of the Management Board

R. Makashev graduated from Kazakh State Academy (2000). He started his career as a lawyer in the Road Repair and Construction Administration. He worked as Legal Adviser at KazakhOil-Emba JSC. In different years he worked as Senior Lawyer, Deputy Director of departments of KazMunayGas EP JSC. He held the positions of Director of Legal Department, Vice-President of Karazhanbasmunai JSC. Since December 2017, he has been working as a Director of Legal Department of Embamunaygas JSC.

R. Makashev was awarded a Certificate of Merit of KazMunayGas EP JSC (2009); commemorative token “100 years of Dossor field” (2011); anniversary medal “20 Years of Independence of Kazakhstan” (2011); Letter of Gratitude from Karazhanbasmunai JSC (2017); Letter of Gratitude of KazMunayGas EP JSC (2017).

Progress Report of the Management Board

The powers of Chairman of the Company's Management Board are defined in Section 13 of the Company's Charter.

The Management Board is an executive body and manages the current operating activities of the Company. In 2017, 26 meetings of the Management Board were held on a regular basis and as required.

In 2017, the Management Board addressed the following issues related to the Company's operating activities:

- ▶ Conclusion of the Company's interested-party transactions;
- ▶ Approval of the production program of Embamunaygas JSC;
- ▶ On allocation of funds for students' training (Kazakhstan experts);
- ▶ On organization of dual training;
- ▶ On approval of the list of first-priority procurements of goods, works and services for 2018;
- ▶ On rendering social and charitable assistance to socially vulnerable population;
- ▶ On payment of the quarter bonus for 2017 to management staff (except for members of the Management Board and the Corporate Secretary) of Embamunaygas JSC;
- ▶ On approval of staffing schedules of Embamunaygas JSC's production units;
- ▶ On approval of key performance indicators for heads of structural units of the executive office and production units of Embamunaygas JSC;
- ▶ On provision of financial aid to pensioners of Embamunaygas JSC;
- ▶ On approval of the list of illiquid inventories to be written-off.





RISK MANAGEMENT

The Company's risk management strategy is aimed at ensuring strategic and operational business sustainability, which is achieved through timely risk identification, assessment and proactive management taking into account the Company's risk appetite and providing communication and coordination of employees at various levels.

The Company's risk management system is a set of interrelated elements combined into a single process within which the Board of Directors, executives and employees, each at their own level, are involved in the identification of potential events that may affect the Company's operations, as well as in the control of such events within the acceptable risk level/risk appetite. The distribution of functions and responsibilities (the Board of Directors, management, employees) within the risk management system is provided in the Company's Risk Management Policy.

Risk management is an integral part of the Company's management system and serves as a tool supporting the process of making managerial decisions and operating activities.

The risk management process is directly interconnected and integrated with strategic, production and budget planning processes, investment activities and the incentive system.

The Company's risk management system is implemented taking into account the risk portfolios of oil and gas production departments (OGPD) and other subsidiary departments of Embamunaygas JSC and is integrated with the risk management system of EP KazMunayGas JSC.

The risk management system includes a system for monitoring the implementation of assigned tasks, the process of efficiency evaluation of ongoing activities, and a decision-making system that takes into account the risk portfolio analysis.

The objectives of the risk management system are:

- ▶ preventing the occurrence of risks that threaten the achievement of strategic and operational goals;
- ▶ reducing the impact of such risks, if they occur, to an acceptable level;
- ▶ efficient response to unexpected situations and control of such situations;
- ▶ maintaining a systematic risk management process, which is part of the overall corporate governance process and effective internal control environment.

The Company's risk management process is constant, cyclical (continuous) and multidirectional.

The risk management process consists of the following components:

- ▶ goal setting;
- ▶ risk identification;
- ▶ risk assessment;
- ▶ risk control and management;
- ▶ monitoring;
- ▶ reporting.





Ембі Мұнай Газ

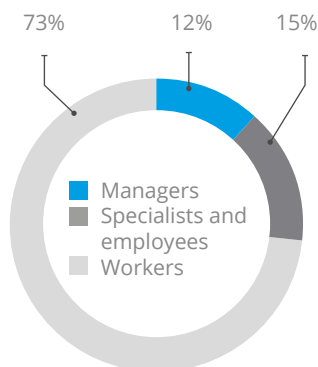


SUSTAINABLE DEVELOPMENT

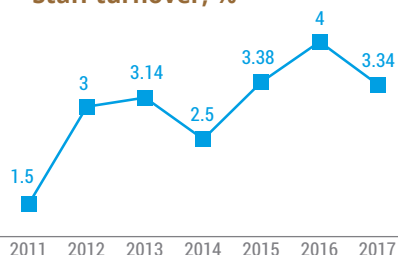
SUSTAINABLE DEVELOPMENT REPORT



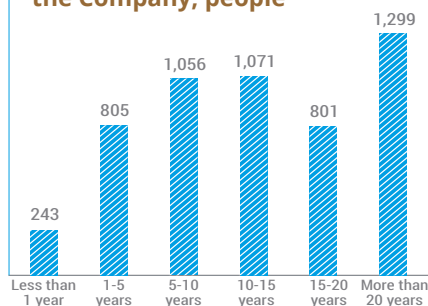
Personnel structure as of January 1, 2018



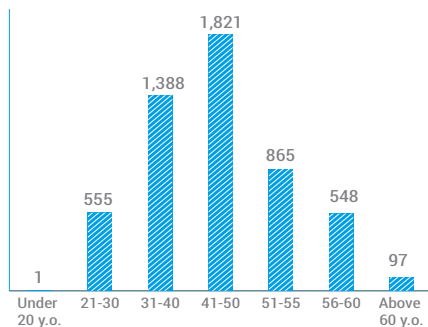
Staff turnover, %



Personnel length of service in the Company, people



Personnel age groups, people



HR policy

The Personnel and Remuneration Department is constantly working to develop the labor organization system, forms and systems of labor remuneration, material and moral incentives in the Company and its production units. Measures are taken to improve labour rate setting based on the application of inter-industry and industry-related labor standards. The Company performs work to increase labor productivity, including through maintaining an optimal headcount.

As of January 1, 2018, the Company's headcount was equal to 5,439 people. The actual number was equal to 5,275 people, including 4,166 men and 1,109 women. Staff turnover in 2017 amounted to 3.34% with a target value of not more than 6%.

Due to the fall in global oil prices and the need for cost optimization, regular work positions of non-core unskilled labor are currently reduced and outsourced. In the period from 2014 to 2017, 164 jobs in Embamunaygas JSC were outsourced.

The Company implements a program of early retirement from 58 years old for employees, who have worked most of the period of service in harsh conditions of the oil industry and who have health problems. Since the start of the program implementation, from 2014 till 31.12.2017, 162 employees had retired ahead of schedule.

The basis of the Company's stability is labor dynasties. Today, Embamunaygas employs representatives of more than 20 dynasties, in which three or more generations have committed to difficult oil-industry professions. The total work experience of some of them exceeds 200 years.

Personnel training and development

Personnel training and development in Embamunaygas are carried out with the aim to form and maintain the required level of personnel qualification taking into account the demands and prospects for strategic development of the Company.

The following types of training are conducted in the Company:

- 1) training in technical subjects;
- 2) training in financial and economic subjects;
- 3) language learning;
- 4) training in general subjects;
- 5) training under master's, specialized and modular programs;
- 6) training in technical methods and skills applied at the workplace;
- 7) training in occupational health, safety and environmental protection;
- 8) compulsory compliance training.

The following training methods are mainly used:

- 1) short-term training, including corporate training;
- 2) on-the-job training;
- 3) traineeship in other structural units of the Company or in other companies;
- 4) online learning using the possibilities of the Internet and/or other communication means;
- 5) participation in conferences, round-table discussions, forums, symposiums, congresses, exhibitions, which, along with the gaining experience and personal enrichment, promote the familiarization with the latest achievements and technologies, new approaches and ideas, successful experience and

developments of other companies, as well as the establishment of advantageous relations between the Company and its partners.

With the aim to ensure training and development of mid-level managers, the Company conducts modular training. During 2015–2017, 247 employees completed training according to this methodology. The following programs were implemented:

- ▶ modular training program for senior technical staff (shop/site managers);
- ▶ modular training program for mid-level technical staff (shop/site foremen);
- ▶ modular training program for geologists;
- ▶ modular training program for power engineers;
- ▶ modular training program on labor standardization and remuneration;
- ▶ modular training program for HR employees;
- ▶ modular training program for specialists in the field of occupational health and safety (introduced since 2017).

