



EITI KAZAKHSTAN

Implementation of the extractive industry transparency initiative in the Republic of Kazakhstan.



NATIONAL REPORT



OIL AND GAS SECTOR



MINING SECTOR

2016



The 12th National Report

On implementation of the Extractive Industry Transparency Initiative in the Republic of Kazakhstan for 2016

The work is performed by “UHY SAPA Consulting” LLP in accordance with the contract on public procurement of services

No.25 dated March 28, 2017 entered into with the RSI “The Republican Center of geological information “Kazgeoinform” of the Committee of geology and subsoil use of the Ministry of investment and development of the Republic of Kazakhstan.

CONTENT

	List of definitions and abbreviations	6
	Report on the results of the implementation of the agreed-upon procedures	9
I.	General information	12
1.1.	Extractive Industries Transparency Initiative	12
1.2.	EITI in the Republic of Kazakhstan	12
1.3.	Data about participation of the companies	13
1.4.	Reporting status on EITI	13
II.	APPROACH TO DATA RECONCILIATION	14
2.1.	Purpose	14
2.2.	Scope of work	14
2.3.	Approach to data reconciliation	14
III.	EXTRACTIVE SECTOR OVERVIEW	19
3.1.	The contribution and role of the extractive sector in the economy of Kazakhstan	19
	Export	23
	Investments	28
	Employment	28
	Informal sector	28
	Gross domestic product	29
	Income	29
3.2.	Extractive industries: Key characteristics, regions, main players	33
	Oil	40
	Gas	51
	Coal	58
	Metals	61
	Uranium	63
	Lithium	65
	Gold	66
	Silver	67
	Geological exploration	74
	Transportation	79
3.3.	Extractive industry management	90
3.3.1.	Legal basis	90
	Information on licenses and contracts	102
	Disclosure of contracts	104
3.3.2.	Fiscal mode	106
3.3.3.	The role and participation of the government	110
3.3.4.	Quasi-public sector	116
	National companies and state-owned enterprises	116
3.3.5.	Quasi-public sector: income and expenses	134
3.3.6.	Revenue distribution and management from mining sectors	143
IV	VERIFICATION OF ACCOUNTABLE PAYMENTS	155
4.1.	Consolidated report on significant tax and non-tax Payments/Revenues	155
4.1.1.	Tax revenues	157
4.1.2.	Income for the use of natural and other resources	189
4.1.3.	Other non-tax revenues to the budget	202
4.1.4.	Customs payments	215
4.2.	Payments reflected in foreign currency (USD)	228

4.3.	Total taxes and other obligatory payments to the budget	230
4.3.1.	Tax payments to the budget from Payers of oil and gas sector	230
4.3.2.	Tax payments to the budget from Payers of mining sector	230
4.4.	The distribution of taxes and other obligatory payments in budgets	231
4.5.	The level and percentage of unidentified discrepancy	232
4.6.	Reconciliation for social investments	235
V	RECOMMENDATIONS	236

LIST OF TABLES

Table 1	List of payments and receipts to be reconciled	16
Table 2	Volumes and indices of industrial production by type of activity	22
Table 3	Export of certain goods to the Republic of Kazakhstan	24
Table 4	Accounts of the consolidated budget (state budget and National Fund), 2013-2016	31
Table 5	Information on the amount of revenues to the consolidated budget (SB+NF) for 2016.	32
Table 6	Production volumes by types of minerals and by regions	33
Table 7	Precious metals prices	62
Table 8	Transportation of oil by the marine fleet	81
Table 9	The main gas pipelines of Kazakhstan	84
Table 10	Cargo turnover of public railway transport	86
Table 11	Transportation of freight by oblast	86
Table 12	Railway rolling stock	87
Table 13	Taxes of JSC “Kaztransoil” in 2016	89
Table 14	The distinction between activities of national companies in the sphere of subsoil use	121
Table 15	List of major subsidiaries and affiliates of JSC “NC “KMG” proposed for transfer to the competitive environment as a priority	131
Table 16	Budgetary loan granting and operations with fiscal assets in general terms (billion KZT)	138
Table 17	Report on revenues and use of RK NF PK for 2016	151

LIST OF FIGURES

Figure 1	Main factors of tax revenue growth	30
Figure 2.	Top 5 most profitable mining companies in Kazakhstan in 2015	31
Figure 3	Price per barrel of oil (Brent), USD	42
Figure 4	Changes in oil prices by the corresponding period of the previous year, %	42
Figure 5	Planned production volumes for 2017 and subsequent years	44
Figure 6	Scenarios of the average annual volume of gas production in Kazakhstan up to 2030 with a perspective up to 2050, billion m ³	54
Figure 7	Forecast gas balance up to 2030 with a perspective up to 2050 (pragmatic scenario), billion	55
Figure 8	Forecast of commodity gas transit, billion m ³	57
Figure 9	Forecast of exports (+) / imports (-) of commodity gas (excluding exchange transactions with OJSC “Gazprom”) according to domestic consumption scenarios, billion m ³	57
Figure 10	Interactive map of the of the Committee for Geology and Subsoil Use	71
Figure 11	Level of geological exploration by countries	74
Figure 12	A forecast of geological exploration costs for the period up to 2020.	74

Figure 13	Volumes of gas transportation through main gas pipelines	82
Figure 14	The scheme of the main gas pipelines of Kazakhstan	85
Figure 15	Basic functions of the Code	107
Figure 16	Subsoil users taxation improvement	108
Figure 17	The enquiry results of Kazakhstan largest companies' CEO	110
Figure 18	Evaluation of government work efficiency	111
Figure 19	The quasi-public sector entities	117
Figure 20	Indicators of portfolio companies	118
Figure 21	Top 10 subsidiaries of JSC "NWF "Samruk-Kazyna"	118
Figure 22	The rating of transparency of large national companies	120
Figure 23	The rating of transparency of national companies	120
Figure 24	The structure of JSC "NC "KMG" subsidiaries ownership	123
Figure 25	The structure of JSC "KazTransGas" subsidiaries ownership	124
Figure 26	The statistics for the privatization of national holdings assets and national companies within the framework of a Comprehensive plan for 20.06.2017	130
Figure 27	Scheme of dividend payout to Central Government Budget in 2016	132
Figure 28	Subjects of state sector	135
Figure 29	State functions	141
Figure 30	Central Government budget size, 2013-2018, billion KZT	144
Figure 31	State budget income, 2013-2018, billion KZT	145
Figure 32	Equity proportion of tax revenues of Central Government budget in 2016.	146
Figure 33	Transfer income to Central Government budget, 2013-2018, billion KZT.	147
Figure 34	Equity proportion of Central Government budget outcomes, 2016	149

ATTACHMENTS

Attachments 1-3	Report form on Payments/receipts, carried out in foreign currency
Attachments 1-4	Consolidated form of the report on tax and non-tax receipts in cash for each taxpayer of the mining sector in 2016
Attachments 1-5	Consolidated report on substantial tax and non-tax Payments/Receipts in cash for each Payer of the subsurface use sector for 2016
Attachments 1-6	Consolidated report on substantial tax and non-tax Payments/Receipts of the oil and gas and mining sectors' Payers in the Republic of Kazakhstan for 2016
Attachments 2-2	Summary report on payments/receipts on the state shares in property
Attachments 3-2	Summary report on expenses on social development and local infrastructure, except for the funds transferred on BCC 206114
Attachment 5	Funds allocated for treatment facilities, monitoring of pollution of a subsoil, the social sphere and training of experts on the basis of the reporting under the LCC forms
Attachment 7	Transportation information on JSC "KazTransOil", JSC "KazTransGaz" and JSC NC "Kazakhstan temir zholy" for 2016.
Attachment 9	Information on Local content in the procurement of

	goods, works and services for 2016, ois ectors’ subsurface users
Attachment 10	List of subsurface useand mining companies
Attachment 11	Statement of significance
Attachment 12	Supporting documentation
Attachment 13	Information on clarified and not clarified Discrepancy on Annex 3-2 “Summary report expenditure on social development and local infrastructure, with the exception of the funds listed on the BCC 206114” for 2016. http://eiti.geology.gov.kz/ru/national-reports

List of definitions and abbreviations

EITI	Extractive Industries Transparency Initiative
BP	British Petroleum
CRIRSCO	Committee for Mineral Reserves International Reporting Standards
ERG	Eurasian Resources Group S.a.r.l. company (“ERG”)
JSC	Joint Stock company
KASE	Kazakhstan Stock Exchange
LSE	London Stock Exchange
NCOC	NCOC N.V. North Caspian Operating Company
LTD	Limited
PwC	PricewaterhouseCoopers
AGMP	The Association of Mining and Metallurgical Enterprises
AG KIPR	Analytical group KIPR
JSC “UAPF”	Joint Stock Company “Unified Accumulative Pension Fund”
JSC “EEC”	JSC “Eurasian energy Corporation”
JSC “NAC “Kazatomprom”	JSC “National Atomic Company “Kazatomprom”
JSC “NBRK”	JSC “National Bank of the Republic of Kazakhstan”
JSC “NEC “Kazgeology”	JSC “National exploration Company “Kazgeology”
JSC “NMC “Tau-Ken Samruk”	JSC “National Mining Company “Tau-Ken Samruk”
JSC “NC “KazMunayGas”	JSC “National Company “KazMunayGas”
JSC “NMH “Baiterek”	JSC “Baiterek” National Management Holding”
JSC “KMG” EP”	JSC “KazMunayGas” Exploration Production”
JSC SWF “Samruk-Kazyna”	Sovereign Wealth Fund “Samruk-Kazyna”
JSC “SSGPO”	JSC “Sokolovsko-Sarbaiskoe gorno-obogatitelnoe proizvodstvennoe obedinenie”
JSC “CNPC- AktobeMunayGas	JSC “China National Petroleum Corporation–AktobeMunayGas”
NPS	Nuclear power station
LLP APMP	LLP Aktau Plastic Mass Plant
BIN	Business identification number
BO	Beneficial ownership
GDP	Gross domestic product
MMC	Mining and metallurgical complex
MP	Mining plant
SDPS	State District Power Station
SE	State enterprise
MC	Mining company
GE	Geological exploration
SI	State institution

EAEU	Eurasian Economic Union
USMSS	Unified state management system subsoil
EU	European Union
IIS USMSS RK	Integrated Information System “Unified State Management System Subsoil of Republic of Kazakhstan”
IIT	Individual income tax
NMH	National managing holding
BCC	Budget classification code
SRC	State revenue Committee
KIOG	Kazakh Institute of oil and gas
KIDI	Kazakhstan industry development Institute
KMT	Limited Liability Partnership “Offshore Oil Company “KazMunayTeniz”
KMG	JSC “National Company “KazMunayGas”
KPO	Karachaganak Petroleum Operating B.V.
CIT	Corporate income tax
CS	Committee on statistics
KTZ	JSC “National Company “Kazakhstan temir zholy”
CPC	Caspian pipeline consortium
CQFR	Concept of quasi-fiscal revenue
LCT	License contract terms
LT	Locomotive traction
IAEA	International Atomic Energy Agency
LB	Local budget
GP	Gas pipeline
BRN	Backbone railway network
MID	Ministry of Investments and Development of Republic of Kazakhstan
MOP	Main oil pipelines
MNE	Ministry of national economy
IDC	Interdepartmental Commission
IMF	International monetary Fund
MoU	Memorandum of understanding
MEC	Ministry of Environmental Conservation of Republic of Kazakhstan
MCI	Monthly calculation index
ISA	International standards on auditing
IFRS	International financial reporting standards
MF	Ministry of Finance of the Republic of Kazakhstan
ME	Ministry of energy of the Republic of Kazakhstan
MEMR	Ministry of energy and mineral resources (earlier – now MID)
NAC	National Atomic Company
NB RK	National Bank of the Republic of Kazakhstan
TEMR	Tax on extraction of mineral resources
VAT	Value added tax

RDW	Research and development work
OR	Oil refinery
ORS	Oil refinery station
NCE	National chamber of entrepreneurs
EPT	Excess profit tax
NCS	National Council of stakeholders
NF	National Fund of Republic of Kazakhstan
OCR	Oil Chemistry Refinery
NHC	National holding company
AIE	Assessment of the impact on the environment
OPEC	Organization of the Petroleum Exporting Countries
FAPS	Final agreement on production section
OECD	Organization for economic cooperation and development
GW	Groundwater
FDI	Foreign direct investment
MC	Manufacturing company
PKOP	LLP PetroKazakhstan Oil Products
SWOP	Operations on exchange of assets
RB	Republican Budget
RCGI “Kazgeoinform”	Republican center of geological information “Kazgeoinform”
RK	Republic of Kazakhstan
RF	Russian Federation
JV	Joint venture
SEC	Socio-entrepreneurial Corporation
APS	Agreement on production section
AAI	Aggregate annual income
CIS	Commonwealth of Independent States
USSR	Union of Soviet Socialist Republics
USA	United States Of America
DPP	Domestic production products
TT	Technical task
“TNC “Kazkhrom”	JSC “Transnational company “Kazkhrom”
LLP	Limited Liability Partnership
SCM	Solid commercial minerals
FS	Feasibility study
TCO	LLP “Tengizchevroil”
HC	Hydrocarbon crude
UMP	JSC “ULBA METALLURGICAL PLANT”
SWF	JSC “Sovereign Wealth Fund “Samruk-Kazyna”
FRS	Federal reserve system
ECD	Export customs duty

Weighted average exchange rate of KZT amounted to 221.73KZT per 1 US Dollar in 2015 http://www.nationalbank.kz/cont/publish151987_30861.pdf

050036, Республика Казахстан
г. Алматы, мкрн. Мамыр-4, д. 14

Тел +7 727 380 01 82
+7 727 380 02 95
Факс +7 727 380 01 57

Email office@uhy-kz.com
Web www.uhy-kz.com

14, Mamyр-4, Almaty
050036, Republic of Kazakhstan

Tel +7 727 380 01 82
+7 727 380 02 95
Fax +7 727 380 01 57

Email office@uhy-kz.com
Web www.uhy-kz.com

Report on the results of the implementation of the agreed procedures

To the EITI Secretariat and to the members of the National Council of the Interested Parties regarding implementation of EITI in the Republic of Kazakhstan:

We have reconciled the “Report on substantial tax and non-tax Payments/Receipts” and “Report on Payments/Receipts on socially significant purposes for subsoil users”, whose tax payments are recognized by the NCIP as “significant”, submitted by the Payers of the oil and gas and mining sectors in accordance with the requirements of the Technical Specification (TS) to prepare the report on implementation of the Extractive Industry Transparency Initiative (EITI) in 2016 and data of the Recipient.

The Recipient of the taxes and other obligatory payments to the budget (hereinafter referred to as “Recipient”) was:

- State revenue committee of the Ministry of Finance of the Republic of Kazakhstan (RK).

Purpose of reconciliation – ensure completeness, reliability and accessibility of information regarding payments/receipts to the state coming from the extracting industries during 2016 due to the implementation of the Extractive Industry Transparency Initiative in the Republic of Kazakhstan.

Reconciliation was performed on the basis of the Memorandum of Understanding EITI (hereinafter – “MoU”) on implementation of the EITI dated October 9, 2013, signed by the Government of the RK, deputies of the RK Parliament, representatives of the companies operating in extractive industries and non-governmental organizations, and based on the Contract No.25 on Public Procurement of services dated March 28, 2017 with the RSI Republican centre of geological information “Kazgeoinform” of the Committee for geology and subsoil use of the Ministry of investment and development of the Republic of Kazakhstan.

