

13 July 2016

## **Press release**

### **Amendments to NC KMG proposals regarding KMG EP**

JSC National Company KazMunayGas ("NC KMG") has written to the independent non-executive directors of JSC KazMunaiGas Exploration Production ("KMG EP" or "the Company") ("EP INEDs") informing them of its intention to increase the offer to purchase Common Shares and Preferred Shares of KMG EP listed on the Kazakhstan Stock Exchange and GDRs of KMG EP listed on the London Stock Exchange (the "Purchase Offer") if the proposals set out in its circular to shareholders of KMG EP dated 17 June (the "Original Circular") are passed at the general meeting of shareholders of KMG EP ("EGM") on 3 August 2016.

Specifically, NC KMG intends to increase the consideration for the Purchase Offer from \$7.88 per GDR to \$9.00 per GDR and equivalent increases to \$54.00 per Common Share in KZT equivalent calculated on a daily basis, and \$31.55 per Preferred Share in KZT equivalent calculated on a daily basis. All other terms and conditions applicable to the Purchase Offer remain as described in the Original Circular.

NC KMG reiterates that it is not making a takeover offer; no-one is compelled to sell and NC KMG is not seeking to acquire a significant additional shareholding. Shareholders currently have an existing right to exit at 10% below market price in the event of Charter change, and this right is subject to legal constraints on volume, with a risk that some shareholders may be disadvantaged. The exit provided in the proposal is an enhancement of this right in terms of price and the volume is not capped.

Further, NC KMG intends, subject to approval by the majority of the EP INEDs, to amend NC KMG's original proposal on the amendment of the Relationship Agreement between NC KMG and KMG EP such that NC KMG will not have a veto over future nominations of EP INEDs by the Nominations Committee of the KMG EP Board. If and when the majority of the EP INEDs approve this amendment, NC KMG will publish an updated version of the Original Circular (the "Revised Circular") and NC KMG will make an appropriate announcement.

The above amendments are made in response to feedback from minority investors on the proposals outlined in the Original Circular.

NC KMG is also publishing further supporting information on its approach to delivering operational improvement in KMG EP and its responses to issues raised by the EP INEDs following publication of the Original Circular. These are contained in the presentation attached to this announcement:

[http://www.kmg.kz/upload/press/company\\_news/kmg\\_offer\\_presentation.pdf](http://www.kmg.kz/upload/press/company_news/kmg_offer_presentation.pdf)

NC KMG's proposals, which will be considered at the EGM in Astana, Kazakhstan on 3 August 2016, focus on three priorities:

#### **Urgent need to improve operational and financial performance**

- Enhanced powers of KMG EP's Board of Directors to drive strategy and performance, increasing control over production plans and cost management
- Implementation of a business turnaround plan developed by the KMG Technical and Research Institute, applying international best practice
- Closer cooperation and direct access to the resources and expertise of NC KMG

### **Preserving high standards of corporate governance**

- Proposed changes preserve robust structure and standards of corporate governance
- The EP INEDs retain clearly defined and enhanced areas of exclusive competence but lose powers that could frustrate decision making through bureaucracy
- Continued NC KMG commitment to supporting KMG EP's public listing

### **Strengthening key protections for minority shareholders**

- Core protections for minority shareholders maintained and enhanced
- New powers of approval for EP INEDs over all related-party transactions and loans with in the Samruk Kazyna Group of companies
- Deficiencies addressed in existing KMG EP constitutional documents to give minority shareholders confidence that their rights can be enforced

The proposed changes to the Charter of KMG EP and the Relationship Agreement between NC KMG and KMG EP seek to make KMG EP more resilient, more cash generative and able to deliver more value to all of the Company's shareholders by addressing embedded weaknesses in KMG EP's organisational structure, as highlighted by the Company's sustained poor operational performance and its inability to respond effectively to a lower oil price environment.

NC KMG believes its proposals represent a balanced package of arrangements that offer the best chance of effecting change at KMG EP while protecting the rights and the economic interests of all Shareholders and GDR holders. Without prompt action to improve operational decision-making and effectiveness, a downturn in the external environment is likely to have a detrimental impact on KMG EP's cash position, despite the benefit of a recent rise in international oil prices.

### **Note:**

NC KMG, Central Asia's largest oil and gas company, is Kazakhstan's national operator for exploration, production, refining and transportation of hydrocarbons. The Company accounts for 28.6% of oil and 16% of gas production in Kazakhstan and is one of the country's largest employers, with over 76,000 employees. The consolidated oil and gas condensate output in 2015 amounted to 22,670 thousand tons, gas production - 7,255 MMcm, 16,317 thousand tons of oil were sent to the refineries for processing; the proven oil and gas condensate reserves are 801.2 mn tons. The Company represents the Government in the oil and gas sector, 90% of it is owned by the "Samruk-Kazyna" JSC, Kazakhstan's sovereign wealth fund, and 10% by the National Bank of the Republic of Kazakhstan. NC KMG has participatory interests in 38 oil & gas businesses in Kazakhstan and abroad.