In 2017, 4,918 employees completed mandatory safety training courses, 974 employees – vocational training, 478 employees – advanced training, seminars and training courses.

Foreign education

Education under the Master's degree program in the Russian State University

Since September 2016, three employees have been studying at the Company's expense under the Master's degree program in the Russian State University of Oil and Gas (National Research University) named after I.M. Gubkin (RF, Moscow) in the field of Oil and Gas Business, "Hydrocarbon Systems Modeling Technologies" program.

The Company also pays for learning in the additional discipline "Profiled foreign language", accommodation in the campus of the Russian State University, flights and monthly scholarships.

Training and exchange of experience of gas treatment plant employees in the Russian Federation

From May 10 to 25, 2017, 55 new workers of the gas treatment and sulphur production shop of Zhylyoimunaygas OGPD were trained in Maktaminsk branch of Tatneft Personnel Training Center (RF, Almeteyevsk). These workers will serve a new complex gas treatment plant intended for the utilization of associated petroleum gas from Prorva group of fields with a designed capacity of 150 million cubic meters per year. Training was conducted in accordance with approved programs, which included theoretical classes and on-the-job practical training in the oil and gas industry. Trainees were provided the opportunity to study in detail the gas refining process and technological equipment, pumps, compressors, instrumentation, and to take part in the preparation for the professional skills competition among employees of Tatneftegazpererabotka Administration at the training ground.

In the period from October 16 to October 26, 2017, 17 new workers of the gas treatment and sulphur production shop of Zhylyoimunaygas OGPD completed similar training in Maktaminsk branch of Tatneft Personnel Training Center.

Refresher courses were organized for engineers and technicians of the gas treatment plant in training centers of Moscow, St. Petersburg and Ufa:

- ▶ five courses on engineering, programming and implementation of systems based on SIEMENS controllers (SIMATIC S7: ST-7PRO1, ST-7PRO2, TIA-SYUP1200–1500, S7-TECHN, S7-WinCC), SIMATIC Training Center, Moscow;
- ▶ "Pumps and compressors – operation issues", Progress-Center LLC, St. Petersburg;
- ▶ "Main pipeline electrochemical protection. Operation, diagnosis, repair of electric plants at enterprises in oil and gas and petrochemical industries", Institute of Continuing Professional Education of Ufa State Petroleum Technological University.

Exchange of experience in the PRC

From May 17 to 24, 2017, seven employees (engineers and technicians) of the gas treatment and sulphur production shop of Zhylyoimunaygas OGPD were sent to the PRC, Tianjin city, to exchange experience at the existing facilities used for sulphur production by LO-CAT direct oxidation technology.

Personnel reserve formation and development

The actual objective for Embamunaygas JSC is the formation of a personnel reserve for the replacement of executives of structural divisions.

Goals of personnel reserve formation

- ▶ assurance of long-term staff protection of the Company through the availability of candidates for appointment to senior positions, as well as assurance of management succession;
- ▶ identification and development of promising employees to use their potential for achieving the Company's strategic goals to the maximum possible extent;
- ▶ increasing the Company's employee engagement by providing an opportunity for development and career growth;



- formation of an attractive image of the Company as an employer that promotes the attraction and retention of highly potential employees by providing an opportunity for development and career growth.

In March 2014, the Rules for personnel reserve formation were approved, and in the period from August to October 2014, a project was implemented to form the Company's personnel reserve. A total of 304 candidates took part in the integrated assessment: 252 candidates for assignment to the planned personnel reserve and 52 candidates for inclusion in the prospective personnel reserve. Based on the results of the integrated assessment, 87 employees were included in the personnel reserve, 62 employees in the planned personnel reserve and 25 employees in the prospective personnel reserve.

For the purpose of personal development and professional growth of employees included in the personnel reserve, the Personnel Management and Development Department (PMDD) has developed individual development plans (IDP), pursuant to which theoretical and practical training activities are conducted.

Appointment of employees to senior positions for 2015–2017:

- planned personnel reserve – 24 employees;
- prospective personnel reserve – six employees.

Single personnel reserve (SPR)

In 2016, nine employees of the Company from among directors, deputy directors of departments of the management staff and executives and chief engineers of production structural units were selected for inclusion in the single personnel reserve of NC KazMunayGas JSC.

In August 2017, three SPR reservists undertook a master's degree of the Kazakh-British Technical University (KBTU) under the MBA program "Effective Management in the Oil and Gas Industry". Tuition payment for SPR reservists is made at the expense of NC KazMunayGas JSC.

Employee engagement

Organization and holding of a competition "Best in Profession – 2017"

The first round of the competition was held in each production unit of Embamunaygas JSC for 13 basic working professions; the second round was held among the first round winners on the basis of Zhaiykmunaygas OGPD and the third round – among the winners of the group of companies of NC KazMunayGas JSC. Employees of Embamunaygas JSC took part in the competition for 10 working professions.

Following the results of the third round, Alibek Amanzhanovich Gabdulgazyev, a reservoir pressure maintenance operator of Dossormunaygas OGPD, took the third place. According to the collective agreement, he is paid a 10% bonus.

Organization and holding of the V Anniversary Forum of Young Specialists of KazMunayGas EP JSC on the basis of Embamunaygas JSC

Within the framework of the Forum of Young Specialists, on the initiative of the management of Embamunaygas JSC, a scientific and practical conference was held, during which five employees of the Company presented the implemented projects, seven employees presented new projects on the following subjects: "Development of oil and gas fields", "Geology", "Engineering and technology of oil and gas production".

Awards and incentives for employees

In 2017, 406 employees were awarded and rewarded for their labor achievements. Pursuant to the Decree of the President of the Republic of Kazakhstan, Anuar Yerkinovich Zhaksybekov, Chairman of the Management Board of Embamunaygas JSC, was awarded the Kurmet Order.

Social projects

Within the framework of its contractual obligations, the Company allocates great amounts of funds for social projects to train local specialists. Since 2015, the Company has been implementing a dual training project and a scholarship program.

Within the framework of the dual training project, over the last three years, 69 students of Atyrau University of Oil and Gas and ARES Retrochic Higher School have completed on-the-job training in the Company's production units. Apart from diplomas, they received work record books.

Following the results of training under the dual training program:

- ▶ 69 trainees were assigned the qualification "Oil and gas well diagnostics operator";
- ▶ 19 trainees received the second qualification "Dehydration and demineralization plant operator";
- ▶ 20 four-year students of Atyrau University of Oil and Gas continue learning by the profession "Oil and gas production operator";
- ▶ 16 trainees were employed by Embamunaygas JSC.

Within the framework of the scholarship allowance program, the Company provides funds for payment of tuition fees for four students of APEC Retrotechnic Higher Technical School from socially vulnerable groups and for children of EMG's employees, pays monthly scholarship allowance in the amount of a minimum wage established by the legislative acts for a corresponding year, arranges on-the-job training, as well as employs graduates if there are relevant vacancies.

Within the framework of its obligations under subsoil use contracts, Embamunaygas JSC allocated funds to pay tuition fees for 129 students. 306 students from domestic and foreign universities and colleges completed on-the-job training at the Company's fields.

Social support of employees

The Company's activities in the field of social protection are aimed at creating safe and comfortable labor conditions, ensuring the social protection of employees and their family members, pensioners as well as war and labor veterans. In 2017, Embamunaygas JSC allocated 3 billion tenge for the implementation of social programs.

The Company provides a high degree of social protection for its employees. A collective agreement provides for guarantees and benefits, compensatory payments and material assistance. Great attention is paid to the solution of vital problems of each employee: additional payments for health improvement to annual leave, maternity leave payments, monthly payments to employees on child-care leave until the age of one and a half years, a one-time payment in connection with employee's death for the organization of funeral, a one-time payment to the family of an employee who died as a result of an accident at work, payment for the rest of employees' children, sanatorium-resort therapy of employees, allowance for temporary disability, organization of cultural and sports events, catering for employees and so on.

The Company also provides social guarantees for voluntary health insurance in case of illness. In case of medical treatment and medical operations, if the cost of treatment exceeds the limit established by the insurance program, employees are provided with financial aid in accordance with internal regulations.

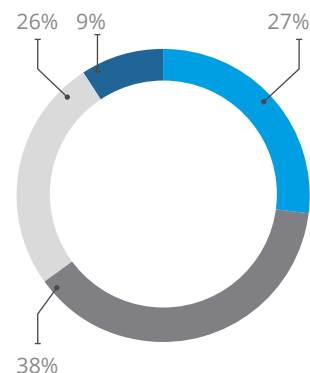
In 2017, social payments stipulated by the terms of a collective agreement amounted to 420 million tenge. In particular, 1,530 people received sanatorium treatment totaling to 264 million tenge, and the amount of 224 million tenge was allocated for rest of 1,136 children of employees. In 2017, the amount of 336 million tenge was allocated as material assistance to pensioners, including 117 million tenge for rehabilitation and rest of the Company's pensioners and veterans in sanatoriums of Kazakhstan.