Reconciliation was performed in accordance with the International Standards on Auditing (ISAs), applicable to related services (ISRS 4400 “Engagements to perform agreed-upon procedures regarding financial information”). An engagement to perform agreed-upon procedures included examination and analysis of the information and comparison with the primary documentation, data from business accounts of the taxpayers, reports of the Recipient, currency conversion, based on which the reconciliation check was performed to obtain sufficient information and evidence in order to express an opinion on the purpose of the audit.

Chief executive officer or the representative of the Payer, who was delegated the relevant authority and with the right of signature, as well as the Chief financial officer bear responsibility for the quality and truthfulness of the information of the Taxpayer. Chief executive officer of the Authorised state authority and/or organization bears responsibility for the quality and truthfulness of the information from the Recipient.

Reconciliation includes examination based on the testing of the evidence, confirming reconciliation of the reports, submitted by the Payers, with the data of the Recipient.

We performed the following procedures:

- We have obtained the filled-in reports on the receipts and payments from the relevant state authorities and extractive companies from the portal of USSMS IIS which took part in EITI reporting;
- Compared the receipts to the budgets with the payments of the extractive industry companies in 2016 financial year.
- If there were any discrepancy between the amounts which were included into the reports of the extractive industry companies and state authorities were:
 - found out the causes for every difference from the extractive industry companies and state authorities by means of meetings, emails and phone calls;
 - to the extent possible, compared the explanations of discrepancy that had been submitted by the extractive industry companies and state authorities with the confirming documents, such as extracts of personal accounts on the status of payments with the budget, payment orders, cheques and/or reconciliation statements;
 - on each discrepancy described the amount and confirming documents submitted;
 - combined all unidentified discrepancy, described them in section IV “Consolidated Report on Essential Tax and Non-Tax Payments/Receipts”, determined the percentage of unidentified discrepancy from the tax amount and evaluated the significance level of the impact on misrepresentation of information.

As a result of the work performed such as collection, reconciliation, analysis and consolidation of the reports submitted by Payers and Recipient, study of the source documents, personal accounts and account reconciliation statements requested both from Payer and from Recipient, having analysed and compared them, established the causes of discrepancy we reached common ground that the reports submitted by Payer and Recipient for 2016 were prepared in accordance with the approved Regulations. Discrepancy found out have been explained and described.

In accordance with the requirements of the TS and the new Standards of the EITI the national report includes review of the extractive industries (contextual information) in Chapter III that describes the legal platform and fiscal mode being effective in the extractive industries, the description of the extractive industries, volumes of production and export, export destinations, the contribution of the extractive industries to the economy for 2016, the information on involvement of the state in the extractive industries as well as on the management of income and expenses, on the process and register of licensing and also on beneficial ownership and contracts.

Report of the independent auditor.

Page 3

Result of the works performed was preparation of the 12th National Report for 2016 containing a review of the extractive industries and reconciliation of essential tax and non-tax payments/receipts for 2016 in accordance with the requirements of the TS approved by NCPC.

**General Director,
Auditor of the Republic of Kazakhstan**
Qualification certificate №0318
Of May 2, 1997

T.E. Nurgaziyev

**Project Manager,
Auditor of the Republic of Kazakhstan**

M.S. Ilyasov

Auditor of the Republic of Kazakhstan:
Qualification certificate № – 0000238
Of February 18, 2015

S.A. Seitmagzimova

September 28, 2017

Republic of Kazakhstan, Almaty, Mamyр-4, 14.

EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE REPORT FOR THE YEAR ENDED ON DECEMBER 31, 2016

I. General Information

1.1. Extractive Industries Transparency Initiative

EITI is the global standard developed with the aim to promote the transparency and accounting in the countries rich in oil, gas and/or mineral resources.

EITI's purpose is increase in transparency by reconciliation of companies payments with the income of the government. Thus, the EITI facilitates improvement of governance in the countries with significant reserves of oil, gas and mineral resources. The Initiative is being implemented through joint activities of the government, private sector companies, organizations of civil society.

1.2. EITI in the Republic of Kazakhstan

After the official statement of the President of Kazakhstan N. A. Nazarbayev about accession of Kazakhstan to EITI at the international conference which has taken place in Almaty on June 14-16, 2005 on October 5, 2005 has been signed the MoU was signed between the Interagency Working Group, representing the Government, and the other three parties: the RK Parliament, enterprises of the extractive sector and representatives of civil society.

In 2013 by results of Validation the EITI International Board assessed the compliance of Kazakhstan with all the requirements of the EITI and assigned the status of “EITI Follower Country”.

Since 2014 in Kazakhstan providing the reporting under EITI by the companies - subsoil users (payers of taxes) online through the USMSS portal is introduced. Data of the RK Ministry of Finance (Tax Recipient) is reconciled automatically and the final reconciliation reports, including disaggregated information on each company, are available on-line on the web-site to all interested parties and everybody.

Since 2015 embedded reporting on the expenditure of companies for social development of regions online through the USMSS portal, available to everyone. Performed a reconciliation of accounts of the companies – subsoil users on the social development of the regions and of akimats, who used these funds. The final report on the reconciliation of social investment available on the National EITI website.

In 2017, completed a pilot study on the integration of EITI monitoring system of open data “Mainstreaming”, the essence of which was to eliminate the duplication of data in the EITI reports with the existing reporting companies and the Government based on existing open data.

1.3. Data on participation of the companies

Clause 76 para 6 of the Law on subsoil and subsoil use, titled “Obligations of the subsurface users” provides that “all subsurface users have a mandatory obligation to comply with the conditions of the Memorandum of understanding with respect to implementation of the Extractive Industry Transparency Initiative (MoU) in the Republic of Kazakhstan, excluding the contracts on underground waters and common mineral resources”.

Data reconciliation of payers and recipients were subjected to the company with the established materiality threshold. By the end of 2016, the state revenue Committee of MF RK has been requested amount of revenue from payers of oil, gas and mining sectors to determine the list of companies for reconciliation with NCIP established a materiality threshold. From 178 taxpayers in the oil and gas sector, the total revenue from 69 companies with the NCIP established a materiality threshold - more than 1 billion KZT in the year amounted to 99,91 % of all revenues on oil and gas sector. Thus, auditing the reconciliation of the EITI was subjected to a 69 oil and gas companies listed in Attachment 10 to the TS for the manufacture of the present National report.

From 368 payers in the mining sector, total revenues from 90 companies with the NCIP established a materiality threshold - more than 100 million KZT in the year was of 99,28 % of all revenues in the mining sector. Audit the reconciliation of EITI were subjected to 90 companies in the mining sector. The list of companies is given in Attachment 10 to the TS.

The fulfillment of the tax obligations on payment of the taxes and other obligatory contributions to the budget is carried out by the Payers in accordance with the Code “On taxes and other obligatory payments to the budget” and the Contracts on subsurface use, entered into with the Government of the RK.

1.4. Reporting status on EITI

Eleven National EITI reports available on website of the EITI Kazakhstan <http://eiti.geology.gov.kz/ru/national-reports>, as well as on the website of the International EITI Secretariat www.eiti.org, were published in 2005- 2017 in the course of implementation of the EITI. The reports were reconciled companies elected during the tenders in accordance with the RK laws.

Data coverage in the national reports: Preparation of national reports is carried out according to international requirements adopted by the EITI Board that includes, along with fiscal reconciliation of company payments with Government revenues, the disclosure of more extended data, namely the distribution of revenue flows to the budget and the national Fund, the flow of dividends from the state share in the ownership of companies, subnational payments and social investments, local content, revenue from transportation, production and export of primary priority minerals the share of mining sector in total GDP, the description of the fiscal regime, the exploration, the quasi-fiscal sector. Contains a number of links to the official websites of open-source information with the goal of applied data in real time.

II. APPROACH TO DATA RECONCILIATION

2.1 Purpose

Purpose of reconciliation - ensuring the completeness, reliability and accessibility of information on payments/receipts to the state from the extractive industries for 2016 due to implementation of the EITI in the Republic of Kazakhstan.

2.2. Scope of work

Reconciliation was performed based on the cash accounting. When performing the work we had reliance on the reports, information and clarifications received from the relevant state authorities and extractive industry companies. We make no representations with regard to the accuracy or completeness of such information.

If, there were payments which were not shown in the reports submitted by the companies

and state authorities, and these payments were not found out by us in other ways, then our procedures were not sufficient to identify them.

This report was prepared in English, Russian and Kazakh languages. If there are discrepancy or contradictions between the versions in 3 languages, the version in

Russian shall prevail.

This report should be read together with the Attachments here. All amounts in this report are specified in thousands KZT, unless otherwise specified.

2.3. Approach to Data Reconciliation

- Fully understand the EITI procedures established for the Republic of Kazakhstan by way of discussions with the EITI Secretariat and review of the relevant documents, including, in particular, the accounting principles and procedures established for the reporting forms;
- Obtain and verify the completed forms of the reporting on fees and payments both from Payers and Recipients;
- If any discrepancy between the amount paid by Payer and the amount received by Recipient were found out, additional information was requested from various state authorities and extractive industry companies.

In order to reconcile the data and prepare the reporting within the EITI for 2016, the following forms of the reports on government receipts and payments of the companies made during 2016 fiscal year were used:

- Form of the report on tax and non-tax payments which are completed by Payers/Recipients: it shows the payments of the companies to the state authorities (Attachment 1 of the TS);
- Form on payments made in USD (Attachment 1-1 for Payer, Attachment 1-2 for Recipient of the TS);
- Form on the expenses on social development and local infrastructure in the framework of contract obligations (LCC), with the exception of the funds listed on the BCC 206114 (Attachment 3 to the Payer TS);
- Form on expenses on social development and local infrastructure for 2016 (Attachment 3-1 for regions local administration of the TS);

- Form on expenses on goods, works, services in education within contractual obligations regarding training (LCC) in the list submitted by local administrations coordinated with competent authority (Attachment 4 TS);
- Form on payments on the state shares in property (dividends) (Attachment 2 for Payers, Attachment 2-1 for Recipients of TS);
- Consolidated reports on the receipts from Recipient for each Payer confirmed on the basis of inspection performed by the Accounts Committee for control over execution of the national budget for each Payer in the RK Ministry of Finance;
- Other Appendices provided by the Technical Specification.

We obtained and reviewed the detailed explanations of payments provided in the reports, both of the state authorities and extractive industry companies.

To the extent possible, we received confirmation of clarification on discrepancy found out in the course of verification. We recorded all discrepancy found out together with confirming documents. Also we specified all issues of concern and areas for further improvement.

The following procedures were performed with regard to each discrepancy found out:

- Confirm that the information submitted by Recipient and Payer is consistent with the amounts shown in Attachment 1 of the TS. Receive the clarifications from Payer and Recipient with respect to any discrepancy found out;
- Further request the confirming documents for the amounts with respect to which such discrepancy were found out;
- If there were no discrepancy, no further actions were taken.

For items that require further clarification, the following procedures have been performed:

- Details of the payments and instructions submitted to identify any transactions that could lead to a discrepancy have been reviewed;
- We received clarifications on discrepancy found out from the relevant companies and state authorities by means of meetings, emails and phone calls;
- All significant discrepancy were quantified and shown in Section IV “Consolidated Report on Substantial Tax and Non-Tax Payments”.

Table 1. List of payments and receipts to be reconciled

No. III	Type of tax or payment	Budget split
1	Corporate income tax, CIT	RB/NF
2	Personal income tax, PIT	LB
3	Social tax	LB
4	Property tax of legal entities and individual entrepreneurs	LB
5	Land tax	LB
6	Tax on transport vehicles of legal entities	LB
7	Value-added tax (VAT) on goods produced, work performed and/or services rendered on the territory of the Republic of Kazakhstan	RB
8	Excise taxes	RB/LB
9	Other tax revenues	RB/LB
10	Rent tax on crude oil and/or gas condensate, coal being exported, including	RB/NF
11	Excess Profits Tax	RB/NF
12	Bonuses	RB/NF
13	Production Tax of mineral resources	RB/NF
14	Share of the Republic of Kazakhstan on Production Sharing	RB/NF
15	Additional payment of Subsoil User carrying out his/her activities under the Production Sharing Contract	RB/NF
16	Payment for use of especially protected natural territories of republican (local) value	RB/LB
17	Payment for use of the land plots	LB
18	Payment for issues to the environment	LB
19	Payment on reimbursement of historical costs	RB
20	Payment for use of radio spectrum for the use of navigable waterways, surface water resources, for forest use	RB
21	Funds received from the subsoil users under the claims on damage to be compensated by the organizations of oil sector	NF
22	Administrative fines, penalties, sanctions, penalties imposed by the Central state bodies, their territorial subdivisions on the organizations of oil sector	NF
23	Other penalties, fines, sanctions, penalties imposed by state institutions financed from the Republican budget to the organizations of oil sector	NF
24	Funds received from subsoil users under claims for damage except for funds received from oil sector companies	RB
25	Other non-tax receipts from oil sector companies	NF
26	Other non-tax receipts to the national budget, except for the receipts from the organizations of oil sector	RB

27	Other non-tax revenues to the local budget	LB
28	Other non-tax receipts from oil sector organisations	NF
29	Special protective, antidumping and countervailing duties	RB
30	Customs duties	RB
31	Proceeds from the implementation of customs control and customs procedures	RB
32	Special protective, antidumping and countervailing duties	RB
33	Report on payments (dividends) on the state shares in the property (Attachment 2 of the TS);	
34	Report on payments (dividends) on the state shares in the property (Attachment 2 of the TS);	

Receipts distribution to Republican, local budgets and the National Fund are carried out according to the Order of the Republic of Kazakhstan Finance Minister from September 18, 2014 No. 404 “About approval distribution Table of budget receipt between budget levels and the control cash account of National Fund of the Republic of Kazakhstan”¹ (with changes and additions as 04.12.2015 year) <http://eiti.geology.gov.kz/ru/homepage/normative-base>.

List of payments not to be reconciled:

- Form on payments being made in kind (Attachment 1-3 of the TS) because no payments in kind were made;
- Form on expenses on goods, works, services in education within contractual obligations regarding training (LCC) in the list submitted by local administrations coordinated with competent authority (Attachment 4 TS);
- Form on means, directed to treatment facilities, monitoring of pollution of a subsoil, the social sphere and training of experts on the basis of the reporting under the LCC forms (Attachment 5 TS);
- Production volumes and export by types of minerals of oil and gas and mining sectors (Attachment 6 TS);
- Data description on transportation, including the following: product/goods (goods); route (routes) of transportation; both the relevant companies and the state organizations, including GP involved in transportation (Attachment 7 TS);
- Paid taxes and other payments in the budget for transportation. The description of the methodology used by the company for their calculation for this kind of activity (Attachment 7 TS);
- Tariff disclosure rates and volume of the transported goods(Attachment 7 TS);
- Income disclosure gained in connection with transportation of oil, gas and mineral resources(Attachment 7 TS);
- Extracting size of branches in absolute expression and in the form of percent from GDP(Attachment 8 TS);
- Total income of the government created by the extracting branches (including taxes, a royalty, bonuses, commission and other payments) in absolute units and in the form of percent from the total income of the government (Attachment 8 TS);

¹<http://eiti.geology.gov.kz/ru/homepage/normative-base>

- Export volumes from the extracting branches in absolute units and in type of percent from total exports (Attachment 8 TS);
- Working employment in the extracting branches in absolute units and in the type of percent from the total number of working employment (Attachment 8 TS);
- Information on the Kazakhstan contents purchases of goods, works and services of subsoil users of oil and gas and mining sectors (Attachment 9 TS);
- Subsoil list of users, who are subject to verification (Attachment 10 TS);

III. EXTRACTIVE SECTOR OVERVIEW: CONTEXTUAL INFORMATION

3.1. The contribution and role of the extractive sector in the economy of Kazakhstan ² (6.3.)

The term “extractive sector” in the Republic of Kazakhstan includes both oil and gas and mining industries. For 20 years, this sector has played very important role in the country's economy, being for many years the driver of its economic growth. In recent years, Kazakhstan makes efforts to develop non-resource sectors of the economy, at the same time, the extractive industry still accounts for a significant share of value added and the bulk of exports and foreign investment.

