

# Interview with Abat Nurseitov, the Chief Executive Officer



**Abat Nurseitov**  
Chief Executive Officer of KMG EP  
KazMunaiGas Exploration  
Production JSC

? 2014 was a jubilee year for KMG EP. What would you say are the major results of the decade?

“ We experienced many ups and downs during the first decade after creating the Company and taking it to IPO in London and Kazakhstan. We significantly increased our portfolio of producing and exploration assets and created a corporate governance framework in compliance with international standards, thereby protecting the rights of minority shareholders. KMG EP was one of the first Kazakhstan oil companies to implement corporate management principles that conform to global best practice. The Company was also one of the first in Kazakhstan to implement the practice of signing collective employment contracts with employees.

Over the past ten years we have been one of Kazakhstan's major taxpayers. Between 2004 and 2014 KMG EP paid over 2.7 trillion tenge (approx. US\$ 19 billion) to the government and approximately 570 billion tenge (US\$ 4.0 billion) in dividends to our shareholders. Approximately 60% of dividends go to the majority shareholder, state-owned NC KMG.

In the ten years since its formation, KMG EP has provided over 47 billion tenge in funding to social projects. This money has been used to build schools, kindergartens, healthcare facilities, playgrounds, sports clubs, cultural and fitness centres, a youth camp in Kendirly on the bank of Caspian Sea, and other socially important facilities.

Each year, the Company faces new challenges. However even in a complex, dynamic environment we aim to keep on meeting our obligations to our shareholders and employees.

“ Each year, the Company faces new challenges. However even in a complex, dynamic environment we aim to keep on meeting our obligations to our shareholders and employees”



Strategic Overview	04 – 71
Corporate Governance	72 – 85
Financial Statements	86 – 121
Information for Shareholders	122

## ? Which were the most complex challenges of 2014?

“ Last year was rich in important events which materially affected the conditions and environment in which the Company operates. In February 2014, the national currency was devalued. We successfully maintained the planned level of capital investments despite the fact that 20-30% of our capital investments are pegged to foreign currencies. Other macroeconomic events included an increase in transportation tariffs and the rate of Export Customs Duty. Payroll costs increased as a result of the devaluation of the tenge and the implementation of a Unified System of Wages throughout the KMG group of companies.

The second half of the year was also marked by the decline of oil prices in international markets. This has become a serious challenge for KMG EP as our oil fields are mostly mature with high production costs. As a result of the fall in oil prices, the Company re-estimated recoverable assets and recognised an impairment loss of 228 billion tenge in the fourth quarter of 2014.

## ? How did these challenges affect the Company's production and financial results?

“ Throughout the year, production at our core production assets was stable and was carried out under the approved plan. In 2014 the cumulative oil production of OMG and EMG increased by 1% compared with 2013. The consolidated production volume of KMG EP, including its stakes in joint ventures and affiliated entities, amounted to 12.3 million tonnes of crude oil, nearly equivalent to 2013, production volumes in spite of a natural production decline at PKI and KGM.

Notwithstanding certain difficulties in 2014, we have initiated trial production at the Novobogatinskoye SE field of the Liman Block. The Aksai oil and gas field, part of our KGM joint venture, has been commissioned in the Kyzylorda region.

The discovery of new oil reserves in the Rozhkovskoye field has become a major milestone in our geological prospecting operations. We plan to start production at this field in 2017.

The Company plans to carry out a modernisation programme to ensure that production forecasts are more accurately estimated and production rates more precisely controlled. Through the implementation of this modernisation programme, investors will be better able to measure our successes and KMG EP will become a more modern company, thereby also meeting the highest standards of ergonomic operation in compliance with health and environmental protection requirements.

## ? Over the past several years KMG EP's social policy has remained one of the Company's priorities. Is this still crucial for management?

“ A responsible approach to each aspect of activity is the distinctive feature of our Company. We provide jobs to a huge team. More than 26,000 people are employed by our core and joint enterprises in few regions of Kazakhstan. We make every effort to foster a constructive environment for all of our staff and invest significant funds into the local communities where our production assets operate.

## ? What are the key operating goals for 2015?

“ Maintaining the stability of production and improving the efficiency of the production process are of course our top priorities. We make significant efforts in this regard, laying the groundwork for the Company's future financial stability. In this respect our Company is also open to cooperation with foreign partners to implement innovative technologies.

KMG EP is carrying out, and will continue to carry out, exploration activities aimed at enhancing its existing assets. We are ready to invest more in geological exploration, in the expectation that promising projects will be identified.

And, of course, ensuring social stability in our companies and the regions where we operate is considered a production task. We intend to continue to work in this direction and apply every possible effort to ensure social stability.