Social policy

In 2017, EMG JSC celebrated its 95th anniversary. Since the establishment of Embanefit trust in 1922 through present, the Company has been making a significant contribution to the socio-economic development of the country and Atyrau region.

Since its transformation into a joint stock company in 2012 through December 31, 2017, Embamunaygas JSC, as part of its obligations under subsoil use contracts, allocated about 2.3 billion tenge for the infrastructure development in Atyrau region, paid taxes to the republican and local budgets in the amount of 695.6 billion tenge and allocated more than 2.3 billion tenge for sponsorship and charity.

Sponsorship and charity structure in 2017



- Sport support
- Assistance to public organizations
- Assistance to orphan homes
- Assistance to families in need



The Company allocates funds for the construction of kindergartens, housing for public sector employees, fitness and health centres, cultural centers and other social facilities in Atyrau oblast. In 2017, Embamunaygas JSC allocated 840 million tenge for the regional infrastructure development.

Funds allocated in 2016–2017 were used for the construction and commissioning of the following social facilities: a kindergarten for 100 children, five two-family houses in Sagyz and Tashchagyl villages of Kyzylkogy district, a secondary school named after O. Sargunanov for 300 students in Makat district, an additional building to Kulynshak kindergarten and a community center for 200 seats in Tushchykuduk and Zhanbai villages of Isatay district. The construction of social facilities is in progress: a secondary school for 424 students, a kindergarten for 290 children, a medical and obstetrical station and 10 houses for public sector workers in villages of Kyzylkogy district, a fitness and health centres for 160 people in Akkistau village of Isatay district.

Embamunaygas JSC annually provides sponsorship support to sports and public organizations, charitable assistance to children who need urgent surgical operations and rehabilitation as a result of serious diseases, and assistance to socially vulnerable groups. In general, in 2017, the Company provided sponsorship and charitable assistance in the amount of over 319 million tenge.

Emba oil workers always paid special attention to socially vulnerable groups, and the Company started a series of events under the auspices of the anniversary by conducting special events for children: in the building of Atyrau regional children's hospital the management of EMG JSC handed over medical equipment to the staff of the medical facility. The Company organized a charity event "Heat of the soul" which was attended by 350 children with disabilities. The sports and family festival "Altyn Uya" was held for the first time in Atyrau fitness and health centre in honor of the 95th anniversary of Embamunaygas Joint-Stock Company. Holding charitable New Year events has already become a tradition in the Company. For the last three years, EMG JSC has organized New Year events with theatrical performances and gifts for children staying in medical and specialized institutions on holidays. Charitable New Year events have already been held in eight children's medical and specialized institutions.

In 2017, Embamunaygas JSC held solemn events devoted to the 90th anniversary of B. Sagingaliyev, an honored oil worker of Kazakhstan, laureate of the State Prize of the Republic of Kazakhstan. A commemorative tablet was solemnly opened in the house where B.S. Sagingaliyev had previously lived with his family.



In general, in 2017, the Company provided sponsorship and charitable assistance in the amount of over

319 million tenge.

Environmental protection

Embamunaygas JSC pays great attention to environmental protection issues. The Company is constantly working to monitor environmental components (air, water, soil, etc.) and effectively reduce a negative impact of production on the environment.

Data on emissions and waste

Indicator	Unit of measurement	2015	2016	2017
From stationary sources (emissions),	t	5134,325	5017,922	5120,115
including from gas flaring	t	2554,934	2511,26	2991,914
From discharge	t	34,188	50,028	35,454
Waste volume (disposed)	t	7193,785	3308,975	3007,91
Waste volume (recycled)	t	7199,71	12216,0914	11995,53
Volume of accumulated waste	t	13 742	8243,475	5465,629
Gas flaring volume	thous. m ³	85 043,3	87 188,3	100 538,2

In June 2017, the Company launched a major project – installation of an associated gas treatment plant at Prorva group of fields with a capacity of 150 million m³ per year. The project was implemented within the framework of the program for 100% utilization of associated gas.

The Company works systematically to minimize environmental damage and pays special attention to reducing production waste. Embamunaygas JSC allocates considerable funds to implement projects aimed at cleaning of historically contaminated areas and recycling of oil-contaminated soils. The recycling is carried out using KASC-30M installation manufactured by Kalottikone (Finland). The recycled soil is used in the construction and repair of roads at fields. Soil is also recycled with the involvement of outside organizations using an effective and environmentally friendly biological method. In addition, the utilization of auxiliary production waste (waste lamps, oils, etc.) is carried out by transferring to specialized enterprises.

Within the framework of rational use of fresh water, in 2016 the Company started work for research and further use of groundwater for production needs at facilities of Embamunaygas JSC in the territories of the South Emba basin and Kainar massif, including the estimation of groundwater reserves in Albian-Cenomanian sediments. The implementation of this program will allow the Company to reduce its dependence on the consumption of Volga River water for industrial and social needs.

To protect coastal and aquatic ecosystems against harmful impact, a protective dam is being constructed in the territory of Prorva field of Zhylyoimunaygas OGPD, as well as monitoring of flooded wells is carried out.

The Company conducts scientific research, survey and other developments in the field of environmental protection. The Company also studies methods for utilization and neutralization of harmful industrial substances and vehicle emissions, develops automated production of pollutant monitoring and control systems, which is especially important in view of the huge length of the Company's production facilities, as well as regulates and standardizes production waste disposal processes and implements other measures.

The Company also provides environmental education among its employees and the population of the region and works to improve the qualification of HSE specialists.

The Company works systematically to minimize environmental damage and pays special attention to reducing production waste. Embamunaygas JSC allocates considerable funds to implement projects aimed at cleaning of historically contaminated areas and recycling of oil-contaminated soils.





Health, safety and environment policy

Embamunaygas JSC being a national oil and gas company is completely aware of the full responsibility to employees and society for creating and maintaining a safe work environment at all stages of production activities and considers the preservation of people's life and health and environmental protection as the basic priorities of its activities.

EMG JSC carries out a full production cycle, from exploration and production of hydrocarbons, their transportation and refining to provision of specialized services, striving to comply with the highest industrial safety standards and aim to improve continuously the HSE management system as a key element of production management.

The main objectives are:

- ▶ preservation of life and health of employees and surrounding people;
- ▶ assurance of assets integrity and equipment reliability;
- ▶ reducing the level of a negative environmental impact.

The basic principles are:

- ▶ compliance with the legislative requirements of the Republic of Kazakhstan, international and national standards, internal documents of EMG JSC in the field of labor protection, industrial and fire safety and environmental protection;
- ▶ continuous development and improvement of HSE management system based on the best achievements at the advanced international level;
- ▶ setting HSE goals aimed at a steady decline in frequency of occupational injuries and diseases, accidents and negative environmental impacts;
- ▶ formation of a high level of corporate culture in the field of HSE among employees;
- ▶ personal responsibility of each EMG's employee for compliance with HSE requirements;
- ▶ leadership and commitment of all level-managers of EMG JSC in the implementation of the HSE program;
- ▶ active involvement of EMG's employees in the implementation of HSE activities;
- ▶ identification and management of HSE risks at all stages of the production process;
- ▶ immediate notification, timely and objective investigation and registration of all occupational injuries and diseases, accidents and incidents in accordance with the legislation of the Republic of Kazakhstan and corporate documents, as well as objective determination of the reasons for the purpose of developing effective measures to prevent them;
- ▶ providing employees with guarantees of a legal right to refuse to perform work upon occurrence of a situation that reasonably creates a threat to life and health of employees or surrounding people;
- ▶ continuous training and professional development of employees in the field of HSE;
- ▶ assurance of constant readiness of personnel and production facilities for action and operation in emergency and extraordinary situations;
- ▶ introduction of safe and resource-saving technologies aimed at reducing emissions of pollutants and greenhouse gases and increasing energy efficiency;
- ▶ responsibility of contracting organizations for compliance with corporate HSE requirements;
- ▶ ensuring transparency and provision of information to the shareholder, partners, employees, state authorities, the public and other stakeholders regarding the aspects of EMG's activities in the field of HSE, reliability of information, its content and efficiency;
- ▶ conduct of regular assessment and analysis of effectiveness of the HSE management system for the purpose of determining the progress achieved and compliance with the HSE policy.