The production of hydrocarbons in Kazakhstan increased in the period from 1998 to 2007, and prices were kept at a high level almost all the time, the average growth of the Kazakhstan economy in 2000 - 2013 was about 8% per year in real terms. According to the Comprehensive Country Review for Kazakhstan, prepared by the OECD, this is largely due to the oil and gas sector. During the period of rapid growth, the level of poverty fell sharply from 47% to 2% of the population, and the number of unemployed in 2013 decreased to 5%.

In general, experts positively assess the management of oil and gas revenues flow (in particular, through the National Fund of the RK), but fluctuations in resource-based prices, the situation in countries that are major trading partners (the European Union, China and Russia) have a significant impact on macroeconomic and financial stability, the exchange rate of the national currency. It is also important to note the influence of the extractive sector on the environmental well-being of Kazakhstan. Negative ecological consequences have a serious impact not only on the environment as such, but also on the related sectors of the economy (in particular, on agriculture).

More details on the sector's contribution to the economic development of Kazakhstan during the period of independence in the OECD Country Survey:

Extractive industry, in particular, the oil and gas sector is an important factor in the economic well-being of Kazakhstan

...Since 1998, when oil prices reached a historic low (below 20USD), the growth rate of oil production in Kazakhstan accelerated and in the next ten years increased sevenfold before falling back in the midst of the financial crisis of 2007/2008.

...As a result of the trends observed in the country after independence, the extractive sector of the economy has pushed agriculture. The share of industry in value added increased from 20% in 1990 to 33% in 2010. The main role was played by the subsoil use sector, including the oil and gas sector, which accounted for 20% of the additional value in 2010 compared to 8% in 1998.

²Information on the contribution of extractive industries to the economy in accordance with the EITI Requirement 6.3

Implementing countries should disclose information, when available, on the contribution of extractive industries to the economy for the fiscal year covered by the EITI Report. This information is required to include the following: (a) The size of the extractive industries in absolute terms and as a GDP percentage, as well as the performance of the informal sector, including, but not limited to, handicraft and small-scale mining. (b) Government total revenues generated by the extractive industries (including taxes, royalties, bonuses, commissions and other payments) in absolute units and as a percentage of total government revenues. c) Volumes of exports from extractive industries in absolute units and as a percentage of total exports. d) Working employment in extractive industries in absolute units and as a percentage of total employment. e) Key regions / oblasts where extraction is concentrated.

In 2000 - 2005, the oil and gas industry provided half of GDP growth. The impetus for this was a combination of factors, namely, a significant increase in production in 1998, a strong devaluation of the KZT in 1999, and an increase in oil prices. However, in 2007, oil production stabilized, and since the mid-2000s, the primary role in the country's economy has been played by the non-primary sector.

...The oil and gas sector provides about 30% of GDP, almost a third of budget revenues and about two-thirds of exports. Export itself has a very concentrated structure: 70% of the total volume is formed at the expense of five basic goods (and all of them are produced by organizations of the extractive industry). In addition, the mining industry is the leader in terms of foreign direct investment (more than 50% in 2010 - 2014 and 70-80% until 2008).

In general, the balanced management of flows associated with oil revenues, has allowed to avoid the main symptoms of Dutch disease. The bulk of state oil revenues (9.9% of GDP or all state revenues from the oil sector, amounting to 11.4% of GDP in 2012-2014) is sent to the National Fund and sterilized. Transfers to the republican budget and allocations in the opposite direction are limited, which, to a large extent, allows to protect public funds from the instability of oil and gas revenues. As a result, Kazakhstan was well prepared for the shocks of the transition period. So, in response to the crisis in 2009, the authorities implemented one of the largest (in relation to GDP) packages of measures to stimulate the economy.

Nevertheless, large oil flows in the past have already jeopardized macroeconomic and financial stability, while the weakest point was the exchange rate and the financial sector. Monetary policy is aimed at maintaining price stability. Before releasing the KZT in August 2015, the authorities exercised strict exchange rate controls, which limited short-term fluctuations. However, in February 2009 and later in February 2014, this led to a sudden devaluation of the KZT against the dollar by 18%. The uncertainty about the timing and possible scale of further devaluation affected the business climate of the country. The transition to a floating exchange rate will solve this problem. At the same time, in the near future this measure can lead to instability of the national currency and financial sector. The rapid growth provided by the oil and gas sector stimulated a significant inflow of funds into the banking system, which led to the formation of a bubble in the real estate market and, ultimately, to the banking crisis. Its consequences have not yet been completely overcome, as at the end of 2014, overdue loans, as before, accounted for 26% of all bank loans, but by mid-2015 they had fallen to 10%.

The economy is still heavily dependent on natural resources, causing exposure to external risks, especially in the current geopolitical environment. The inflow of foreign direct investment (FDI) in the recent past has been closely linked to the extraction of minerals. Moreover, the predominance of commodities in the export structure makes the country vulnerable to the threat of external shocks and indicates a missed opportunity to move along the value chain.

In addition, the weight of the extractive industry in the country's economy indicates the need to pay more attention to environmental risks. The economy in the current state is characterized by high energy intensity and high volume of greenhouse gas emissions. The nature of economic growth in the past has led to serious environmental risks that threaten the viability of the current model and the achievement of economic policy and welfare objectives. In order to ensure an acceptable rate of development of agriculture, it will be necessary to ensure more competent management of limited water resources and the growing volume of industrial wastes. Air pollution in large

urban centers can adversely affect the health indicators and the attractiveness of the country for foreign specialists.

*Integrated Country Review of Kazakhstan, Part 1,
Preliminary Assessment, OECD 2015³*

The oil and gas sector was the main driving force of economic growth at the beginning of the century, however, at present its importance is weakening. Based on the sectoral data for the year 2016, the National Chamber of Entrepreneurs (department of the composite analysis of the RK National Chamber of Entrepreneurs “Atameken⁴”) assessed the contribution to the GDP growth of six basic sectors of the economy. So, the positive growth of GDP in 2016 was provided by 1) construction (0,5 pp); 2) transport (0,3 pp) and 3) agriculture (0,3 pp.).

But the largest negative contribution to GDP growth (-0,3 percentage points) was shown just by the extractive industry sector (as well as in the minus zone, the communication sector (for the first time since 1998 it decreased by 2%) and trade (for the first time since the post- In 2009, the prices of enterprises producing industrial products grew 15,5% year-on-year, which was largely due to a 15,0% rise in prices for crude oil production, Metallic ores – 16,3%, refined products – 25,3% and food production – 13,2% According to the analysis of the National Chamber of Entrepreneurs, for the second consecutive year the industrial sector of the economy shows a negative result, mainly due to a decrease in oil production by 1,8%.

According to the Committee on Statistics of the RK⁵, the volume of mining products and quarrying in 2016 amounted to 49,4% of the total volume of industrial production (of which 77,6% is crude oil production and 10,5% mining of metal ores). For comparison, in 2015 the volume was 50,4%, in 2014 – 59,7%, and in 2013 – 59,9% (for detailed information in absolute terms, see www.stat.gov.kz Dynamics of the main socio-economic indicators - Dynamics of the RK 1991-2016).

³https://www.oecd.org/dev/MDCR_Phase-I_Brochure_RUS_web.pdf

⁴<https://www.pharm.reviews/analitika/item/1846-respublika-kazakhstan-makroekonomicheskij-obzor-za-2016-god>

⁵<http://stat.gov.kz>

http://www.stat.gov.kz/faces/wcnav_externalId/homeDinamika.pokazateli?_afzLoop=8862892648058936#%40%3F_afzLoop%3D8862892648058936%26_adf.ctrl-state%3Dylkph3js_50

Table 2. Volumes and indices of industrial production by type of activity

Name	Output in current prices, mln.KZT	The index of industrial production in 2016 inn% to 2015.
Whole industry	19 026 781	98,9
Mining industry and quarrying	9 397 619	97,3
coal and lignite mining	232 703	95,4
crude oil mining	7 293 085	98,2
natural gas mining	116 844	104,8
mining of metal ores	989 193	104,1
iron ore mining	194 828	87,5
mining of non-ferrous metal ores	794 365	107,8
other branches of the mining industry	175 694	98,4
technical services in the field of mining industry	590 100	77,3

Committee on Statistics of the RK, 2016

In the mining and quarrying industry, the index of industrial production in 2016 compared with 2015 amounted to 97,3% due to decrease in the production of crude oil, coal and iron ore. According to the NB RK, for January-December 2016, decreased oil production (by 1,8%), coal and lignite (by 4,9%), iron ore (by 12,9%). At the same time, volumes of natural gas production (by 4,8%) and non-ferrous metal ores (by 7,8%).

Decrease in production volumes was observed in Almaty, West Kazakhstan, Kostanay, Kyzylorda and Mangystau oblasts. The increase was recorded in the remaining 11 regions of the republic.

The production of copper concentrates has increased in the Karaganda oblast, the production of non-alloy steel, flat steel, coke and refined gold has increased (105,1%).

In the East Kazakhstan oblast, extraction of copper ore, lead concentrates increased, production of refined gold and refined copper increased (105,0%).

In the South Kazakhstan oblast, mining of uranium and thorium ores has increased, production of gasoline, Portland cement, drugs and structures from ferrous metals and aluminum has increased (104,4%).

In Akmola oblast, the extraction of gold-bearing ores has increased, production of raw gold, gold in Dore alloy, ready-mixed concrete and flour increased (104,3%).

In Zhambyl oblast, extraction of phosphate raw materials increased, production of sugar, diesel fuel, portland cement and phosphate fertilizers increased (102,4%).

In Atyrau oblast, due to the increase in crude oil production, the industrial production index was 102,2%.

In Pavlodar oblast, the extraction of copper ore and concentrates has increased, the production of ferrochrome and untreated aluminum has increased (101,4%).

In Aktobe oblast, chrome ore extraction increased, ferrochromium, chrome salts and liquefied propane and butane production increased (100,2%).

In the West Kazakhstan oblast, mainly due to a reduction in gas condensate production, the industrial production index was 98,9%.

In Kostanay oblast, the production of iron ore decreased, the production of passenger cars decreased (98,8%).

In Mangystau and Kyzylorda oblasts, due to the reduction in crude oil production, industrial production indices were 96,9% and 90,7%, respectively.

Committee on Statistics of the RK, 2016

EXPORT

According to the Department of the consolidated analysis of the RK National Chamber of Entrepreneurs Atameken⁶, Kazakhstan's foreign trade activity continues to decline for the third consecutive year. Exports of goods following the results of 11 months of 2016 decreased by 22,2% compared to the same period last year, and to the level of 2010 decreased already more than 2 times. The decrease in exports is due to a 36% decrease in the export of oil and gas condensate (59% of official exports) to 19 billion USD. (30 billion USD for the 11 months of 2015), mainly due to lower contract prices.

The decrease in exports was due to a reduction in the supply of the following goods (data of KazakhInvest⁷): crude oil by 24,5% (from 2,3 to 19,4 billion USD), petroleum gas by 27,1% (from 2,4 to 1.7 billion USD), uranium by 24,5% (from 2,3 to 1.8 billion USD), oil products by 41,3% (from 1,4 to 0,8 billion USD), gold by 93,3% (from 211,8 to 14,2 million USD), sulfur by 53% (from 328,2 to 154,3 million USD), coal by 31,2% (from 438,9 to 302 million USD).

Over the past 25 years, the structure of exports and imports has undergone significant changes. In 1995, the structure of exported goods (the first three) looked as follows: mineral products - 37%, non-precious metals - 31% and products of vegetable origin - 9%. Today, mineral products occupy 80%, metals – 8,5% and products of the chemical industry - 4% (according to the analysis of the National Chamber of Entrepreneurs). However, the share of mineral products in total exports has remained virtually unchanged since 2005, despite a decline in exports. According to the review of the economy of the National Bank of the RK⁸, the share of exports of mineral products in exports in 2016 was 65%.

Kazakhstan, the leading exporter of extractive industries (primarily due to oil), is ahead of all CIS countries in terms of average per capita exports. However, per capita exports of manufacturing products in the Republic of Kazakhstan are twice lower than in Russia (KIDI).

Information on exports with the countries of the EAEU in the context of “product-country”, “country-goods” - on the website of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan www.stat.gov.kz /Official statistical information / Section “Foreign and Mutual Trade”.

Information on export and import of manufactured goods from other countries is on the website of the State Revenue Committee of the Ministry of Finance www.kgd.gov.kz / Services / Statistics / Foreign trade statistics of the Republic of Kazakhstan.

In 2016, exports amounted to USD 22 793 229 thousand (22,8 bln) and comprised (see Table 3):

- crude oil 62,278 million tons worth 19,378 billion USD. The main countries are Italy, Switzerland, the Netherlands.
- Natural gas amounted to 21,6 billion m³ in the amount of 1,283 billion USD. The main countries are Russia, Ukraine, Switzerland.
- gas condensate - 1,204 million tons worth 316,9 million USD - to the Netherlands, Latvia and Finland
- iron ore - 8 285 thousand tons worth 386,7 million USD - mainly to Russia.

⁶ <https://www.pharm.reviews/images/novosty/macro-2017.pdf>

⁷ <https://business.gov.kz/ru/export-import/exports/экспорт.pdf>

⁸ http://www.nationalbank.kz/cont/%D0%9A%D1%80%D0%B0%D1%82%D0%BA%D0%B8%D0%B9%20%D0%BE%D0%B1%D0%B7%D0%BE%D1%80%2012_2016.pdf

Table 3. Export of certain goods to the Republic of Kazakhstan

CN of FEA EAEU code	Name	Unit of measure	2016		2015		2016 in % 2015	
			January - December		January - December		January -December	
			Quantity	thousand USD	Quantity	thousand USD	Quant ity	thousand USD
1	2	3	4	5	6	7	8	9
2601	Iron ores and concentrates, including burnt pyrite	thousa nd tons	8 284,9	386 711,4	8 460,8	404 729,0	97,9	95,5
	CIS countries		7 028,8	345 508,9	8 033,2	374 957,4	87,5	92,1
	Russia		7 021,5	345 188,8	8 016,7	374 188,2	87,6	92,3
	Kyrgyzstan		7,3	320,0	13,8	622,3	53,1	51,4
	Tajikistan				2,7	147,0		
	Rest of the world		1 256,1	41 202,5	427,7	29 771,5	2,9p.	138,4
	China		1 256,1	41 200,0	427,7	29 771,1	2,9p.	138,4
	Germany		0,0	2,5				
	France				0,0	0,2		
	Poland				0,0	0,3		
2602	Ores and concentrates of manganese, incl. Iron manganese ores and concentrates with a manganese content of 20 wt. % or more in terms of dry product	tons	217 401,0	20 869,2	1 80 258,0	20 091,1	120,6	103,9
	CIS countries		175 443,0	15 101,9	167 913,0	19 447,2	104,5	77,7
	Russia		175 443,0	15 101,9	167 502,2	19 182,2	104,7	78,7
	Uzbekistan				410,8	265,0		
	Rest of the world		41 958,0	5 767,2	12 345,0	643,9	3,4p.	
	China		41 958,0	5 767,2	12 345,0	643,9	3,4p.	
2608	Zinc ores and concentrates	tons	337 843,0	175 951,8	321 511,3	157 384,1	105,1	111,8
	CIS countries		283 771,6	148 555,9	267 009,5	134 438,8	106,3	110,5
	Russia		172 439,1	93 685,9	182 463,5	94 790,3	94,5	98,8
	Uzbekistan		111 332,5	54 870,0	84 546,1	39 648,6	131,7	138,4
	Rest of the world		54 071,4	27 395,9	54 501,7	22 945,2	99,2	119,4
	China		54 071,4	27 395,9	54 501,7	22 945,2	99,2	119,4
2610	Chromium Ores and Concentrates	tons	782 124,3	116 476,9	924 133,4	146 600,0	84,6	79,5
	CIS countries		740 908,0	105 401,6	916 102,2	144 669,1	80,9	72,9
	Russia		740 569,9	105 279,8	915 626,9	144 508,7	80,9	72,9
	Ukraine		338,1	121,8	475,3	160,4	71,1	76,0
	Rest of the world		41 216,3	11 075,2	8 031,3	1 931,0	5,1p.	5,7p.
	China		41 216,2	11 075,2	8 031,3	1 931,0	5,1p.	5,7p.
	United States of America		0,0	0,1				
2701	Coal stone; Briquettes, pellets and similar solid fuels obtained from coal	thousa nd tons	23 854,3	301 984,4	27 999,2	438 887,6	85,2	68,8
	CIS countries		21 105,6	249 475,2	23 893,9	358 969,3	88,3	69,5
	Belarus		219,2	2 543,6	26,8	308,0		
	Kyrgyzstan		967,6	17 828,3	1 524,8	40 299,0	63,5	44,2
	Russia		19 284,6	174 741,1	21 550,5	249 646,8	89,5	70,0
	Republic of Moldova		2,4	47,6	0,2	16,1		3,0p.

