

Introduction

This report is a summary of payments made by KazMunaiGas Exploration Production (KMG EP, Company) to the governments in 2016, and is made in accordance with The UK Reports on Payments to Governments Regulations 2014 (amended in December 2015). The regulations transpose into UK law Chapter 10 "Report on payments to governments" of the revised 2013 EU Accounting Directive. They require large and publicly listed oil, gas, mining and logging companies incorporated (registered) in the UK to annually disclose the payments they make to governments on a country-by-country and project-by-project basis.

The obligation to disclose under the new regime applies to KMG EP as a UK-listed extractive issuer – extractive company whose securities are publicly listed on a UK-regulated stock market – and whose "home state" is the UK. "Home state" is defined in the FCA rules: for issuers registered outside the EU – where in the EU its shares were first offered to the public or where in the EU it made its first application for admission to trading on a regulated market.

About the company

KazMunaiGas Exploration & Production ("KMG EP" or "Company") was established in March 2004 by merger of Ozenmunaigas ("Ozen") and Embamunaigas ("Emba").

The company is engaged in exploration, development, production, processing, and export of raw hydrocarbons and in acquisitions of oil and gas assets. Its shares and global depositary receipts are listed on the Kazakhstan Stock Exchange and the London Stock Exchange, respectively. The majority shareholder of the Company is National Company KazMunaiGas which represents national interests in the Kazakh oil and gas sector. The Company's core oil and gas assets run their business in the Caspian Depression, Mangystau and South Turgai oil basins.

Based on its performance in 2016, the Company remained one of the top three oil producers in Kazakhstan.

The Company runs its principal business through its wholly-owned subsidiaries Ozenmunaigas and Embamunaigas. Besides, the Company has other subsidiaries and shares in joint entities, associates and in other mostly non-core entities in which the Company has either majority or minority stake.

While being aware that its operations are directly related to the use of natural resources, KMG EP assumes its social responsibility for conservation of resources and for preservation of environment.

This report contains information about payments made to the governments in 2016.

Reporting companies

This report includes information on payments to governments made by the Company and its subsidiaries and affiliates including joint ventures and an associate for operations relating to exploration, development, and production of oil and gas.

Reporting period and scope of the report

The reporting period is 2016.

The use of reporting system helps provide information on payments to governments. It focuses on improving transparency of the Company in terms of payments to governments, increasing accountability of extractive companies in terms of income from the sector, raising awareness among people about operations of the Company in the regions, and enables to compare the report with reports made by leading global oil and gas producers.

The Company every year reports on payments to governments in accordance with applicable laws and best disclosure practices.

The report covers the Company and two producing companies that are controlled by the Company – Ozen and Emba, other wholly-owned subsidiaries that mostly render oil operations support services, and joint ventures Kazgermunai and Ural Group Limited, and the associate PetroKazakhstan Inc. KS EP Investments BV, the joint venture, has not been incorporated into the report because of complete impairment of this investment in 2016.

Government

Government means local executive authorities (akimats), State Revenue Committee under the Kazakh Ministry of Finance, and some other government agencies.

Companies

Company means a company whose payments have been incorporated into this report.

Payments to governments

The information is presented according to the following types of payments:

Taxes

All taxes, except for corporate income tax payable by non-residents, value added tax (VAT), property, transport, and land taxes, and taxes and deductions from salaries (individual income tax (IIT), social tax, mandatory pension contributions and social deductions), and any other taxes that are not associated with income from company's core operations.

Mineral Extraction Tax

Mineral extraction tax is a mandatory tax payable by a subsoil user for each mineral, oil, ground water or therapeutic mud individually that is produced in Kazakhstan.

The taxable item is the physical volume of crude oil, gas condensate or natural gas produced by subsoil user over tax period.

Commercial Discovery Bonus

Commercial discovery bonus must be paid by a subsoil user under a contract for production of minerals and/or joint exploration and production for each commercial discovery of minerals at a license area including discovery made during additional exploration.

The taxable item is the physical volume of minerals approved by authorized government agency.

Payments for infrastructure improvements

Payments for infrastructure improvements mean expenses for social and economic development of a region, and development of its infrastructure. Basically they consist of contractual obligations.

Contractual obligations include contributions to social program fund and environmental fund as well as commitments to train specialists in accordance with the terms of subsoil use contracts. However, for the purposes of this report, the commitment to train experts has been removed as they are not paid to the government.

Miscellaneous

Payments of export customs duty (ECD) for export of crude oil.

Currency

The report is presented in Kazakhstan tenge ("KZT"), which is the functional and currency in which financial statements of the Company are presented. Transactions in foreign currency must initially be recorded in the functional currency at the exchange rates prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies must be converted to the functional currency rate prevailing at the reporting date.

SA

Subsidiaries and affiliates of the Company:

- 1) Ozenmunaigas
- 2) Embamunaigas
- 3) Ozenmunaiservice
- 4) Ken Kurylys Service
- 5) KMG EP Catering
- 6) Kazakh Gas Processing Plant
- 7) Water Production and Transportation Office (UDTV)
- 8) Drilling and Well Servicing Office
- 9) Cooperatieve KMG EP U.A.
- 10) KMG EP Exploration Ventures
- 11) Support Service Vehicle and Well Servicing Office

Contacts

The report on payments to governments for 2016, and further details about the Company are available on the company's website: www.kmgep.kz

Please send questions related to the information provided in this report to: Company Secretary Office, Kabanbay Batyr 17, Astana, 010000, Republic of Kazakhstan

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1. COUNTRY-BY-COUNTRY REPORT IN 2016 (in millions of tenge)

	Taxes	Mineral Extraction Tax	Commercial discovery bonus	Payments for infrastructure improvements	Miscellaneous	Total
Government (country):						
Kazakhstan	78 120	70 056	2 464	3 001	83 933	237 574

2. REPORT ON PAYMENTS TO THE GOVERNEMENT IN 2016 (in millions of tenge)

	Taxes	Mineral Extraction Tax	Commercial discovery bonus	Payments for infrastructure improvements	Miscellaneous	Total
Government (including akimats)				2 284		2 284
Department of public revenues	78 120	70 056	2 464	717	83 933	235 290
TOTAL:	78 120	70 056	2 464	3 001	83 933	237 574

3. REPORT ON COMPANIES for 2016 (in millions of tenge)

	Taxes	Mineral Extraction Tax	Commercial discovery bonus	Payments for infrastructure improvements	Miscellaneous	Total
KazMunaiGas Exploration & Production (including SA)	51 378	62 958	2 014	1 499	75 346	193 195
KGM*	19 211	5 843	421	725	5 220	31 420
UGL**	5	—	—	60	—	65
PKI***	7 526	1 255	29	717	3 367	12 894
TOTAL:	78 120	70 056	2 464	3 001	83 933	237 574

* KGM - share in expenditures is 50%

**UGL - share in expenditures is 50%

***PKI - share in expenditures is 33%