The HSE policy applies to all employees of the Company, as well as to employees of contractors providing services at EMG's facilities, including transportation services on the terms specified in the contracts. The management of EMG JSC assumes responsibility for providing the necessary resources and conditions for HSE management.

Industrial safety is one of the priorities for the Company's management. In recent years, a large-scale work has been performed with the aim to ensure work safety, primarily in the field of improving working conditions for employees: the construction of household facilities, canteens, administrative and household complexes, operator buildings for group installations, etc. The Company's management pays great attention to the quality of purchased special clothing, special footwear and personal protective equipment.

Production activities of the Company's structural units are associated with increased risks, and EMG is actively working to reduce the risks of accidents that are hazardous for employees' life and health. In 2017, there were three accidents as a result of which four employees of the Company were injured, including one fatal case. After each accident, the Company establishes a commission to clarify the circumstances, identify the reasons and develop measures to eliminate such incidents and prevent their occurrence in the future.

In 2017, the amount of 852,000 thousand tenge was allocated to implement measures to ensure labor protection, industrial and fire safety as part of the production program. The action plan was fulfilled completely.

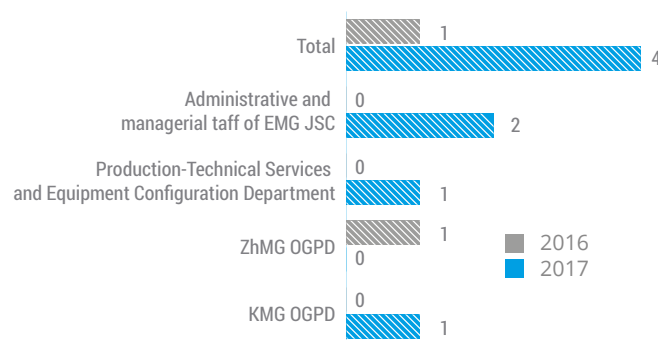
In the past year, a RBSO (Rules for Behavioral Safety Observation) program was introduced. 4,284 plan-cards were developed to improve safe working practices.

17 video clips on safe working practices have been developed, introduced and are visually demonstrated in the Company's production and structural units.

According to the schedule for 2017, 8,147 people completed training and advanced training in occupational health and safety, industrial and fire safety.

In 2017, 131 internal documents were developed and updated for Embamunaygas JSC.

Injury rates



A full-page photograph of two men in red work uniforms and white hard hats standing at an industrial facility. The man on the left is looking upwards and to the right, while the man on the right is looking towards the camera. In the background, there are industrial structures, including a tall tower and a yellow pipe, under a bright blue sky with scattered white clouds. A blue rectangular box is overlaid on the lower left of the image, containing the text 'FINANCIAL STATEMENTS' in white.

FINANCIAL STATEMENTS

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АКЦИОНЕРЛІК ҚОҒАМЫ

Embamunaigas Joint Stock Company

Financial statements

For the year ended December 31, 2017 with independent auditor's repor

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«Эрнст энд Янг» ЖШС
 Әл-Фараби д-лы, 77/7
 «Есентай Тауэр» ғимараты
 Алматы қ., 050060
 Қазақстан Республикасы
 Тел.: +7 727 258 5960
 Факс: +7 727 258 5961
 www.ey.com

ТОО «Эрнст энд Янг»
 пр. Аль-Фараби, 77/7
 здание «Есентай Тауэр»
 г. Алматы, 050060
 Республика Казахстан
 Тел.: +7 727 258 5960
 Факс: +7 727 258 5961

Ernst & Young LLP
 Al-Farabi ave., 77/7
 Esentai Tower
 Almaty, 050060
 Republic of Kazakhstan
 Tel.: +7 727 258 5960
 Fax: +7 727 258 5961

Independent auditor's report

To the Shareholder and Management of Embamunaigas Joint Stock Company

Opinion

We have audited the financial statements of Embamunaigas JSC (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of Directors is responsible for overseeing the Company's financial reporting process.



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ Obtain an understanding of internal control relevant to the audit 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 Company's internal control;
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with The Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Jim Ducker
Audit Partner

Adil Syzdykov
Auditor



Auditor Qualification Certificate
No. МФ – 0000172 dated 23 December 2013

050060, Republic of Kazakhstan, Almaty
Al-Farabi Ave., 77/7, Esentai Tower

28 February 2018

Gulmira Turmagambetova
General Director
Ernst & 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 15 July 2005

STATEMENT OF FINANCIAL POSITION

In thousands of Tenge

		As at December 31,	
	Notes	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	4	173,028,945	164,010,870
Intangible assets	5	15,045,692	8,463,858
Other financial assets	6	32,258,446	33,599,222
Deferred tax asset	14	10,415,904	6,875,616
Advances paid for non-current assets		1,670,720	421,477
Total non-current assets		232,419,707	213,371,043
Current assets			
Inventories	7	7,272,093	6,464,322
Income taxes prepaid		772,876	11,635,163
Taxes prepaid and VAT recoverable		12,244,843	5,262,305
Advances paid and prepaid expenses		2,819,251	5,615,360
Trade and other receivables	6	35,948,751	33,336,070
Other financial assets	6	31,884,021	57,239,302
Cash and cash equivalents	6	73,423,065	51,900,431
Total current assets		164,364,900	171,452,953
TOTAL ASSETS		396,784,607	384,823,996
EQUITY			
Share capital	8	162,399,820	162,399,820
Retained earnings		157,246,242	162,758,744
TOTAL EQUITY		319,646,062	325,158,564
LIABILITIES			
Non-current liabilities			
Historical obligations	9	1,807,468	3,844,378
Provisions	10	23,530,091	16,971,537
Total non-current liabilities		25,337,559	20,815,915

As at December 31,			
	Notes	2017	2016
Current liabilities			
Historical obligations	9	2,623,489	2,428,817
Provisions	10	8,413,484	6,846,074
Mineral extraction tax and rent tax payable		17,947,342	8,570,501
Trade and other liabilities		22,816,671	21,004,125
Total current liabilities		51,800,986	38,849,517
TOTAL LIABILITIES		77,138,545	59,665,432
TOTAL LIABILITIES AND EQUITY		396,784,607	384,823,996

Chairman of the Board



Zhaksybekov A.E.

Deputy Chairman of the Board on Economy and Finance



Tasmagambetova R.N.

Chief Accountant



Makhambetov N.Z.



STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge

For the year ended December 31,			
	Notes	2017	2016
Revenue	11	309,746,803	243,517,132
Cost of sales	12	(121,289,769)	(95,771,814)
Gross profit		188,457,034	147,745,318
Selling, general and administrative expenses	13	(114,131,677)	(77,730,381)
Exploration expenses		(1,274,476)	(453,179)
Net reversal of allowance on VAT recoverable	18	2,518,795	7,875,557
Loss on disposal of property, plant and equipment		(1,463,005)	(379,464)
Finance income		2,239,174	2,726,955
Finance costs		(1,778,313)	(2,414,836)
Foreign exchange gain/(loss), net		980,842	(206,343)
Profit before tax		75,548,374	77,163,627
Income tax expense	14	(19,425,344)	(15,803,401)
Profit for the year		56,123,030	61,360,226
Other comprehensive loss for the period not to be reclassified to profit and loss in subsequent periods			
Actuarial loss, net of tax		(280,880)	(223,439)
Total comprehensive income for the year, net of tax		55,842,150	61,136,787

Chairman of the Board

Zhaksybekov A.E.

Deputy Chairman of the Board on Economy and Finance

Tasmagambetova R.N.

Chief Accountant

Makhambetov N.Z.