CN of FEA EAEU code	Name	Unit of measure	2016		2015		2016 in % 2015	
			January - December		January - December		January -December	
			Quantity	thousand USD	Quantity	thousand USD	Quant ity	thousand USD
	Ukraine		591,5	53 346,6	771,1	67 999,3	76,7	78,5
	Uzbekistan		39,9	961,0	20,5	700,1	195,0	137,3
	Tajikistan		0,4	7,1				
	Rest of the world		2 748,7	52 509,2	4 105,3	79 918,3	67,0	65,7
	Cyprus		38,2	1 363,8				
	Finland		2 062,2	31 591,4	3 280,3	61 965,9	62,9	51,0
	Poland		5,1	228,1	0,8	41,4	6,5p.	5,5p.
	Switzerland		296,1	11 455,5				
	China		28,5	1 341,3	2,1	121,8		
	Turkey		10,8	476,2				
	Bulgaria		3,6	157,8				
	United Kingdom		236,0	4 712,2	292,2	7 038,2	80,8	67,0
	Japan		68,1	1 182,9	465,2	9 067,5		
	Germany				0,0	0,0		
	Ireland				19,3	722,9		
	Italy				20,5	491,3		
	Romania				24,8	469,2		
2709	Crude crude oil and crude petroleum products derived from bituminous minerals	thousa nd tons	62 278,6	19 378 014,1	63 581,7	26 773 012,9	98,0	72,4
	CIS countries		1 060,0	335 859,1	2 673,7	767 258,2	39,6	43,8
	Russia		214,5	56 078,4	2 305,1	610 862,2		
	Ukraine		609,0	210 101,2	331,4	132 454,7	183,8	158,6
	Azerbaijan		99,7	18 292,1				
	Uzbekistan		136,8	51 387,4	36,5	23 622,4	3,7p.	2,2p.
	Belarus				0,7	318,9		
	Rest of the world		61 218,6	19 042 154,9	60 908,0	26 005 754,8	100,5	73,2
	Bulgaria		80,1	25 772,7	29,2	9 673,6	2,7p.	2,7p.
	Spain		2 937,8	914 124,3	2 513,4	1 084 234,3	116,9	84,3
	Finland		594,9	163 882,4	407,0	172 981,1	146,2	94,7
	France		5 000,0	1 576 244,2	5 551,6	2 418 079,7	90,1	65,2
	Greece		2 594,7	791 207,2	2 721,3	1 259 574,6	95,3	62,8
	Italy		21 716,2	7 299 325,1	17 883,8	7 892 581,4	121,4	92,5
	Lithuania		671,1	186 712,0	66,0	26 379,0		
	Netherlands		7 850,6	2 376 480,0	8 867,2	3 734 938,6	88,5	63,6
	Romania		2 406,0	693 067,8	3 074,1	1 298 519,2	78,3	53,4
	Sweden		359,8	106 832,9	442,6	157 902,8	81,3	67,7
	Switzerland		8 402,5	2 310 895,4	5 955,3	2 348 131,2	141,1	98,4
	China		3 240,9	876 511,9	5 097,9	2 048 072,1	63,6	42,8
	Japan		678,8	210 431,3	809,7	351 624,0	83,8	59,8
	Singapore		200,1	52 052,5	286,2	119 866,1	69,9	43,4
	Turkey		535,2	175 816,1	695,4	333 892,6	77,0	52,7
	Canada		399,1	153 910,7	178,5	79 125,6	2,2p.	194,5
	Austria		146,6	44 893,8	999,6	415 403,1		
	Germany		202,2	54 867,6	127,0	49 737,4	159,2	110,3
	Denmark		45,7	11 513,8	30,0	12 026,3	152,2	95,7
	Croatia		38,7	11 311,3	301,9	134 738,4		
	Republic of Latvia		189,9	39 440,8	154,5	57 649,7	122,9	68,4
	Malta		125,2	48 451,9	228,0	99 268,0	54,9	48,8
	Poland		247,1	75 307,9	366,8	127 637,9	67,4	59,0
	Portugal		1 122,5	355 321,2	1 456,3	641 855,5	77,1	55,4
	Afghanistan		2,0	771,7				
	Israel		659,6	212 138,4	495,1	189 564,3	133,2	111,9

CN of FEA EAEU code	Name	Unit of measure	2016		2015		2016 in % 2015	
			January - December		January - December		January -December	
			Quantity	thousand USD	Quantity	thousand USD	Quant ity	thousand USD
	India		500,7	181 261,7	407,6	174 557,0	122,8	103,8
	The Republic of Korea		270,6	93 608,5	1 512,3	667 620,2		
	Belgium				6,0	2 390,5		
	Estonia				12,5	3 560,0		
	United Kingdom				168,7	67 983,7		
	Georgia				10,0	4 493,4		
	Indonesia				29,0	13 986,5		
	United States of America				18,7	6 085,1		
	Australia				5,0	1 622,2		
270900 1001, 270900 1009	Natural gas condensate	tons	1 204 243,3	316 892,8	1 201 451,8	470 765,7	100,2	67,3
	CIS countries		64 695,1	12 286,3	67 104,9	14 610,6	96,4	84,1
	Russia		64 695,1	12 286,3	66 417,6	14 291,8	97,4	86,0
	Belarus				687,3	318,9		
	Rest of the world		1 139 548,2	304 606,5	1 134 346,8	456 155,1	100,5	66,8
	Finland		179 127,3	40 101,8	187 161,6	76 679,6	95,7	52,3
	Italy		286 483,7	100 139,7	168 938,8	74 101,4	169,6	135,1
	Lithuania		59 740,2	16 945,3				
	Netherlands		255 482,6	56 258,2	353 516,7	129 014,4	72,3	43,6
	Germany		135 648,7	38 466,1	121 987,8	47 824,8	111,2	80,4
	Republic of Latvia		189 851,8	39 440,8	152 173,8	56 508,9	124,8	69,8
	Malta		31 223,3	12 482,9				
	Afghanistan		1 990,6	771,7				
	Indonesia				29 013,4	13 986,5		
	The Republic of Korea				30 898,4	15 986,8		
	Singapore				90 656,2	42 052,6		
2710	Oil and oil products obtained from bituminous rocks, other than crude; products, not elsewhere specified or included, containing 70% by weight or more of petroleum or petroleum products derived from bituminous rocks	thousa nd tons	3 733,8	812 642,2	4 913,3	1 383 877,6	76,0	58,7
	CIS countries		444,4	104 152,5	250,4	84 631,0	177,5	123,1
	Belarus		2,2	1 505,8	5,2	3 969,6	43,2	37,9
	Kyrgyzstan		109,8	25 317,5	80,5	28 841,3	136,5	87,8
	Russia		72,1	25 790,9	49,8	27 634,6	145,0	93,3
	Tajikistan		7,0	907,9	6,5	1 261,7	107,5	72,0
	Ukraine		107,0	28 590,2	10,8	3 241,2		
	Azerbaijan		146,3	22 040,1	97,6	19 670,8	149,8	112,0
	Turkmenistan				0,0	9,9		
	Uzbekistan				0,0	2,0		
	Rest of the world		3 289,4	708 489,7	4 662,9	1 299 246,6	70,5	54,5
	Italy		89,5	19 988,8	547,8	158 973,7		

CN of FEA EAEU code	Name	Unit of measure	2016		2015		2016 in % 2015	
			January - December		January - December		January -December	
			Quantity	thousand USD	Quantity	thousand USD	Quant ity	thousand USD
	Lithuania		1,0	414,6	25,1	8 264,9		
	Malta		21,6	5 153,5				
	Netherlands		2 943,4	636 436,3	3 745,8	1 025 028,9	78,6	62,1
	Georgia		52,6	10 000,8	18,3	4 970,6	2,9p.	2,0p.
	Singapore		6,2	1 895,0				
	Cyprus		20,7	4 871,6				
	Germany		0,6	81,8	11,3	4 968,7		
	Denmark		4,4	1 095,5	7,5	2 889,3	58,5	37,9
	Estonia		1,6	172,7	12,1	2 955,4		
	Finland		105,9	17 330,9	158,9	47 632,8	66,6	36,4
	France		2,7	682,0				
	United Kingdom		0,0	0,5	30,3	10 053,7		
	Republic of Latvia		5,6	864,5	27,3	11 575,9	20,4	
	Romania		4,0	958,7				
	Gibraltar (Brit.)		2,0	661,1				
	Afghanistan		0,5	105,4				
	Israel		6,3	1 872,2				
	Turkey		8,5	2 093,8				
	Argentina		1,0	309,2				
	United States of America		4,8	1 454,2	0,0	0,3		
	Egypt		0,7	220,9				
	Ghana		2,9	878,9				
	Tunisia		2,9	946,7				
	Norway				0,0	1,0		
	China				34,7	9 731,3		
	Canada				43,8	12 199,9		
271121 0000	Natural gas	ml. m3	21 621,8	1 283 687,0	21 513,9	1 745 528,8	100,5	73,5
	CIS countries		14 800,2	624 529,6	14 680,6	1 010 447,7	100,8	61,8
	Russia		8 934,3	120 223,6	8 799,4	166 601,8	101,5	72,2
	Ukraine		5 865,9	504 306,1	5 744,6	813 232,4	102,1	62,0
	Kyrgyzstan				136,7	30 613,5		
	Rest of the world		6 821,6	659 157,4	6 833,3	735 081,1	99,8	89,7
	Switzerland		3 991,8	312 045,1	3 235,4	255 029,5	123,4	122,4
	China		459,2	72 438,8	603,1	49 437,7	76,1	146,5
	Poland		2 370,6	274 673,5	2 950,4	420 246,2	80,3	65,4
	Germany				44,3	10 367,7		

Statistics Committee ME RK

INVESTMENTS

According to the Committee of Geology and Subsoil Use of the MID RK for the period 2000-2016, about 262 billion USD was invested in the mineral resources sector, including about 189 billion USD (72%) directed to the development of hydrocarbon deposits (hydrocarbon raw materials) and 68,5 billion USD (26%) for subsoil use of solid minerals (GE). During this time, the total volume of investments increased 3,5 times - last year it amounted to about 14 billion USD. At the same time, 464 million USD (3% of all investments) was allocated for geological exploration (geological exploration). It is expected that by the end of 2017 these figures will reach 15 billion USD and 694 million USD, respectively.

If we talk about the structure of investment by types of minerals, in 2016 the oil and gas industry continued to lead. It accounted for 9,4 billion USD (68% of the total volume of investments in the mineral resource complex in 2016). It is followed by the mining sector - 4,2 billion USD (31%), common mineral resources (AM) 123 million USD, or 1%, and groundwater (GW) - 33,6 million USD, or 0.2%.

In the mining sector, the priority areas for investing are the following: uranium mining - 869,4 millionUSD, copper - 781,1 millionUSD, Polymetal - 642,5 millionUSD, Coal - 572,9 millionUSD, Gold - 569 million USD, chromites - 167,9 millionUSD, iron, manganese - 406,6 million USD. It should be noted that investments in geological exploration in 2016 amounted to 2,2% of the total investment in the subsoil use of SCM.

EMPLOYMENT

According to the Committee on Statistics RK, in 2016 the employed population was 8 553.4 thousand people, including 277.6 thousand people in the mining industry and quarrying, which is 3.2% of the employed population.

INFORMAL SECTOR

According to the EITI Report of 2015, “The Statistics Committee does not estimate the activities of the informal sector, it is not possible to make such estimates in the framework of this report”. At the same time, in 2016 the topic of prospecting activities⁹ was actively discussed at the industry sites. Individual diligence in Kazakhstan has traditionally been sufficiently developed, and for many localities in Kazakhstan it is practically the only means for generating income and employment of the population. According to the NCE, the prospecting activity has a good potential for the development of self-employment of people in the regions. At the same time, the unclarified mining of mines in Kazakhstan involves certain risks. There is also a confusion of concepts - the so-called “black miners” and conscientious prospectors. The NCE noted: “These are nuances that do not relate to diligent prospecting, to legal business, including in Western Australia, when you can obtain a license in a simplified manner and for a certain period of time to carry out the production in accessible and authorized ways placer gold,” explained E. Bolgert at the Forum Minex Central Asia -2016.

Last year (at that time the director of the department of subsoil use of the Ministry of Investment and Development) Timur Toktabayev also said that in some countries of the world the level of individual mining operations can reach 30%, since this activity is beneficial to the state. In contrast, Toktabayev cited the situation in Kazakhstan as an example, which, in fact, is problematic: the miners are working illegally: “For example, all the loose deposits in the rivers are in our possession, and according to the Water Code, we have a sanitary zone of 150 meters, that is, they miners) all work illegally.

⁹<https://www.kursiv.kz/news/industry/budet-li-v-kazahstane-legalizovana-staratelskaa-dobyca/>

This issue is not worked out at all. The Water Code has the highest legal force in relation to us in this part. Therefore, the problem - they can not pass the AIE, they can not get a contract, etc., they are completely outlawed, and black mining is carried out everywhere”.

It is planned that this issue should be resolved in the framework of the new Code “On Subsoil and Subsoil Use”, where it is necessary to include norms regulating the prospecting activity in the area of marketing raw materials with precious metals. The Code “On Subsoil and Subsoil Use” provides that the diligence will be carried out on the basis of an unlimited license for the entire territory of the country issued by the competent authority. The work carried out with the use of mechanization and other equipment can be carried out only at the site of exceptional diligence, which is drawn up by an application to a prospecting license (a site for prospecting). According to one license for prospecting, only one site of exploration with an area of no more than 30 hectares can be issued. (More details: <http://atameken.kz>).

GROSS DOMESTIC PRODUCT (GDP)¹⁰

Historical reference: During the years of independence, GDP in real terms increased 2,2 times. The main contribution to GDP growth was provided by mining, construction, trade, financial sector and communications. GDP per capita increased from 696 USD in 1993 to the peak of 2013 - 13891 USD.

Due to a slowdown in economic growth and a reduction in the cost of the KZT, GDP per capita in 2016 amounted to 7 510 dollars USD¹¹.

In absolute terms - in 2016 according to the Statistics Committee MNE RK¹² GDP (production method) was 46 193 380,6 million KZT (135 005,2 million USD).

Thus, the share of the mining industry in absolute terms is 9 397 619 million KZT, or about 20% of GDP.

INCOME

In the structure of the revenue side of the budget, the growth of tax revenues by 23,3% compared with last year, non-tax revenues – 64,3% and growth in transfers from transfers to 16,3%%.

The share of tax revenues in total revenue in 2016 is 64,7%, transfers – 30,7% (in 2015, 64.0% and 32,2% respectively). Growth in 2016 was noted for all types of taxes. Income taxes (CIT, IIT) increased by 16,8%, social tax by 14%, property taxes by 2,5%, VAT by 58,4% and excises by 27,4%. The main reason for the high tax increase at relatively low business activity in 2016 is called exchange rate difference, as well as tougher administration of taxes.

However, the increase in the rate of ECD (export customs duty) for oil (by 13,1%), as well as the increase in prices for metals (by 5,2%), as well as revenues for the use of natural resources played an important role in the revenue side of the budget.

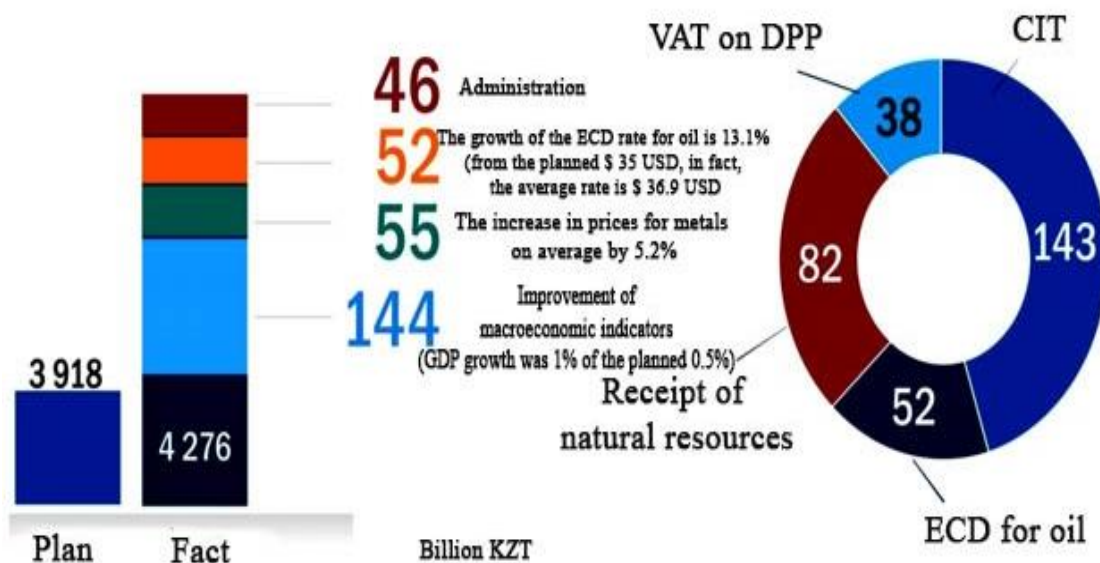
¹⁰ <https://www.pharm.reviews/images/novosty/macro-2017.pdf>

Department of summary analysis of NCE RK Atameken

¹¹ <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=KZ>

¹² http://stat.gov.kz/faces/wcnav_externalId/homeNumbersIndustry?_afzLoop=4525286391226659#%40%3F_afzLoop%3D4525286391226659%26_adf.ctrl-state%3D4id2p4y2k_50

Figure 1. Main factors of tax revenue growth



Source of MF RK ¹³

According to the calculations of the World Bank (World Bank report on the economy of Kazakhstan, Spring edition 2017¹⁴), in 2016, oil revenues amounted to 4,9% of GDP (for comparison, in 2014, they amounted to 10,4% of GDP, falling sharply in 2015 to 4,7% of GDP due to falling oil prices).

¹³<http://www.minfin.gov.kz/irj/go/km/docs/documents/%D0%9A%D0%BE%D0%BD%D1%82%D0%B5%D0%BD%D1%82%202017/%D0%98%D1%8E%D0%BD%D1%8C%2c%202017/19.06.2017/%D0%9F%D1%80%D0%B5%D0%B7%D0%B5%D0%BD%D1%82%D0%B0%D1%86%D0%B8%D1%8F1.pdf>

¹⁴<http://documents.vsemirnyjbank.org/curated/ru/615401494600364505/pdf/114856-RUSSIAN-PUBLIC-12-5-2017-15-25-4-KAZ0-ICEUfinalrus.pdf>

Table 4. Accounts of the consolidated budget (state budget and National Fund), 2013-2016

	2013	2014	2015	2016 assessment
Revenues and grants	24,1	21,9	15,7	17,4
Oil revenues total	11,9	10,4	4,7	4,9
Oil revenues consumed from the Nat. Fund	6,2	7,6	10,2	8,5
Oil revenues saved in Nat. Fund, clean / 1	5,7	2,8	-5,5	-3,7
Oil revenues and grants				
Expenses and net lending	12,2	11,5	10,9	12,6
Total government expenditure	20,4	21,9	23,5	22,7
Recurrent costs	19,7	21,2	20,9	22,0
Capital expenditures and net lending	15,1	15,4	16,6	17,6
Transfers of SQPS	4,0	4,3	3,4	3,4
Extrabudgetary loans to the SQPS	0,6	1,4	0,9	0,9
Total deficit	0,7	0,7	2,5	0,8
Non-oil deficit	3,7	0,0	-7,8	-5,3
Financing of non-oil deficit	-8,3	-10,4	-12,5	-10,2
External borrowing	8,3	10,4	12,5	10,2
Internal borrowing and privatization	0,2	1,2	2,4	1,6
Oil revenues consumed from the National Fund	1,9	1,6	-0,1	0,1
Reference articles:	6,2	7,6	10,2	8,5
Net financial governments, stock				
Currency assets of the National Fund	17,4	18,6	12,5	25,7
Government Debt	29,9	33,1	34,4	45,8
Net financial assets of the government, stock (billion, USD)	12,6	14,5	21,9	20,1
Currency assets of National Fund, fund (billion, USD)	41,4	41,7	37,1	33,6
Government debt (billion, USD)	70,8	73,2	63,4	61,2
	29,4	31,5	26,3	27,6

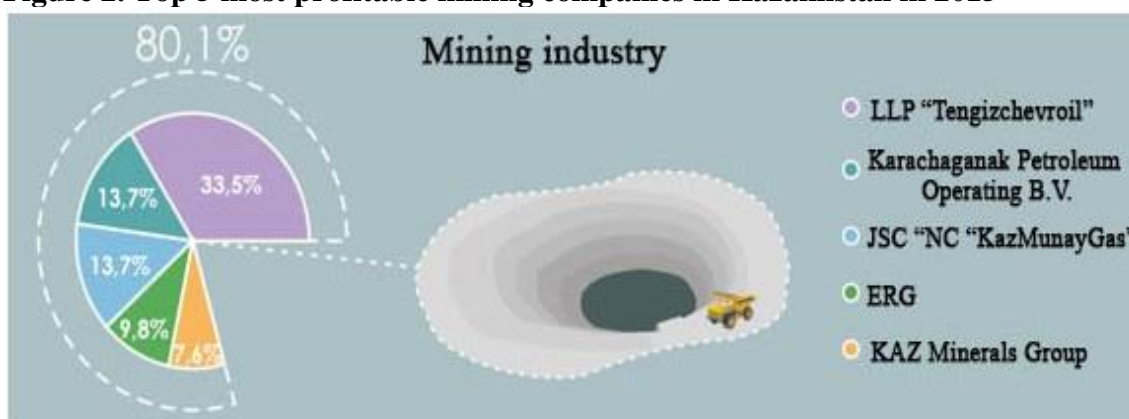
Source: Calculations of World Bank staff based on data published by the Ministry of Finance.

Note: Some sums of figures may be inaccurate due to rounding, (+) net savings, (-) net spending of oil revenues savings in previous years.

At the same time, according to the MF RK, direct taxes from the organization of the oil sector (excluding taxes credited to local budgets) credited to the National Fund of the Republic of Kazakhstan amounted to 1 138 billion KZT, plus other revenues from operations carried out by oil sector organizations excluding income credited to local budgets) –792 billion KZT.

80% of the revenues of the mining sector (according to the Atameken analysis) are provided by five companies: TCO, KPO, JSC “NC “KazMunayGas”, ERG, KAZ Minerals (see Figure 2).

Figure 2. Top 5 most profitable mining companies in Kazakhstan in 2015



Thus, in 2016, the total revenues of the state budget amounted to 7, billion KZT, the total proceeds from the oil and gas sector to the state budget from the extractive sector amounted to 2 613 billion KZT (34%), and specifically from oil and gas –2 130 billion KZT (28 %). All tax and non-tax revenues are distributed as follows: 60% in the RB, 24% in the LB, and 15% in the NF.

Table 5. Information on the amount of revenues to the consolidated budget (SB+NF) for 2016.

	Number of payers	Total for the RK (SB+NF)	including:			
			SB (RB+LB)	RB	LB	NF
TOTAL for the RK		7 529 418 619	6 391 493 707	4 572 412 339	1 819 081 368	1 137 924 913
Tax revenues		7 153 322 190	6 023 265 067	4 275 886 481	1 747 378 586	1 130 057 123
Non-tax revenues		376 096 430	368 228 640	296 525 858	71 702 782	7 867 790
<i>including:</i>						
Total receipts from the oil and gas sector (HC) for the RK	178	2 130 407 006	992 538 402	792 369 387	200 169 015	1 137 868 603
<i>of which the sum of receipts according to the list for reconciling HC</i>	69	2 114 539 661	985 735 287	791 918 864	193 816 423	1 128 804 374
<i>share of total revenues from HC (%)</i>		99,26	99,31	99,94	96,83	99,20
Total receipts from the mining sector (SCM) for the RK	368	482 547 570	482 547 524	370 654 695	111 892 829	46
<i>of which the sum of receipts according to the list for reconciling SCM</i>	90	481 676 293	481 676 247	370 339 733	111 336 514	46
<i>share of total revenues from o SCM (%)</i>		99,82	99,82	99,92	99,50	100,00
Total for HC and SCM	546	2 612 954 575	1 475 085 926	1 163 024 082	312 061 844	1 137 868 649
<i>Total revenues from the list for reconciling the HC and SCM</i>	159	2 596 215 954	1 467 411 534	1 162 258 597	305 152 937	1 128 804 420
<i>share of total revenues for the RK(%)</i>	159	34,70	23,08	25,44	17,15	100,00

3.2 Extractive Industries ¹⁵: Key characteristics, regions, main players (3.1, 3.2, 3.3)

As noted above, the extractive industries in Kazakhstan include both the oil and gas and mining sectors.

Data of the Committee on Statistics of the Republic of Kazakhstan for **Mining** (comparison of 2015 and 2016) and in the context of production regions:

Table 6. Production volumes by types of minerals and by regions

2015	2016	Name
		Coal - total, thousand tons
107 318,2	103 059,0	The Republic of Kazakhstan
723,3	365,7	Akmola
-	-	Aktobe
27,0	29,1	Almaty
14,7	-	Zhambyl
36 320,1	34 624,0	Karaganda
-	-	Kostanay
-	-	Mangistau
-	-	South Kazakhstan
63 827,1	61 943,2	Pavlodar
6 406,0	6 097,0	East Kazakhstan
		Oil, including condensate gas, thousand tons
79 456,3	78 031,8	The Republic of Kazakhstan
6 814,1	6 202,9	Aktobe
32 390,3	33 680,7	Atyrau
12 748,2	12 347,0	West Kazakhstan
18,5	20,8	Zhambyl
8 974,2	7 669,3	Kyzylorda
18 510,1	18 110,2	Mangistau
0,9	0,9	East Kazakhstan
		Crude oil (natural mixture of hydrocarbons), including oil obtained from bituminous minerals, thousand tons
66 520,6	65 569,6	The Republic of Kazakhstan
6 451,8	5 904,0	Aktobe
32 390,3	33 680,7	Atyrau
232,9	246,0	West Kazakhstan

¹⁵Description of extractive industries with the inclusion of any significant exploration work in accordance with the EITI Requirement 3.1 (Exploration: Implementing countries should disclose an overview of extractive industries, including a description of any significant exploration work).

Data on volumes of production and exports in accordance with the EITI Requirement 3.2 and 3.3

3.2 Production. Implementing countries should disclose production data for the fiscal year covered by the EITI Report, including total production and product costs by product and, where appropriate, by state / region. This could include discussion of possible sources of data on volumes and costs of production, as well as information on how the volumes and production costs described in the EITI Report were calculated.

3.3 Export. Implementing countries should disclose the volume of production for the fiscal year covered by the EITI Report, including the volume and value of exports by type of product and, where appropriate, by state / region of origin. This could include a discussion of possible sources of data on the volume and value of exports, as well as information on how the volumes and export values described in the EITI Report were calculated.

2015	2016	Name
8 974,2	7 669,3	Kyzylorda
18 470,5	18 068,7	Mangistau
0,9	0,9	East Kazakhstan
		Condensate gas, thousand tons
12 935,7	12 462,2	The Republic of Kazakhstan
362,3	298,9	Aktobe
-	-	Atyrau
12 515,3	12 101,0	West Kazakhstan
18,5	20,8	Zhambyl
-	-	Kyzylorda
39,6	41,5	Mangistau
		Natural gas in liquid or gaseous state, mln.m³
45 506,5	46 676,5	The Republic of Kazakhstan
6 144,0	6 587,2	Aktobe
15 137,8	15 925,3	Atyrau
19 688,2	19 197,0	West Kazakhstan
298,0	327,0	Zhambyl
1 320,1	1 281,3	Kyzylorda
2 536,1	2 888,2	Mangistau
382,3	470,5	East Kazakhstan
		Natural gas (natural) in the gaseous state (commercial output), mln.m³
12 008,4	12 614,2	The Republic of Kazakhstan
191,7	121,5	Aktobe
22,4	13,6	Atyrau
9 792,4	10 000,2	West Kazakhstan
298,0	327,0	Zhambyl
-	-	Kyzylorda
1 321,6	1 681,4	Mangistau
382,3	470,5	East Kazakhstan
		Iron ores, agglomerated and non-agglomerated, thousand tonnes
17 111,0	16 357,8	The Republic of Kazakhstan
-	-	Akmola
-	204,0	Aktobe
2 525,8	4 571,8	Karaganda
14 585,2	11 582,0	Kostanay
		Iron ore pellets, thousand tons
3 283,6	3 387,0	The Republic of Kazakhstan
3 283,6	3 387,0	Kostanay
		Copper ores, thousand tonnes
42 420,1	78 496,1	The Republic of Kazakhstan
452,6	840,6	Akmola
3 618,7	3 883,6	Aktobe
621,8	653,8	Zhambyl
26 266,8	26 058,5	Karaganda
142,1	155,8	Kostanay
7 492,4	28 567,4	Pavlodar
3 825,7	18 336,4	East Kazakhstan

2015	2016	Name
		Aluminum ores (bauxites), thousand tons
4 682,6	4 801,3	The Republic of Kazakhstan
4 682,6	4 801,3	Kostanay
		Lead in lead concentrate, thousand tons
40,7	70,5	The Republic of Kazakhstan
-	-	Almaty
21,9	47,3	Karaganda
-	-	South Kazakhstan
18,8	23,2	East Kazakhstan
		Zinc in zinc concentrate, thousand tons
342,5	324,8	The Republic of Kazakhstan
42,2	41,1	Aktobe
-	-	Almaty
36,8	36,7	Karaganda
-	-	South Kazakhstan
-	-	Pavlodar
263,5	247,0	East Kazakhstan
		Manganese ores, thousand tons
1 625,7	1 600,7	The Republic of Kazakhstan
1 625,7	1 600,7	Karaganda
-	-	East Kazakhstan
		Chromium ore, thousand tons
5 382,8	5 542,9	The Republic of Kazakhstan
5 382,8	5 542,9	Aktobe

Committee on Statistics of the Republic of Kazakhstan, 2016 - Sector B Mining

Thus, in 2016 in Kazakhstan it was extracted:

- 78 million tons of oil and gas condensate (most in Atyrau, Mangistau and West Kazakhstan oblasts);
- 46 676 million cubic meters of natural gas (WKO and Atyrau oblast);
- iron ores and pellets, bauxites - in the Kostanay oblast;
- zinc - EKO;
- Copper ores - Pavlodar, Karaganda and East Kazakhstan oblasts;
- coal - Pavlodar and Karaganda oblasts.