STATEMENT OF CASH FLOWS

In thousands of Tenge

		For the year ended December 31,	
	Notes	2017	2016
Cash flows from operating activities			
Profit before tax		75,548,374	77,163,627
Adjustments to add/(deduct) non-cash items:			
Depreciation, depletion and amortization		20,034,822	17,918,469
Loss on disposal of property, plant and equipment		1,463,005	379,464
Foreign exchange (gain)/loss		(1,501,616)	4,352,824
Other non-cash income and expenses, net		2,937,922	154,165
Net reversal of allowance on VAT recoverable	18	(2,518,795)	(7,875,557)
Change in provisions		6,727,970	(6,705,163)
Add finance cost		1,778,313	2,414,836
Deduct finance income		(2,239,174)	(2,726,955)
Working capital adjustments			
Change in inventories		(932,617)	975,553
Change in taxes prepaid and VAT recoverable		(4,463,743)	6,370,825
Change in prepaid expenses		2,796,111	2,997,177
Change in trade and other receivables		(5,589,160)	(6,718,843)
Change in trade and other payables		1,296,039	3,538,446
Change in mineral extraction and rent tax payable		12,876,841	3,259,472
Income tax paid		(15,278,611)	(17,636,277)
Net cash generated from operating activities		92,935,681	77,862,063
Cash flows from investing activities			
Purchases of property, plant and equipment		(27,158,204)	(44,204,480)
Purchases of intangibles assets		(8,721,672)	–
Withdrawal/(placement) of term deposits		23,840,345	(60,992,550)
Interest received		2,195,633	440,397
Net cash generated from investing activities		(9,843,898)	(104,756,633)

STATEMENT OF CASH FLOWS *(continued)*

In thousands of Tenge

		For the year ended December 31,	
	Notes	2017	2016
Cash flows from financing activities			
Dividends paid to the Company's shareholder	8	(61,354,652)	(20,007,658)
Payments of historical obligations		(2,371,325)	(2,127,977)
Net cash used in financing activities		(63,725,977)	(22,135,635)
Net change in cash and cash equivalents		19,365,806	(49,030,205)
Cash and cash equivalents at the beginning of the year		51,900,431	101,296,508
Net foreign exchange difference on cash and cash equivalents		2,156,828	(365,872)
Cash and cash equivalents at the end of the year	6	73,423,065	51,900,431

NON-CASH TRANSACTIONS

Non-cash transactions, including the following, has been excluded from the statement of cash flows:

Offset of Excess Profit Tax with Rent tax

During the year ended December 31, 2017 the Company offset rent tax liabilities in the amount 3,500 thousand Tenge against excess profit tax prepaid.

Chairman of the Board

Deputy Chairman of the Board on Economy and Finance

Chief Accountant



Zhaksybekov A.E.

Tasmagambetova R.N.

Makhambetov N.Z.

STATEMENT OF CHANGE IN EQUITY

In thousands of Tenge

	Share capital	Accumulated loss	Total equity
As at December 31, 2015	162,399,820	121,699,270	284,099,090
Profit for the year	–	61,360,226	61,360,226
Other comprehensive income	–	(223,439)	(223,439)
Total comprehensive income	–	61,136,787	61,136,787
Transactions with shareholder	–	(69,655)	(69,655)
Dividends (Note 8)	–	(20,007,658)	(20,007,658)
As at December 31, 2016	162,399,820	162,758,744	325,158,564
Profit for the year	–	56,123,030	56,123,030
Other comprehensive loss	–	(280,880)	(280,880)
Total comprehensive income	–	55,842,150	55,842,150
Dividends (Note 8)	–	(61,354,652)	(61,354,652)
As at December 31, 2017	162,399,820	157,246,242	319,646,062

Chairman of the Board

Deputy Chairman of the Board on Economy and Finance

Chief Accountant



Zhaksybekov A.E.

Tasmagambetova R.N.

Makhambetov N.Z.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Embamunaigas Joint Stock Company (the “Company”) was incorporated in the Republic of Kazakhstan on February 27, 2012 following the decision of the Board of Directors of KazMunayGas Exploration Production Joint Stock Company (“KMG EP” or the “Parent Company”) dated January 31, 2012.

The Company is engaged in acquisition, exploration, development, production, processing and export of hydrocarbons. Primary oil and gas operations of the Company are based on oil and gas assets located in Atyrau region of western Kazakhstan. The Company develops oil fields under the following subsoil use contracts: contract № 37 (oilfield Kenbai), contract № 61 (oilfield SouthEast Novobogatinskoe), contract № 211 (23 oilfields), contracts № 413 (15 oilfields), contract № 327 (oilfield Taisogan), contract № 992 (oilfield West Novobogatinskoe); contract № 406 (oilfield Liman); contract № 3577 (oilfield Karaton-Sarkamys). On February 25, 2015 addendums to extend contracts between the Kazakh Ministry of Energy and Embamunaigas JSC were signed for the following contracts: contract № 37 valid until 2041, contract № 61 valid until 2048, contract № 211 valid until 2037, contract № 413 valid until 2043.

The Company's sole shareholder is KMG EP. KMG EP's direct majority shareholder is National Company KazMunayGas JSC (“NC KMG”), which represents the state's interests in the Kazakhstan oil and gas industry. NC KMG is 90% owned by Sovereign Wealth Fund Samruk-Kazyna JSC (“Samruk-Kazyna”), which is in turn 100% owned by the Government of the Republic of Kazakhstan (the “Government”).

These financial statements have been signed on behalf of the Company by the Chairman of the Board, Deputy Chairman of the Board on Economy and Finance and Chief Accountant on February 28, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements have been prepared under the historical cost convention except for financial instruments. These financial statements are presented in Tenge and all values are rounded to the nearest thousand unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in *Note 3*.

Exchange rates

The official rate of the Kazakhstan Tenge to the US dollar at December 31, 2017 and December 31, 2016 was 332.33 and 333.29 Tenge to the US dollar, respectively. Any translation of Tenge amounts to US Dollar or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Adopted accounting standard and interpretations

Throughout the year the Company adopted the following new and revised IFRS which did not have significant influence on financial results or financial position of the Company:

- ▶ IAS 12 *Income Taxes Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments);
- ▶ IAS 7 *Statement of Cash Flows Disclosure Initiative* (Amendments).

Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements listed below, are those that the Company reasonably expects will have an impact on the disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards and interpretations, if applicable when they become effective (effective for annual periods beginning on or after):

- ▶ IFRS 9 *Financial instruments: Classification and Measurement* (January 1, 2018);
- ▶ IFRS 15 *Revenue from Contracts with Customers* (January 1, 2018);
- ▶ IFRS 16 *Leases* (January 1, 2019);
- ▶ IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (Amendments) (January 1, 2018);
- ▶ IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (January 1, 2018);
- ▶ IFRIC 23 *Uncertainty over Income Tax Treatments* (January 1, 2019);
- ▶ Improvements to IFRSs 2014–2016 cycle (January 1, 2018).

IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Company will adopt the new standard on the required effective date and will not restate comparative information. As at the reporting date the Company has not completed a detailed impact assessment of all three aspects of IFRS 9, which will be completed prior to issuance of financial statements for the year ended December 31, 2018. This assessment may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018.

Based on the Company's analysis of IFRS 15, its revenue recognition method for contracts will not change with the application of the new standard, and revenues will continue be recorded on a month-by-month basis in accordance with actual invoices.

2.2 Foreign currency translation

The financial statements are presented in Kazakhstan Tenge ("Tenge"), which is the Company's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All exchange differences are taken to profit or loss. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

2.3 Oil and natural gas exploration and development expenditure

Exploration license costs

Exploration license costs are capitalized within intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned. If no future activity is planned, the remaining balance of the license cost is written off. Upon determination of economically recoverable reserves ("proved reserves" or "commercial reserves"), amortization ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, and all licenses and approvals are obtained from the appropriate regulatory bodies, then the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized within intangible assets (exploration and evaluation assets) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel and energy used, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development then, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Oil and natural gas exploration and development expenditure *(continued)*

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, except for expenditure related to development or delineation wells which do not find commercial quantities of hydrocarbons and are written off as dry hole expenditures in the period, is capitalized within property, plant and equipment.

2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Oil and gas properties are depreciated using a unit-of-production method over proved developed reserves. Certain oil and gas property assets with useful lives less than the remaining life of the fields are depreciated on a straight-line basis over useful lives of 4–15 years.

Other property, plant and equipment principally comprise buildings and machinery and equipment which are depreciated on a straight-line basis over average useful lives of 24 and 7 years, respectively.

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Items of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognized.

2.5 Impairment of non-financial assets

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is

recognized in the statement of comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.6 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses. Intangible assets include capitalized expenditure for exploration and evaluation and other intangible assets, which are mainly comprised of computer software. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Computer software costs have an estimated useful life of 3 to 7 years and are amortized on a straight line basis over this period.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

2.7 Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held to maturity investments, available for sale financial assets, loans and trade and other receivables, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Held to maturity investments

Non derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost using the effective interest method.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement trade and other receivables are carried at amortized cost using the effective interest method less any allowance for impairment.

Available for sale financial investments

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss until the investment is derecognized or determined to be impaired at which time the cumulative reserve is recognized in profit or loss.