Let us consider in more detail the oil and gas and mining sectors, basic metals and key fields / companies.

The main energy facilities in the oil and gas industry (for more details, see the website “KazEnergy”¹⁶):

- **Aktoti** – offshore oil field of Kazakhstan. It is located 200 km to the south-east from the city of Atyrau. It was opened on September 2, 2003. The operator of the deposit is Agip KCO. The deposit is part of the Kazakhstani North Caspian project. The geological reserves of the Kalamkas Sea are 269 million tons of oil.
- **Zhanazhol** – gas condensate field in the Mugalzhar district of the Aktobe oblast of Kazakhstan. It was opened in 1978. Hydrocarbon deposits are located at a depth of 1,9– 3,6 km. The rate of oil 2 to 281 tons / day. The gas flow rate is 219 thousand m³/day. The production center is the village of Zhanazhol. Zhanazhol is developing

¹⁶<http://www.kazenergy.com/ru/kazakhstan/oilgaz.html>

the Chinese oil company CNPC-“Aktobemunaigas”. Oil production in 2016 amounted to more than 2 million tons.

- **Zhetibay** – gas-condensate oil field in Mangistau oblast of Kazakhstan, on the Mangyshlak peninsula. It was opened in 1961. The development began in 1969. Deposit at a depth of 1,7– 2,4 km. The initial production rate of wells is 2 - 130 tons per day. Geological reserves of oil are 330 million tons, residual oil reserves are 68 million tons. Currently, the development of the field is being carried out by the Kazakh oil company JSC “Mangistaumunaigas” and its PO “Zhetibaymunaigas”. Oil production in 2016 amounted to 1,6 million tons.
- **Kairan** – offshore oil field of Kazakhstan. It is located to 150 km to the south-east from the city of Atyrau. It was opened on September 10, 2003. The operator of the deposit is AgipKCO. It is part of the Kazakhstan North Caspian project. Geological reserves of Kairan are 150 million tons of oil.
- **Kalamkas** – gas and oil field in Mangistau oblast of Kazakhstan, on Buzachi peninsula. It was opened in 1976. The development began in 1979. Deposit at a depth of 0,5-1,1 km. The initial oil rates are 26,4-62,1 m³/day. Geological reserves of oil - 500 million tons. At present, JSC “Mangistaumunaigas” is developing the deposit. Oil production in 2016 was 4,1 million tons.
- **Kalamkas North** – in the beginning of the 21st century, Kalamkas marine extension, Clarified as Kalamkas North was Clarified by new geophysical search methods. The productive deposits are located at a depth of 0,5 -1,4 km. The geological reserves of the Kalamkas North field are 500 million tons, the total geological reserves of oil are 1 000 million tons. The projected oil production should be from 3 to 15 million tons per year. The operator of the Kalamkas North field is the Kazakhstani oil company of JSC “KazMunayGas” EP”.
- **Karazhanbas** – gas and oil field in Mangistau oblast of Kazakhstan, on Buzachi peninsula. It was opened in 1974. Deposits at a depth of 228-466 m. Oil rates of 1,2-76,8 m³/day. Initial oil reserves are estimated at 70 million tons. The extraction center is the city of Aktau. Currently, the deposit is being developed by JSC “Karazhanbasmunai”. Shareholders of JSC “Karazhanbasmunai” are CITIC and JSC “KazMunayGas” EP”, 50% respectively. Oil production in 2016 was 2,1 million tons.
- **Karachaganak** (Karachaganak field) is an oil and gas condensate field in Kazakhstan, located in the West Kazakhstan oblast, near the city of Aksai. It was opened in 1979. Industrial development began in the mid-1980s by the Production enterprise “Orenburggasprom” of the USSR Ministry of Gas Industry. In 1989, the ministry was transformed into RJSC “Gasprom”. The initial reserves of the field were 1,35 trillion cubic meters of gas and 1,2 billion tons of oil and gas condensate.

Operators of deposits - after gaining independence, the government of Kazakhstan refused to cooperate with RJSC “Gasprom” and began to look for foreign partners to develop the field.

Currently, the field on the terms of the production sharing agreement is being developed by an international consortium comprising ¹⁷: “Eni” and “Shell” (through 100% affiliated company “BG Karachaganak Limited”) are joint operators of the Karachaganak field, and both companies have equal shares - by 29,25%. Chevron and Lukoil hold 18% and 13,5%, respectively. From July 1, 2012, the joint venture included NC “KazMunayGas”, whose share in the project is 10 percent. It is planned that KPO will manage the project until 2038.

- **Kashagan** – The supergiant oil and gas field of Kazakhstan, located in the north of the Caspian Sea. It was opened on June 30, 2000 by the Vostok-1 well. It is one of the largest deposits in the world, Clarified over the past 40 years, as well as the largest oil field at sea. East Kashagan was opened in the summer of 2000, Western Kashagan - in 2001, South-West Kashagan - in 2003.

The deposit is developed in complex geological conditions: the shelf zone, large depths (up to 5 500 m), high reservoir pressure (80 MPa), high content of hydrogen sulphide (up to 19%). Kashagan's oil reserves range from 1,5 to 10,5 billion tons. Of these, 1,1 to 8 billion tons fall to the Eastern, to 2,5 billion tons to the Western, and 150 million tons to the Southwest.

Geological reserves of Kashagan are estimated at 4,8 billion tons of oil according to Kazakhstan geologists. According to the operator of the project, the total oil reserves are 38 billion barrels or 6 billion tons, of which about 10 billion barrels are recoverable. In Kashagan there are large reserves of natural gas more than 1 trillion. m³.

The beginning of industrial production was repeatedly postponed, finally, in October 2016 the project was launched, and about 1 million tons of oil were produced in two months. According to Energy Minister Kanat Bozumbayev¹⁸, “This year it is planned to produce more than 5 million tons of oil and 3,1 billion cubic meters of gas.” Due to the size of the field and the technical complexities of the project, the development of Kashagan will be carried out in stages. Phase I, Clarified as the Pilot Development Planning Program or PDP, is currently carrying out construction work¹⁹.

Partner companies: In June 2015, the process of restructuring the operating model of the North Caspian Project was completed through the accession of NCOC B.V. and “NC Production Operations Company B.V” (NCPOC). As a result of the reorganization, NCOC N.V. became the universal successor of NCOC B.V. and NCPOC, assuming the responsibilities of the Project Operator for NCSPSA (the North Caspian Sea Production Sharing Agreement). The participants of the NCSPSA Consortium are simultaneously the shareholders of NCOC, while having the same shares as in the NCSPSA: JSC “NC “KazMunayGas” 16,88%, “Eni” Oil Company 16,81%, ExxonMobil Kazakhstan Inc. 16,81%, Branch of Shell Kazakhstan Development B.V.16,81%, Total E&P Kazakhstan 16,81%, CNPC 8,33%, Inpex North Caspian SEA, LTD 7,56%.

- **Korolevskoe** – the oil field is located in Atyrau oblast of Kazakhstan, 150 km southeast of the city of Atyrau and 20 km to the north-east of the oil giant - the Tengiz field. Exploratory and exploratory drilling was started in 1982, which became the year of the discovery of the deposit. It lies at a depth of 3952 m. The deposit is in the exploration for the salt deposits. The total geological reserves are 188 million tons of oil.

¹⁷<http://www.kpo.kz/ru/about-kpo/parent-companies.html>

¹⁸<https://kapital.kz/economic/60280/na-kashagane-planiruetsya-dobyty-svyshe-5-mln-tonn-nefti.html>

¹⁹<http://www.ncoc.kz/ru/kashagan/default.aspx>

- **Kumkol**—oil and gas field in the Kyzylorda oblast of Kazakhstan. Opened in February 1984. It is located in 150-170 km to the north of the city of Kyzylorda. Hydrocarbon deposits are located at a depth of 0,9 – 1,4 km. Initial production rate of wells is 20 - 130 t / day. Initial oil reserves - 280 million tons. The recoverable oil reserves in the Kumkol field are 130 million tons, gas - 15 billion cubic meters.

At the beginning of the 2000s, “Aryskum – Dzhusaly” oil pipeline (length of about 170 km) was constructed, delivering oil from the field to the bulk railway terminal near the village of Zhosaly. In October 2010, the construction of the motor road Kyzylorda-Kumkol, which lasted (with interruptions) since 1989, was completed.

Kumkol is being developed by two oil companies: in the north, JSC “Torgai Petroleum” (a joint company of “Lukoil Overseas Karachaganak B.V.” and “PetroKazakhstan Overseas Services Inc” Branch, 50% each) and in the south “PetroKazakhstan Kumkol Resources” (a joint company of JSC “NC “KazMunayGas” and a branch of “PetroKazakhstan Overseas Services Inc”, 33% and 67% respectively). Oil production in 2008 is 5,8 million tons.

Kumkol oil is transported via the Kumkol-Atasu-Alashankou oil pipeline to China and to the Shymkent oil refinery for the Kazakhstani market.

- **Kurmangazi** – Oil and gas condensate field in the Kazakhstan sector of the North Caspian shelf. The nearest town is 80 km away, this is the port of Bautino, Mangistau oblast. The main perspective horizons lie at depths from 300 to 1200 meters. The Triassic deposits lying at a depth of 1200-2000 meters are also of some interest. The depths of the sea within the Kurmangazy structure are on the average about 5 meters. Unlike the neighboring Kashagan field, Kurmangazy is over-salt. This will greatly facilitate the development of the block, since it does not require penetration through the salt layer.

The works on the construction of the first exploratory well on the contract territory were completed on June 11, 2016. After the analysis of all the obtained geological and geophysical data, prospecting works will be continued in fulfillment of the obligatory program of works envisaged by the Subsoil Use Contract, including drilling of the second exploratory well. Prospective geological resources of the structure are estimated by experts at 6,2 billion tons. Recoverable oil resources in the structure of Kurmangazy by Russian experts are estimated in volumes from 550 million to 1800 million tons. If the forthcoming exploration works confirm the forecasts of geologists, the second shelf after Kashagan will appear on the Kazakh shelf with the recoverable reserves of 1 billion tons of oil. According to unofficial data, logging showed the absence in the samples of even traces of residual oil reserves.

Project participants –The Agreement on production section (hereinafter - APS) No. 1787 for the Kurmangazy project was concluded on July 6, 2005. The Russian and Kazakh state oil and gas companies Rosneft and KazMunayGaz will develop this structure on an equal footing. The parties plan to invest 23 billion USD in the project. The total profit from its sale is expected at 50 billion USD. The project participants are JSC “MNC “KazMunayTeniz”- 50% (affiliated structure of JSC “NC “KazMunayGas”) and LLC “RN-exploration”- 50% (affiliated structure of Rosneft Oil Company). Implementation of oil operations under the project is entrusted to LLC “Kurmangazy Petroleum”Aktau (Mangistau oblast).

- **Nursultan, Block «N»** – oil and gas field of Kazakhstan, is located 75 km south of Aktau in the Caspian Sea. The area of the deposit is 8100 km². The name of the field is given by the name of the first president of Kazakhstan, Nursultan Nazarbayev. Nursultan consists of 2 parts: the main (western), the Shell sea (eastern). The depth of the sea within the field varies from 0 to 340 m.

The operator of the “N” project is JSC “NC “KazMunayGas” (51%). The other participants are the American oil company “ConocoPhillips” (24,5%) and the Arab state investment company “Mubadala Development Company” (24,5%). The oil reserves of the field vary widely from 1 to 6 billion tons of oil, and gas reserves - from 0,5 to 4 trillion. m³ of natural gas.

- **NorthBuzachi** – gas and oil field in Mangistau oblast of Kazakhstan, on Buzachi peninsula. It was opened in 1975. Deposits at a depth of 300-550 m. The initial oil rates are 3,4-48 m³ / day, the initial gas rates of 25 to 54 thousand m³ / day. The extraction center is the city of Aktau. The production of oil in 2008 amounted to 1,8 million tons. The recoverable reserves are estimated at approximately 50-80 million tons of oil, geological reserves - in 218 million tons of oil.

The deposit is being developed by the Buzachi Operating Ltd branch, which is a joint company (50/50) of Caspian Investments Resources Ltd (a subsidiary of LUKOIL Overseas Karachaganak B.V. and Mittal Investments) and Chinese oil company CNPC.

- **Tengiz** – a giant oil field in the Atyrau oblast of Kazakhstan, 160 km southeast of the city of Atyrau. It was opened in 1979. The extraction center is the village of Kulsary. Hydrocarbon deposits are located at a depth of 3,8 – 5,4 km. The initial gas factor is 487 m, the initial oil production rate is 500 m³ / day with a 10 mm nozzle.

In 1993, the Government of Kazakhstan established LLP JV “Tengizchevroil” jointly with Chevron to develop the Tengiz oil field. Today, the partners are: JSC “NC “KazMunayGas” (20%), Chevron Overseas (50%), ExxonMobil Kazakhstan Inc (25%) and LukArco (5%).

The total explored reserves of the Tengiz collector are 3,2 billion tons (25,5 billion barrels) and 200 million tons (1,6 billion barrels) in the Royal Field. The recoverable oil reserves of the Tengiz and Korolevsky deposits range from 890 million to 1,37 billion tons (7,1 to 10,9 billion barrels).

In 2016, produced 27,5 million tons of oil.

- **Uzen** – oil and gas field in Mangistau oblast of Kazakhstan, on the Mangyshlak peninsula. It was opened in 1961. Deposit at a depth of 0,9 – 2,4 km. The rate of oil is 10 - 81 tons / day. Gas flow rates from 8,0 to 230 thousand m³ / day. Oil reserves are 1,1 billion tons. The extraction center is the city of Zhanaozen.

The operator of the field is the Kazakh oil company “KMG” EP”. The production of oil in 2008 was 7 million barrels. The record level of oil production – 16,3 million tons was recorded in 1975, the minimum level – 2,7 million tons in 1994.

In 2016, produced 5,1 million tons of oil.

OIL

According to Energy Minister Kanat Bozumbayev:²⁰ “In 2016, a total production of 78 million tonnes was achieved with a plan of 75,5. In 2017, it is planned to produce more than 81 million tons.” The main increase in oil production will be provided by the fields of Tengiz, Karachaganak, Kashagan. At the same time, production volumes in medium and small fields are projected to decline from 36 million tons in 2016 to 33,2 million tons in 2020.

In early 2016, in view of the negative trends associated with the sharp drop in the price of oil, the state also took a number of measures²¹ to prevent the decline in oil production and the stabilization of the oil companies' work: the Ministry approved a floating rate of export customs duty, taking into account the world price for oil. Eleven companies received mineral extraction tax privileges, and the ME individually worked with enterprises on their most problematic issues (fines, deductions, permits, etc.). Thanks to this, companies exceeded plan by 2,5 million tons last year.

According to the Ministry of Energy of the Republic of Kazakhstan, it was extracted and processed at the OR RK in 2016:

Name of the information	Structural subdivision
Extraction and processing	The figures for 2016: The volume of oil production – 78,04 million tons The volume of oil processing – 14,48 million tons

For the first time in recent years, a trend was set to stabilize the level of oil production with a further increase. In 2017, it is planned to produce more than 81 million tons of oil.

As noted above, production volumes are expected to decline in medium and small fields. According to Minister K.Bozumbayev, “This issue acquires special significance in the light of the fact that medium and small fields are the main suppliers of oil to domestic markets. In geological exploration, there is an insufficient level of investment, which violates the necessary ratio between the volume of production and the increase in reserves.”

With a total increase in inventories over the past three years of 196 million tons, the gain from the revaluation was 126 million tons, and according to the results of exploration only 70 million tons or 36%.

OIL EXPORTS

The oil production plan was 75,5 million tons, the actual volume was 78 million tons. Over-fulfillment is also observed at the expense of production at Kashagan, where about 1 million tons of oil was received over the past year. The export of oil was increased to 62 million tons, of which 40 million tons was pumped by the Caspian Pipeline Consortium (CPC)²².

In 2017, the project is completed to increase the capacity of the CPC, which provides for an increase in capacity from 28 million tons to 67 million tons of oil per year.

²⁰<https://kapital.kz/economic/60280/na-kashagane-planiruetsya-dobyt-svyshe-5-mln-tonn-nefti.html>

²¹<http://energo.gov.kz/index.php?id=11029>

²²<http://energo.gov.kz/index.php?id=9737>

Including 52,5 million tons only for Kazakh oil. Thus, the predicted volume of oil exports in 2017 is about 65 million tons.

The oil produced at the Kashagan field will be exported via three pipelines²³: “Each contracting company is the shareholder of the project, independently chooses the route of the direction and the point of sale. At the moment, Kashagan’s oil is transported through the CPC and KazTransOil pipeline systems. The share of the Republic of Kazakhstan in the extracted oil is transported through the CPC system. Potential oil export routes to the west via the Atyrau-Novorossiysk pipeline (through the CPC), north along the Atyrau-Samara pipeline (access to the Russian Transneft system) and east along the Atyrau-Alashankou pipeline. Each shareholder is independently responsible for the transportation and marketing of its share of products, as well as for reporting and product sharing with the Government of the Republic of Kazakhstan in accordance with the APS,” the press service of the Ministry of Energy of the Republic of Kazakhstan.

One of the discussed topics is the export of Kashagan oil via the “Baku-Tbilisi-Ceyhan” pipeline. The experts attribute the possibility of exporting Kazakh oil via the Transcaucasian route to several conditions, in particular, “it depends, first of all, on the price of oil, and secondly, on the volume of production at this field. In reality, oil production in this field should be 12 million tons, so that at least 10 percent can be sent through the territory of Azerbaijan”²⁴.

As for the dynamics of oil prices for 2016 - consider the analysis data of the Kazakhstan industry development Institute KIDI (Monthly digest of JSC “KIDI” December 2016²⁵):

OIL PRICE DYNAMICS

The price of Brent²⁶ brand during 2016 was lower than in 2015, despite the fact that the monthly dynamics was generally positive. However, on September 28, OPEC member countries reached an agreement on limiting production at 32,5 million barrels. After that, commodity quotes began to grow. On November 30, 2016, the Organization of the Petroleum Exporting Countries (OPEC) announced a reduction in oil production by 1,2 million barrels per day, compared with production levels in October 2016. In addition, Russia and other countries that are not part of OPEC, on December 10, 2016, pledged to start gradually reducing production by 558 000 barrels per day. The change in OPEC's strategy has so far supported oil prices, but the key to the rise in oil prices will be the degree of compliance of the agreement with its participants. In mid-January 2017, OPEC announced that its members are still in compliance with the terms of the agreement. It should be noted that the production of shale oil should increase this year,

²³<http://energo.gov.kz/index.php?id=9550>

²⁴[L. Shabanov, Director of the for Oil Research Center \(Azerbaijan\)](#)

²⁵<http://kidi.gov.kz/docs/otchety/8252263.pdf>

²⁶In the world (Wikipedia) there are three main marker grade: Brent Blend, West Texas Intermediate (WTI) and Dubai Crude. Quotes for this sort of published quotation agencies set prices in the main regions:

-“Brent”, produced in the North sea for markets of Europe and Asia. Prices are about 70% of the exported varieties of oil, directly or indirectly, based on quotations.

-“WTI” (West Texas Intermediate), also known as “(Texas) Light Sweet” for the Western hemisphere (USA) and as a benchmark for other grades of oil.

-Grade marker Dubai Crude is widely used in the pricing of oil exported from the Persian Gulf countries in the Asia Pacific region.

-Quotations of basic grades of Kazakhstan oil can be found on <http://www.argus.ru/crude-oil/caspian-market/>. “Argus Caspian Market” – a weekly review of the market of oil and oil products of the countries of the Caspian sea and Central Asia. This edition contains quotations of basic grades of oil and oil products produced in the region, freight rates, export, as well as news and market analysis.

since the number of drilling rigs has been increasing since May 2016 - up to 529 as of January 6, 2017, from 316 as of May 27, 2016 (+ 67%). In addition, the efficiency and productivity of drilling rigs will also contribute to the growth of shale oil production.

Figure 3. Price per barrel of oil (Brent), USD

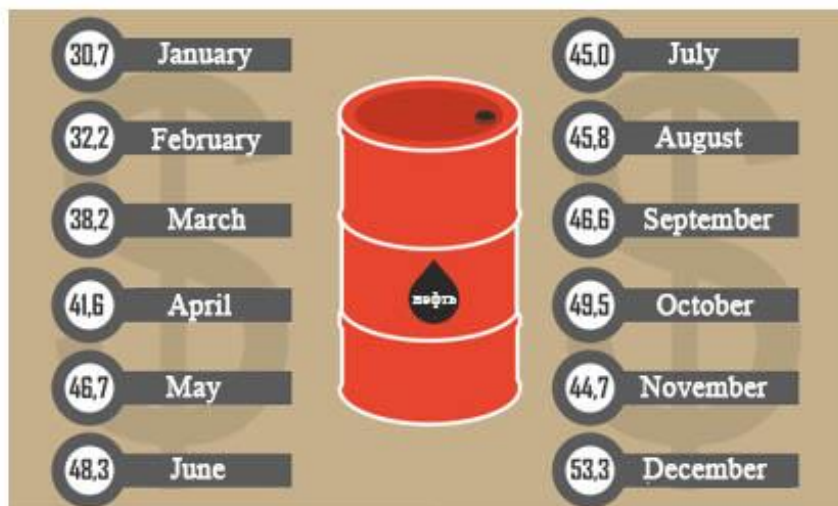
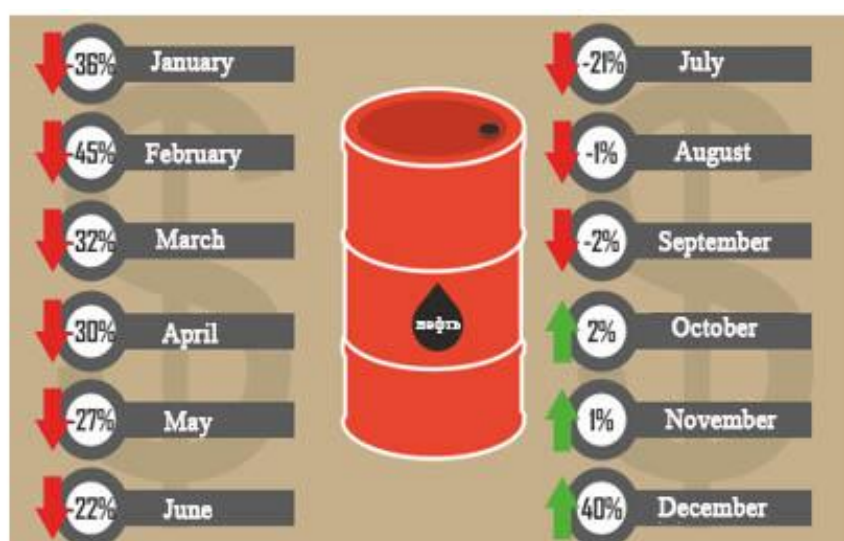


Figure 4. Changes in oil prices by the corresponding period of the previous year, %



Sources: USEnergyInformationAdministration

Forecasts for 2017 were published by JSC “NWF Samruk-Kazyna” (review of the oil market for 2017)²⁷. According to the fund's experts, the growth in the value of “black gold” is expected to be very restrained - up to 50-52 USD. For comparison: contracts on the world oil market are already at a mark of 55 USD, and according to analysts of the international agency Bloomberg, a barrel of Brent will trade on average 58 USD.

Thus, the domestic national company predicts a price for oil, which is quite seriously different from the forecasts of world experts. The NWF adheres to a conservative forecast, “firstly, because of the moderate level of demand for oil. Secondly, the excessive supply of oil in the market, which is still preserved. We do not expect a balance recovery until the middle of this year. Thirdly, the price dynamics also depends

²⁷<http://energo.gov.kz/index.php?id=9509>

on the actions of OPEC. If prices continue to rise, we expect that competition from oil shale producers will increase. In this regard, we maintain a conservative forecast. In the future, depending on the dynamics of the market, we can revise it”²⁸.

INITIATIVES AND REFORMS IN THE OIL AND GAS SECTOR

1) Key initiatives ²⁹:

- **expansion of capacities in Kashagan;**
- **project for the future expansion of “Tengiz-Chevroil”;**
- **production increase at Karachaganak;**
- **new project “Synergy”.**

In about one and a half years (500 days - from June 2017), the Ministry of Energy of Kazakhstan will implement initiatives that are expected to increase oil production to 107 million tons by 2025, and gas production to 77 billion cubic meters. The annual volume of oil refining will amount to about 17 million tons for the production of petroleum products of ecological standards K4 and K5³⁰. Let us consider these projects in more detail. The main event in 2016 in the oil sector was the long-awaited start of commercial production at Kashagan.

KASHAGAN³¹

September 28, 2016 test production of the Kashagan field began: three wells were Clarified on the island “A”, the connection of equipment on the island “D” was started. A month after the start of the test production, the first consignment of export oil was produced, which was produced as part of the commissioning work, amounting to about 7 700 tons to the CPC pipeline system. Also in the pipeline system of JSC “KazTransOil” was shipped a consignment of export oil in the amount of 18 800 tons, and to the trunk system of JSC “Intergas Central Asia” was sent almost 23 million m³ of commodity gas.

November 1, 2016 production at Kashagan reached a commercial level - more than 75 thousand barrels of oil per day.

Oil today is exported to the Novorossiysk sea port through the CPC pipeline. Gas is primarily for the needs of the people of Kazakhstan. To date, there is a developed network of gas pipelines and gas produced on Kashagan is technically possible to be delivered to the south via the “Beineu-Bozoi-Shymkent” gas pipeline and further to Almaty through the gas pipeline. Sulfur will be shipped by rail.

History of the project. The foundation for production at the field of hydrocarbon raw materials was laid back in 1993, when the decree “On the formation and development of the extraction of hydrocarbon raw materials in the Kazakhstan part of the Caspian Sea” was issued. In 2000, it was officially announced the discovery of hydrocarbons at the first exploratory well of the Kashagan field. Six years later, the first production well was launched at the Kashagan field, and in 2013 - the start of production. However, a few days after the launch, a loss of pipeline integrity was Clarified, and the oil production at the field was suspended until the troubles were resolved. For three years, the repair work was carried out, which was handled by the operator of the project “North Caspian

²⁸Director of the Department of Research “Samruk-Kazyna” and one of the authors of the review of oil prices - Vaina Leong

²⁹Deputy Energy Minister Aset Magauov at a briefing at the Central Communications Service, <https://vlast.kz/novosti/23504-minenergo-planiruet-uvelicit-obem-dobyci-nefti-do-107-mln-tonn-k-2025-godu.html>

³⁰<http://energo.gov.kz/index.php?id=11223>

³¹<http://energo.gov.kz/index.php?id=9154>

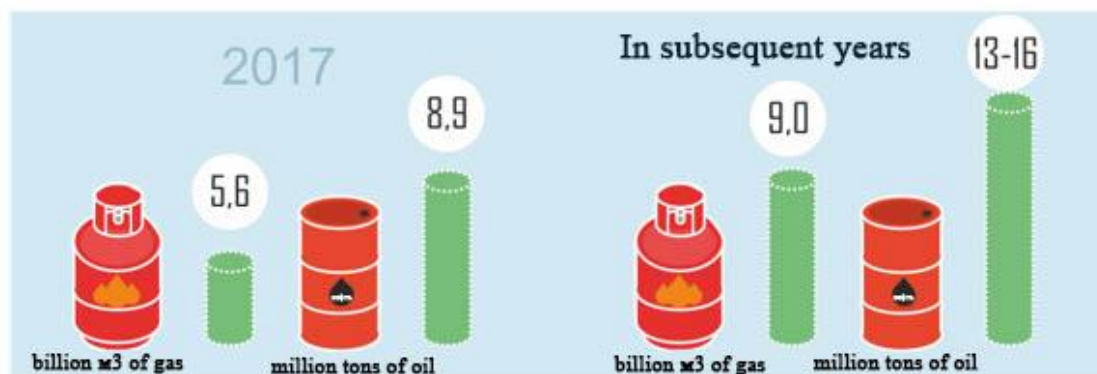
Operating Company”. It was decided to completely replace almost 200 kilometers of pipelines. Work on the replacement of pipelines was estimated at more than 2 billion USD. In the process of negotiations between the contractor and the Republic of Kazakhstan, an agreement was reached that Kazakhstan would not reimburse the expenses that went to replace the pipelines³². Also the shareholders of the project agreed with the Kazakhstan party to classify the costs for the initial pipelines and their installation as non-refundable under APS.

Stages of project implementation. The development of the Kashagan field will be carried out in several stages. At present, the work is at the stage of pilot industrial development (PDP). At this stage it is planned to produce oil in the amount of 370 thousand barrels per day (13 million tons per year). PDP will be followed by subsequent stages of development of the field, which are now at the planning stage. In the aggregate, all stages are “Full-scale development of the field”. The development of the deposit is conducted on artificial islands.

At the first stage, the following facilities are launched: operational-technological complex and 4 drilling islands at sea. The installation of the complex preparation of oil and gas “Bolashak” on land is also being implemented. On the island of “D”, the primary preparation of oil and gas is carried out, and after that, oil and gas flow to the shore through the oil pipelines, the Bolashak plant. In the process of construction there are early production centers 2, 3 and 4. The launch of an additional offshore island for the injection of raw gas back into the “Center of Compromising-01” is planned for 2024.

The recoverable oil reserves in the field are 2,065 billion tons, gas – 1,359 trillion m³.

Figure 5. Planned production volumes for 2017 and subsequent years



2017 will be the year of stabilization of production: the first six months of production will go at a level of 120-140 thousand barrels daily. In the second half of the year, it is planned to start injecting gas into the reservoir with a further increase in this level. The output will go to the level of 180 thousand barrels daily and higher. This year, Kashagan plans to produce about 5 million tons of oil and 3,1 billion cubic meters of gas (according to the calculations of RK Ministry of Energy of the).