Fair value

Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Financial assets *(continued)*

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of comprehensive income.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Available for sale financial investments

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available for sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

Derecognition of financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass through” arrangement; or
- ▶ The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.8 Inventories

Inventories are stated at the lower of cost determined on a first-in first-out (“FIFO”) basis at the level of each warehouse and net realizable value. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortization (“DD&A”) and overheads based on normal capacity. Net realizable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale. Materials and supplies inventories are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

2.9 Value added tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT recoverable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated. However, VAT offset is allowed based on the results of a tax audit carried out by the tax authorities to confirm VAT recoverable.

If the effect of the time value of money is material, long-term VAT recoverable is discounted using a risk-free rate that reflects, where appropriate, the risks specific to the asset.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

2.11 Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

2.12 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized.

2.15 Employee benefits

The Company withholds 10% from the salary of its employees as the employees' contribution to their pension fund. The pension deductions are limited to a maximum of 183,443 Tenge per month in 2017 (2016: 171,442 Tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. Starting from January 1, 2014 the Company is required to contribute an additional 5% of the salary for a majority of its employees to their pension funds.

Long-term employee benefits

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Company and its employees and other documents. The collective agreement and other documents provide for certain one-off retirement payments, early retirement benefits, financial aid for employees' disability, anniversaries, funeral and other benefits. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments and early retirement benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments upon the end of employment. Actuarial gains and losses arising in the year are taken to other comprehensive income. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as finance costs. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

2.16 Revenue recognition

The Company sells crude oil under short-term agreements priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials.

Title typically passes and revenues are recognized when crude oil is physically placed onboard a vessel or off loaded from the vessel, transferred into pipe or other delivery mechanism depending on the contractually agreed terms.

The Company's crude oil sale contracts generally specify maximum quantities of crude oil to be delivered over a certain period. Crude oil shipped but not yet delivered to the customer is recorded as inventory in the statement of financial position.

2.17 Income tax

Current income tax expense comprises current income tax, excess profit tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in countries in which the Company operates and receives taxable income.

Excess profit tax (EPT) is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation enacted as of January 1, 2009, the Company accrues and pays EPT in respect of each subsurface use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsurface use contract. The ratio of aggregate annual income to deductions in each tax year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsurface use contract in excess of 25% of the deductions attributable to each contract.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Company's computation of DD&A. The Company estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under SPE methodology, the Company uses analysts' forecasted prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices.

Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A.

The Company has included in proved reserves only those quantities that are expected to be produced during the initial license period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal of licenses is ultimately at the discretion of the Government. An increase in the Company's license periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The Company calculates asset retirement obligations separately for each contract.

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market.

The Company reviews site restoration provisions at each reporting date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 28.65% and 25.97% of the provision at December 31, 2017 and 2016 relates to final closure costs. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate. The long-term inflation and discount rates used to determine the carrying value of obligation at December 31, 2017 were 5.0% and 10%, respectively (in 2016: 5.0% and 10%). Movements in the provision for asset retirement obligations are disclosed in *Note 10*.

Environmental remediation

The Company also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on a discounted basis based on management's expectations with regard to timing of the procedures required. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan.

Further uncertainties related to environmental remediation obligations are detailed in Note 18. Movements in the provision for environmental remediation obligations are disclosed in *Note 10*.

Taxation

Deferred tax is calculated with respect to both corporate income tax ("CIT") and excess profit tax ("EPT"). Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates. Both deferred CIT and EPT bases disclosed in *Note 14* are calculated under the terms of the tax legislation enacted in the tax code, further uncertainties related to taxation are detailed in *Note 14*.

Employee benefits

The cost of defined long-term employee benefits to employees before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The mortality rate is based on publicly available mortality tables. Increase in future salary and pension is based on expected future inflation rates for the respective country.

Principal actuarial assumptions used for valuation of employee benefit obligation as at 31 December 2017 and 2016 were as follows:

<i>In percent</i>	2017	2016
Discount rate	10.00%	10.00%
Rate of inflation	5.00%	5.00%
Future increase of non-current annual payment	7.00%	7.00%
Future salary increases	7.00%	7.00%

As at December 31, 2017 and 2016 the average duration of post-retirement benefit obligations was 7.5 years and 7.6 years, respectively.

Sensitivity analysis of employee benefits obligation for the change in significant estimates as at December 31, 2017 is as follows:

<i>In thousands of Tenge</i>	Decrease	Increase
Discount rate	-0.5%	+0.5%
	298,499	(279,024)
Rate of increase in benefit	-0.5%	+0.5%
	(279,057)	296,225

4. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Other assets	Construction work-in-progress	Total
Net book value at December 31, 2015	112,778,006	12,129,301	11,087,130	135,994,437
Additions	162,328	162,232	45,815,035	46,139,595
Change in asset retirement obligation estimate	(183,451)	–	–	(183,451)
Disposals	(305,367)	(112,213)	(461,658)	(879,238)
Transfers from construction work-in-progress	16,811,895	885,868	(17,697,763)	–
Internal transfers	(215,680)	215,680	–	–
Depreciation charge	(15,531,558)	(1,528,915)	–	(17,060,473)
Net book value at December 31, 2016	113,516,173	11,751,953	38,742,744	164,010,870
Additions	115,965	153,230	27,396,457	27,665,652
Disposals	(933,927)	(22,373)	(515,417)	(1,471,717)
Transfers from construction work-in-progress	17,501,973	2,868,460	(20,370,433)	–
Internal transfers	85,364	(145,914)	60,550	–
Depreciation charge	(15,583,064)	(1,592,796)	–	(17,175,860)
Net book value at December 31, 2017	114,702,484	13,012,560	45,313,901	173,028,945
At December 31, 2017				
Cost	213,877,249	19,755,851	46,180,681	279,813,781
Accumulated depreciation	(99,061,852)	(6,701,312)	–	(105,763,164)
Accumulated impairment	(112,913)	(41,979)	(866,780)	(1,021,672)
Net book value	114,702,484	13,012,560	45,313,901	173,028,945
At December 31, 2016				
Cost	198,332,096	17,222,363	39,141,968	254,696,427
Accumulated depreciation	(84,708,943)	(5,428,431)	–	(90,137,374)
Accumulated impairment	(106,980)	(41,979)	(399,224)	(548,183)
Net book value	113,516,173	11,751,953	38,742,744	164,010,870

5. INTANGIBLE ASSETS

	Exploration and evaluation assets	Other intangible assets	Total
Net book value at December 31, 2015	6,610,540	526,196	7,136,736
Additions	1,763,646	421,470	2,185,116
Amortization charge	(678,358)	(179,636)	(857,994)
Net book value at December 31, 2016	7,695,828	768,030	8,463,858

	Exploration and evaluation assets	Other intangible assets	Total
Additions	9,759,167	701,394	10,460,561
Disposals	(426,775)	(202)	(426,977)
Amortization charge	(2,573,406)	(285,557)	(2,858,963)
Impairment	(592,787)	–	(592,787)
Net book value at December 31, 2017	13,862,027	1,183,665	15,045,692
At December 31, 2017			
Cost	28,024,241	2,271,572	30,295,813
Accumulated amortization	(13,569,427)	(1,087,907)	(14,657,334)
Accumulated impairment	(592,787)	–	(592,787)
Net book value	13,862,027	1,183,665	15,045,692
At December 31, 2016			
Cost	18,688,801	1,587,104	20,275,905
Accumulated amortization	(10,992,973)	(819,074)	(11,812,047)
Net book value	7,695,828	768,030	8,463,858

6. FINANCIAL ASSETS

Trade and other receivables

	2017	2016
Trade receivables	35,927,951	33,265,044
Other	20,800	156,042
Allowance for doubtful receivables	–	(85,016)
	35,948,751	33,336,070

As at December 31, 2017 the Company's trade receivables included receivables from sales of crude oil to KazMunayGas Trading AG ("KMG Trading"), subsidiary of NC KMG, in total amount of 31,400,070 thousand Tenge (2016: 33,093,192 thousand Tenge).

As of December 31, 2017 dollar denominated trade and other receivables represented 85% of total receivables (in 2016: 100%).

The ageing analysis of trade and other receivables is as follows as at December 31:

	2017	2016
Current	35,927,079	33,182,317
0–30 days overdue	6,596	35,697
30–90 days	2,011	–
90 and more days overdue	13,065	118,056
	35,948,751	33,336,070

6. FINANCIAL ASSETS (continued)

Cash and cash equivalents

	2017	2016
US dollar denominated term deposits with banks	70,705,170	16,683,386
Tenge denominated term deposits with banks	2,231,401	600,149
US dollar denominated cash in banks and on hand	437,796	34,445,961
Tenge denominated cash in banks and on hand	48,500	170,935
Euro denominated cash in bank and on hand	198	–
	73,423,065	51,900,431

Cash with banks earns interest based on daily bank deposit rates. Deposits with banks are made for varying periods (between one day and three months), depending on the immediate cash requirements of the Company, and earn interest at the respective deposit rates.

The weighted average interest rate on Tenge denominated term deposits in 2017 was 7.9% (2016: 13.48%). The weighted average interest rate on US dollar denominated term deposits in 2017 was 0.1% (2016: 2.02%).

Other financial assets

	2017	2016
US dollar denominated held to maturity deposits	32,258,446	33,599,222
Total non-current financial assets	32,258,446	33,599,222
US dollar denominated term deposits	31,884,021	57,239,302
Total current financial assets	31,884,021	57,239,302
	64,142,467	90,838,524

Non-current financial assets comprise of liquidation fund deposits opened in accordance with subsoil use agreement for each contract until the end of the term of each contract. The weighted average interest rate on these deposits in 2017 was 1.5% (2016: 1.04%).

7. INVENTORIES

	2017	2016
Crude oil	5,328,344	4,658,734
Materials	1,943,749	1,805,588
	7,272,093	6,464,322

As at December 31, 2017 the Company had 112,441 tons of crude oil in storage and transit (2016: 109,835 tons).

8. EQUITY

Authorized shares

The total number of authorized shares is 32,479,964 with par value of 5 thousand Tenge, all of which are owned by the Parent Company as at December 31, 2017 (2016: 32,479,964).

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity or if the payment of dividends would result in negative equity. In 2017 the Company declared and paid dividends to the Parent Company in the amount of 61,354,652 thousand Tenge or 1,889 Tenge per share (2016: 20,007,658 thousand Tenge or 616 Tenge per share).

9. HISTORICAL OBLIGATIONS

Historical obligations are denominated in US dollars and represent obligations to reimburse historical costs incurred by the Government prior to the acquisition of certain licenses by the Company: contract № 211 – 23 fields, contract № 327 – oilfield Taisogan, and contract № 406 – oilfield Liman. Historical obligation payments extend until 2027. The Company has discounted this obligation at an interest rate of 10% and accounts for these historical obligations at amortized cost.

10. PROVISIONS

	Environmental remediation	Tax and related fines and penalties	Asset retirement obligation	Employee benefits	Total
At December 31, 2015	259,688	7,829,207	13,576,499	7,137,791	28,803,185
Additional provisions	–	530,504	160,839	293,588	984,931
Unwinding of discount	20,593	–	1,076,617	532,037	1,629,247
Changes in estimate	–	(1,834,656)	(3,914,635)	131,251	(5,618,040)
Used during the year	–	(831,690)	(292,748)	(857,274)	(1,981,712)
At December 31, 2016	280,281	5,693,365	10,606,572	7,237,393	23,817,611
Additional provisions	6,270,054	–	1,655,103	277,046	8,202,203
Unwinding of discount	142,738	–	1,099,223	683,369	1,925,330
Changes in estimate	–	–	(1,254,723)	296,012	(958,711)
Used during the year	–	–	(235,434)	(807,424)	(1,042,858)
At December 31, 2017	6,693,073	5,693,365	11,870,741	7,686,396	31,943,575
Current portion	1,289,015	5,693,365	585,265	845,839	8,413,484
Non-current portion	5,404,058	–	11,285,476	6,840,557	23,530,091
At December 31, 2017	6,693,073	5,693,365	11,870,741	7,686,396	31,943,575
Current portion	–	5,693,365	453,078	699,631	6,846,074
Non-current portion	280,281	–	10,153,494	6,537,762	16,971,537
At December 31, 2016	280,281	5,693,365	10,606,572	7,237,393	23,817,611

Environmental remediation

In 2017 the Company has recognized an additional provision for environmental remediation related to historical contamination at its oil and gas fields in the amount of 6,270,054 thousand Tenge. The amount of the provision represents present value of estimated future costs of 9,067,122 thousand Tenge discounted at 10% for the period until 2023.

10. PROVISIONS (continued)

Employee benefits obligations

The Company signed collective labor agreement for social benefits of employees. Employee benefits are considered as other long-term employee benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected cost of these benefits is accrued over the year of employment using the same accounting methodology as used for the defined benefit plan. These benefits are unfunded.

Changes in employee defined benefit obligations during 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	2017	2016
Present value of defined benefits obligation at the beginning of the year	7,237,393	7,137,791
Current service cost	277,046	293,588
Interest cost	683,369	532,037
Actuarial losses/(gains) – charged to profit and loss	15,132	(36,488)
Actuarial losses – charged to other comprehensive income	280,880	223,439
Benefits paid	(807,424)	(857,274)
Past service cost	–	(55,700)
Present value of defined benefit obligation at the end of the year	7,686,396	7,237,393
Less: current portion of present value of defined benefit obligation	(845,839)	(699,631)
Non-current portion of present value of defined benefit obligation	6,840,557	6,537,762

Amounts recognized in the statement of financial position and statement of comprehensive income are as follows:

<i>In thousands of Tenge</i>	2017	2016
Present value of defined benefits obligation at the end of the year	7,686,396	7,237,393
Net liabilities	7,686,396	7,237,393
Current service cost	277,046	293,588
Interest cost	683,369	532,037
Actuarial losses/(gains)	15,132	(36,488)
Past service cost	–	(55,700)
Costs recognized in the current year	975,547	733,437

The current service cost and past service cost for previous years are included in the statement of comprehensive income as a part of production expenses, general and administrative expenses.

11. REVENUE

	2017	2016
Export		
Crude oil	289,233,248	219,776,850
Domestic		
Crude oil	18,190,852	22,289,796
Refined gas products	16,374	10,348
Other sales and services	2,306,329	1,440,138
	309,746,803	243,517,132

12. COST OF SALES

	Notes	2017	2016
Employee benefits		45,473,564	42,572,102
Mineral extraction tax		27,544,373	18,871,367
Depreciation, depletion and amortization		16,987,216	16,879,332
Repairs and maintenance		10,622,288	9,140,260
Change in the environmental remediation provision	10	6,270,054	–
Materials and supplies		3,392,720	3,150,189
Energy		2,705,124	2,705,363
Transportation services		1,809,989	1,391,699
Property tax		1,470,853	1,484,436
Commercial discovery bonus		(49,152)	(945,153)
Decrease in asset retirement obligation in excess of capitalized asset		(777,583)	(3,732,722)
Other		6,509,932	3,661,628
		121,959,378	95,178,501
Change in crude oil balance		(669,609)	593,313
		121,289,769	95,771,814

The production costs for processing of associated gas for 2017 are 2,023,563 thousand Tenge (2016: 932,571 thousand Tenge).

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Export customs duty	36,585,787	27,573,408
Transportation expenses	33,907,051	33,438,139
Rent tax	32,583,583	9,396,034
Employee benefits	4,017,880	3,857,963
Depreciation, depletion and amortization	3,047,606	1,016,168
Repairs and maintenance	432,007	363,975
Sponsorship	323,896	288,333
Sales agent's commissions	214,419	231,606
Consulting and audit services	105,677	61,280
Fines and penalties	47,203	(164,730)
Property tax	39,384	40,384
Reversal/accrual of bad debt allowance	(144,342)	573,138
Other	2,971,526	1,054,683
	114,131,677	77,730,381

14. INCOME TAXES

Income tax expense comprised the following for the years ended:

	2017	2016
Current corporate income tax	19,754,619	13,424,856
Current excess profit tax	3,211,013	610,530
Current income tax	22,965,632	14,035,386
Deferred income tax	(2,266,373)	1,938,799
Deferred excess profit tax	(1,273,915)	(170,784)
Deferred income tax	(3,540,288)	1,768,015
Income tax expense	19,425,344	15,803,401

The following table provides a reconciliation of the Kazakhstan income tax rate to the effective tax rate of the Company on profit before tax.

	2017	2016
Profit before tax	75,548,374	77,163,627
Income tax expense	19,425,344	15,803,401
Effective tax rate	26%	21%
Statutory income tax	20%	20%
Increase/(decrease) resulting from		
Excess profit tax	4%	1%
Income tax of prior years	1%	0%
Allowance for VAT recoverable	(1)%	(2)%
Non-deductible expenses	2%	2%
Effective tax rate	26%	21%

The movements in the deferred tax assets relating to CIT and EPT were as follows:

	Fixed and intangible assets	Provisions	Taxes	Other	Total
At December 31, 2015	526,670	5,195,460	1,220,686	1,700,815	8,643,631
Recognized in profit and loss	(1,253,731)	(212,477)	547,911	(849,718)	(1,768,015)
At December 31, 2016	(727,061)	4,982,983	1,768,597	851,097	6,875,616
Recognized in profit and loss	(1,440,642)	1,904,444	2,267,774	808,712	3,540,288
At December 31, 2017	(2,167,703)	6,887,427	4,036,371	1,659,809	10,415,904

15. RELATED PARTY TRANSACTIONS

The category “entities under common control” comprises entities controlled by NC KMG. The category “other related parties” comprises entities controlled by Samruk-Kazyna.

Sales and purchases with related parties during the years ended December 31, 2017 and 2016 and the balances with related parties at December 31, 2017 and 2016 are as follows:

	2017	2016
Revenue and other income		
Entities under common control	294,852,127	237,825,274
Parent Company	18,184,466	15,199,292
Less quality bank expenses on crude oil sold (Parent Company)	(5,475,637)	(7,221,025)
Other related parties	13,163	–
Purchases of goods and services		
Entities under common control	19,161,798	17,124,677
Parent Company	16,323,595	18,980,008
Other related parties	1,174,485	509,599
Trade and other receivables		
Entities under common control	34,670,288	34,888,800
Parent Company	4,495,609	249,592
Other related parties	8,096	13,152
Trade payables		
Entities under common control	2,911,805	1,958,996
Parent Company	2,053,981	3,197,013
Other related parties	245,728	41,593

Sales and receivables

Sales to related parties comprise mainly export sales of crude oil to subsidiaries of NC KMG. Export sales to related parties represented 2,318,046 tons of crude oil in 2017 (2016: 2,085,264 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, trader's margin and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 127,095 Tenge in 2017 (2016: 108,858 Tenge).

In addition, the Company supplies crude oil to the local market through a Parent Company at the directive of the Kazakhstan Government, the ultimate controlling shareholder of NC KMG. Those supplies to the domestic market represented 479,064 tons of crude oil production in 2017 (2016: 726,202 tons). Prices for the local market sales are determined by the agreement approved by the Board of Directors of KMG EP JSC (Note 18). In 2017 there were no deliveries to the local market in accordance with the contract with JSC “KazMunayGas” Refinery and Marketing” (2016: the Company received an average price per produced crude oil ton of around 30,693 Tenge) and around 37,972 Tenge according to the contract with KMG EP JSC (2016: the Company received an average price per produced crude oil ton of around 31,895 Tenge).

Purchases and payables

Agency commissions for crude oil sales amounted to 214,419 thousand Tenge in 2017 (2016: 231,606 thousand Tenge). Transportation services which are provided by Caspian Pipeline Consortium were reimbursed by Company to Parent Company in the amount of 9,758,677 thousand Tenge (2016: 11,162,524 thousand Tenge).

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company has various financial liabilities such as borrowings, trade and other payables. The Company also has various financial assets such as trade receivables, short and long-term deposits, cash, and cash equivalents.

The Company is exposed to foreign currency risk, credit risk, liquidity risk and commodity price risk.

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates mainly to the Company's operating activities, as the majority of its sales are denominated in US dollars whilst almost all of its costs are denominated in Tenge, and to its investments denominated in foreign currencies.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2017		
US dollar	+10,00%	16,599,170
US dollar	-10,00%	(16,599,170)
2016		
US dollar	+13.00%	22,653,227
US dollar	-13.00%	(22,653,227)

Credit risk

The Company is exposed to credit risk in relation to its trade receivables. The Company's vast majority of sales are made to an affiliate of the NC KMG and the Company has a significant concentration risk of the receivable from this affiliate (Notes 6, 15). An additional number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company is also exposed to credit risk in relation to its investing activities. The Company places deposits with Kazakhstan banks. Credit risk from balances with financial institutions is managed by the Company's treasury department in accordance with the Company's treasury policy. The Company's maximum exposure to credit risk arising from default of the financial institutions equals to the carrying amounts of these financial assets.

The table below shows the balances of the financial assets held in banks at the reporting date using the Standard and Poor's credit ratings, unless otherwise stated.

Banks	Location	Rating ¹		2017	2016
		December 31, 2017	December 31, 2016		
Halyk Bank JSC	Kazakhstan	BB (negative)	BB (negative)	103,369,357	94,718,804
Qazkom JSC	Kazakhstan	B+(positive)	B-(negative)	33,503,349	45,690,772
ATF Bank JSC	Kazakhstan	B (negative)	B (negative)	369,616	353,655
RBK Bank JSC	Kazakhstan	N/A	B-(positive)	–	1,869,123
Astana Finance JSC	Kazakhstan	N/A	Not rated	–	106,601
				137,242,322	142,738,955

¹ Source: Interfax – Kazakhstan, Factivia, official sites of the banks and rating agencies as at December 31, 2017.

Liquidity risk

The Company monitors its liquidity risk using a liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables and other financial assets) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term deposits in local banks.

The table below summarizes the maturity profile of the Company's financial liabilities as December 31, 2017 and 2016 based on contractual undiscounted payments:

December 31, 2017	On demand	Less than 3 months	3–12 months	1–5 years	More than 5 years	Total
Historical obligations	–	638,576	1,915,728	1,809,939	1,008,339	5,372,582
Trade and other payables	22,816,671	–	–	–	–	22,816,671
	22,816,671	638,576	1,915,728	1,809,939	1,008,339	28,189,253
December 31, 2016	On demand	Less than 3 months	3–12 months	1–5 years	More than 5 years	Total
Historical obligations	–	659,243	1,769,574	4,174,600	1,162,940	7,766,357
Trade and other payables	21,004,125	–	–	–	–	21,004,125
	21,004,125	659,243	1,769,574	4,174,600	1,162,940	28,770,482

Commodity price risk

The Company is exposed to the effect of fluctuations in the price of crude oil, which is quoted in US dollars on international markets. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Capital management

The Company follows the objectives, policy or processes of capital management of the Parent Company. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or obtain financing from the Parent Company.

17. FINANCIAL INSTRUMENTS

The fair value of financial instruments such as short-term trade receivables, trade payables and historical obligations approximately equals to their carrying value.

18. COMMITMENTS AND CONTINGENCIES

Operating environment

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

Local market obligation

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

Starting from April 1, 2016 the Company ceased sales of crude oil to KMG RM and started sales to the Parent Company.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws is severe. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2017.

The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions.

Value-added-tax (VAT) recoverability

In May 2017 the Company received acts of tax audit for period 2012 to 2015 that confirmed that the Company's right to reimburse VAT receivable for the amount of 4,032,944 thousand Tenge that was received in 2017.

In November 2017 the Company received acts of tax audit for 2016 that confirmed that the Company's right to reimburse VAT receivable for the amount of 4,228,241 thousand Tenge that was received in 2017.

In these financial statements, the Company has reversed 3,730,616 thousand Tenge of previously accrued VAT allowance and accrued additional allowance of 1,211,821 thousand Tenge. Total remaining VAT allowance as at December 31, 2017 is 5,038,963 thousand Tenge.

Environmental remediation obligations

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

Oilfield licenses

The Company is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation.

The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, operating results or cash flows.

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

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

Field	Contract	Expiry date
Kenbai	No. 37	2041
South-East Novobogatinskoe	No. 61	2048
23 fields	No. 211	2037
15 fields	No. 413	2043
Taisoigan	No. 327	2034
West Novobogatinskoe	No. 992	2027
Liman	No. 406	2025
Karaton-Sarkamys	No.3577	2023

Commitments arising from oilfield and exploration licenses

Year	Capital expenditures	Operational expenditures
2018	36,658,000	2,993,607
2019	489,490	2,386,133
2020	65,449	2,388,353
2021–2048	–	2,344,661
	37,219,938	10,112,754

Contact details

Address: 1, Valikhanov Str., Atyrau, 060002, Republic of Kazakhstan.

Corporate Secretary

Tel .: +7 (7122) 993 240

Unaev Dastan

E-mail: D.Unaev@emg.kmgep.kz

Public Relations Service

Phone: +7 (7122) 99-34-77, 99-34-21, 35-50-56, 99-32-09

E-mail: L.Suleimenova@emg.kmgep.kz.

Documentation Support Group

Phone: +7 (7122) 99-31-35, 99-32-93

Fax: +7 (7122) 35-41-27

E-mail: info@emg.kmgep.kz.

Procurement and Local Content Department

Phone: +7 (7122) 99-34-42

Logistics Department

Phone: +7 (7122) 76-47-78

Social Policy Department

Phone: +7 (7122) 35-49-04