In 2017, 1,67 million tons of oil (the share of Kazakhstan and JSC “NC “KazMunayGas”) will be transported through the pipelines of the Caspian Pipeline Consortium (CPC) to the port of Novorossiysk on the Black Sea coast. In the network of gas pipelines of JSC “KazTransGas” will be transferred 1,1 billion m³ of gas (the

³² <http://energo.gov.kz/index.php?id=9525>

share of Kazakhstan and JSC “NC “KazMunayGas”) for export and domestic consumption, with no plans to supply oil from Kashagan to the domestic market.

Expected revenues to the state budget in 2017 (at a price of 50USD per barrel) - 135 million USD.

The expansion project includes the construction of a separate offshore island and the installation of additional gas re-injection compressors to increase productivity. The project will increase the number of jobs and increase the level of oil production from 140 thousand to 450 thousand barrels per day.

What will Kazakhstan get from the project? In the framework of the APS, the extracted oil is divided into cost-oil - oil, which is necessary to compensate the investor's expenses and his motivation for further development of the deposit, and hence investments; and profit-oil - that part of the oil that forms the income of the investor and goes to the budget of the Republic. Kazakhstan will benefit from taxes, bonuses, social expenses, training of personnel and investments in industry.

According to the Ministry of Energy, since the commencement of the Agreement on production section (APS), the contractor paid Kazakhstan bonuses of 1,9 billion USD. “Until 2041, we plan to produce 308 million tons of oil, 211 billion cubic meters of gas, of which one-third or more than 60 billion cubic meters will go to the domestic market,” said Deputy Energy Minister M. Mirzagaliyev. In the near future, all oil will be exported³³.

According to forecasts, the state budget until the end of the period of validity of the APS under the scenario of low oil scenes (50USD per barrel) will amount to 25 billionUSD, 77 billion USD at 100 USD per barrel. Along with this, there are other issues, namely employment of the population, support of the Kazakh content, training of specialists from the local population.

The project employs 274 companies with a share of Kazakhstan ownership of more than 50%, 70 partner and joint ventures with international companies Schlumberger, Siemens, Sichim and others. 89% of Kazakh workers work on the project, 250 million dollars were spent on vocational training.

As a result of the launch of the Kashagan field, the domestic production infrastructure began to develop. Thus, in the Kazakhstan sector of the Caspian Sea, a maritime infrastructure has been created that meets the highest world standards. The plants for the manufacture of large-capacity steel structures “Ersai” (Kuryk) and “Caspian Offshore Marine Construction” (Aktau Sea Port) were commissioned. There were built such facilities as the naval support fleet base, the ecological base for oil spill response, helicopter logistics to support maritime operations.

TENGIZ ³⁴

The project of the future expansion of TCO³⁵. To date, the overall progress of the project is 18%. The 37 billion USD project will create 20 000 jobs for the construction period, and create joint ventures. About 9,4 trillion KZT of private investment is expected. The implementation of the project will bring a multiplier effect: the growth of

³³<http://energo.gov.kz/index.php?id=9135>

³⁴ LLP “Tengizchevroil” (<http://www.tengizchevroil.com/ru/about/overview>) was established by agreement between the Government of the Republic of Kazakhstan and the Chevron Corporation in 1993 for the development of the Tengiz field. Partners of the company (%):

<u>Chevron</u>	<u>ExxonMobile</u>	<u>KazMunaiGas</u>	<u>LukArco</u>
50	25	20	5

³⁵<http://energo.gov.kz/index.php?id=10688>

oil production, at least 32% of the investment in the country from the total cost of the project or 12 billion USD in the next 3-5 years will be spent on Kazakh goods, works and services. In the first half of 2016, TCO spent more than 200 million USD on the purchase of Kazakhstani goods and services for the FGP/WPMP.³⁶

Currently, the Tengiz field produces 27 million tons of light oil. In 2016, work began on the construction of a third generation plant. After the completion of its construction, Tengiz oil production will reach 39 million tons per year.

All Tengiz oil is exported, but in 2017, Kazakhstan can send 15% of Tengiz oil³⁷ to the domestic market: “The supply of oil to the domestic market is stipulated in the provisions of the Agreement on production section, according to which in the case of an internal deficit, the state has the right to purchase up to 15% oil contractor to meet the needs caused by internal deficits,” - the press service of the Ministry of Energy of the Republic of Kazakhstan informs, for the first time revealing some provisions of the agreement.

KARACHAGANAK

Chronicle of project implementation

1979 - Opening of the Karachaganak field

1984 - Start of operation

1992 - Beginning of the negotiation process between the government of Kazakhstan and the companies Eni and BG Group on signing the Agreement on production section

1995 - Agreement on the principles of the division of products was signed, negotiations continue

1997 - The entry of ChevronTexaco and LUKOIL into an international consortium. The signing in November of the Final agreement on production section (FAPS) for a period of 40 years

1998 - The beginning of the FAPS

1999 - Beginning of construction works

2000 - Signing of the contract for the main works. Moving the leadership of KPO to the city of Aksai

2001 - Completion of the construction of a 28-km railway line from Aksai to the Karachaganak field. Visit to the Karachaganak field by the president of Kazakhstan and the grand opening of a new power plant. The Aksai-CPC pipeline. Pumping station Bolshoy Chagan

2002 - Record level of condensate export - more than 18 thousand tons per day. A 635-kilometer export pipeline is laid: Karachaganak gets access to the pipeline of the Caspian Pipeline Consortium (CPC). KPO receives the award of the Chairman of the Board of B & G Group for high performance in the field of safety, labor and environmental protection.

2003 - The President of Kazakhstan gives an official start to the production facilities of Phase 2

2004 - Sending the first shipment of Karachaganak oil from the Novorossiysk Sea Terminal

2005 - Commissioning of the 4th generator on the CPC

2006 - The beginning of the flow of condensate through the pipeline Atyrau - Samara

2038 - Expiry of the FAPS

³⁶<http://www.tengizchevroil.com/ru/fgp>

³⁷<http://energo.gov.kz/index.php?id=9551>

The participants of the Karachaganak Petroleum Operating Consortium are companies Shell – 29,25%, Eni – 29,25%, Chevron - 18%, LUKOIL – 13,5%, JSC “NC “KazMunayGas”- 10 %.

In March 2016 it became Clarified that Kazakhstan requires the Consortium Karachaganak Petroleum Operating to pay about 1,6 billion USD due to unfair interpretation of the Agreement on production section (APS), as a result of which Kazakhstan is not receiving a part of the profit from the sale of oil in the field Karachaganak³⁸. The amount of claims was specified in the financial report of the Russian company “LUKOIL” - one of the participants of the APS.

In June 2016, the Financial Times, citing the source, said that KPO offered to pay about 300 million USD to settle the dispute. Kazakhstan rejected the offer.

In November, Kazakhstan filed for arbitration, but in parallel continued to negotiate with the consortium. Energy Minister Kanat Bozumbayev noted that investors have already recouped investment in the Karachaganak field: - “We will defend our position to the end. We do not try to change the APS, we say that the agreement is interpreted in such a way. If investors think differently, then the truth must be determined in court. At some stage, we can interrupt arbitration if their proposals satisfy the Republic”.

During the first nine months of 2017, the shareholders of Karachaganak Petroleum Operating should come up with a proposal to the government of Kazakhstan on the dispute over the unfair distribution of oil revenues from the Karachaganak field, while the republic, in the person of the Energy Ministry, will continue to defend its interests through arbitration.

At the same time, it is expected that several projects will be implemented to prolong the spoil-production at the field - the initial stage of development of the western zone. Modernization of gas capacities on the CPC. Modernization of gas-pumping facilities at CGTP-2. In addition, the partners actively discuss the concept of the Karachaganak expansion project.

In 2017, Karachaganak plans to produce 11,8 million tons of oil and 18 billion m³ of gas³⁹.

- According to the Kazakh Energy Minister Kanat Bozumbayev, a new project “Synergy” is planned - combining efforts to develop offshore fields Khazar and Kalamkas-Sea⁴⁰, which will improve the efficiency of deposits by about 200-300 million USD.

“We have initiatives for economic growth. This is the joint development of the Khazar fields (the offshore oil and gas field in Kazakhstan) and the Kalamkas Sea (Kazakhstan's offshore oil field). The economic indicators of the development of these deposits that do not suit us have led to the need to consider joint development by the operator companies of the project “Northern Caspian” and “Pearl” (the Caspian oil and gas project). That is, two different companies within the framework of one synergy project. The project “Synergy” will allow to reduce capital costs for both deposits, to improve their efficiency indicators by some 200-300 million USD. This will create additional places, increase the level of oil production, increase tax revenues. In fact, we are talking about a significant expansion of the same field as Kashagan,” Bozumbayev said at a press conference in the government.

³⁸<http://energo.gov.kz/index.php?id=9605>

³⁹<http://energo.gov.kz/index.php?id=10838>

⁴⁰<http://energo.gov.kz/index.php?id=10687>

In general, according to the forecasts of the Ministry of Energy, the successful implementation of the above-mentioned initiatives “will ensure an average annual growth rate of domestic value added of about 4,1%. At that, previously planned a base increase of 2,4%. In general, the effect of the developed initiatives fulfills the task of contributing the fuel and energy complex to the aggregate growth of the country's economy 5,5-6% of GDP,” believes the Vice-Minister of the ME of RK Magauov.

2) Legislative reforms and attraction of investments in geological exploration

The Ministry notes that in Kazakhstan there is a lag in the annual increase in oil reserves to the production volume by an average of 22%. Meanwhile, the President of Kazakhstan, Nursultan Nazarbayev, in his “Message to the people of the country” set the task of preserving the strategic importance of the oil and gas complex to ensure sustainable economic growth.

The solution of the problem may be to increase the increment and replenishment of reserves by attracting investments in geological exploration. To stimulate investments by the ME RK and the Ministry of Industry and Development, systemic measures have been worked out in the draft Code on Subsoil and Subsoil Use and the Tax Code. The concept of the Code “On Subsoil and Subsoil Use” stipulates the introduction of the principle of differentiated mechanisms for granting subsoil use rights on the site, taking into account the prospects, simplifying development procedures, approving project documents during the exploration phase, providing open access to geological information and other amendments that will be required to provide inflow of investments, to maintain an adequate level of state regulation. In addition, proposals were made to draft a new integrated Tax and Customs Code to optimize the tax burden of offshore projects, dilute tax boundaries within a single entity, abolish commercial discovery bonuses for new contracts, and stimulate production volumes for mature depleted fields.

The Draft Code on Subsoil and Subsoil Use of RK provides for:

- 1) simplification of obtaining subsoil use rights, such as bid auction, 2 types of contracts – “exploration and production” and “mining”, reduction of legal and economic expertise;
- 2) introduction of the international system of reporting on stocks;
- 3) elimination of administrative barriers: reduction of the list of basic design documents, exclusion of individual permits, reduction of procedures and terms of consideration of documents.

In the draft of the new Code of the Republic of Kazakhstan “On Taxes and Other Mandatory Payments to the Budget” (the Tax Code)⁴¹, there are provisions for minimizing taxes:

- 1) dilution of the tax boundaries between the exploration contract and the production contract - will allow for the deduction of exploration costs from another extraction contract, a reduction in expenses on income taxes and excess profits;
- 2) cancellation of the commercial detection bonus;
- 3) for deep deposits (over 6000 m) and offshore projects, the abolition of special payments by subsoil users and the transition to a tax on the financial result.

⁴¹<https://www.zakon.kz/4867946-opublikovan-proekt-novogo-nalogovogo.html>

For new contracts for exploration, the obligations for training, RDW, allocations for social development of regions, historical costs will be canceled (Ministry of Energy).

In November 2016, during discussion of the draft Code on Subsoil and Subsoil Use, representative of the Ministry of Energy of Kazakhstan Asset Magauov said that oil production in the old fields of the country is steadily declining. “We see that it is necessary to activate geological exploration. The basis for our work on the Code “On Subsoil and Subsoil Use” was the need to improve the investment attractiveness of the oil and gas sector, taking into account the decline in world oil prices”.

The current Law of the Republic of Kazakhstan “On Subsoil and Subsoil Use”, which appeared in 1996, introduced all kinds of changes and additions more than twenty times. There are problems such as duplication and inconsistency of legislation, outdated legal framework, land disputes, poor quality of geological data, infrastructure, trade barriers.

“All this led to the fact that Kazakhstan in terms of “investment attractiveness of mining” lags behind the OECD countries from 40 to 90 points. When the investor decides where to go - to Mongolia, Africa or Kazakhstan, he certainly looks at the investment ratings, which we are lagging behind,” noted Toktabayev, MID Vice-Minister.

In 2017, Kazakhstan intends to attract investors to geological exploration not only in oil and gas fields, but also in diamond deposits (with the Rio Tinto concern exploration of diamonds in the Zhambul oblast is being discussed).

As part of the discussion of the new Code on Subsoil and Subsoil Use, a possible transition to a generally accepted tax regime (royalty) in the world that stimulates the processing of raw materials in the country, as well as the creation of a national database and the introduction of best practices in the systematization of geological information, training of Kazakhstan specialists, including within the Organization for Economic Cooperation and Development (OECD).

The drafts of the codes are planned to be submitted to the Mazhilis in September 2017. Regarding specifically oil exploration, “the minimum additional annual investment in oil - exploration should be about 800 million - 1 billion USD” (Minister of Energy). The Ministry has developed cardinal norms on simplification of administrative procedures in subsoil use (to the drafts of the Code “On Subsoil and Subsoil Use” and the Tax Code), which will make it possible to intensify work not only on projects on land, but also on maritime projects such as Khazar, Satpayev and Zhambyl.

Since the beginning of 2015, 13 contracts have been concluded, of which 8 for exploration, 2 for combined exploration and production and 3 for extraction. In 2016, competitions were held for the granting of subsoil use rights in 8 plots. The total amount of the subscription bonus was 2,4 billion KZT.

In 2017, more than 30 subsoil plots are planned to be tendered, thereby increasing investment in subsoil use⁴². Jointly with JSC “NC “KMG”, the analysis of the geological and geophysical data continues to assess the potential of the oil and gas potential of the deep horizons of the Caspian depression, including the territory of the Kazakhstan sector of the Caspian Sea, and a portfolio of exploration blocks is planned to be created⁴³.

In addition, the implementation of offshore projects is intensifying. As mentioned above, the Ministry is considering the issue of joint development of licensed fields in the middle Caspian, “Kalymkas-Sea”, and “Khazar”. Negotiations are underway with

⁴²<http://energo.gov.kz/index.php?id=10289>

⁴³<http://energo.gov.kz/index.php?id=8382>

the Russian side on the joint development of the “Central”, “Khvalynskoye” and “Kurmangazy” deposits. An offer has been made to the Ministry of Industry and Development of the Republic of Kazakhstan on the expediency of conducting state geological study of subsurface resources exclusively on poorly studied sedimentary basin territories and to release most of the prospective areas for hydrocarbon raw materials to be provided to private investors with plans for further exploration.

According to the Minister of Energy, the “Eurasia project” will be initiated, geological exploration work is planned with the subsequent drilling of superdeep wells to study the deep, overlying horizons of the Caspian depression. There, according to some scientists, up to 40 billion tons of hydrocarbons are concentrated. At the moment, negotiations are being held with potential investors.

3) Development of the oil and service sector.

In practice, one workplace in oil production creates 4-5 jobs in the oil service. “In the conditions of recession (in 2016) of production indicators of oil companies, the Ministry intensified its work with the oil and service sector to support it. In Karachaganak, we see successful examples of partnerships and consortia: Atyrauneftemash and William Hare partnerships for the production of steel structures, and 70 joint ventures and partnerships have been established with Kashagan with such companies as Siemens, Energy Wood Group. Moreover, 180 Kazakhstani companies have been trained and successfully certified according to ISO standards,” said Minister K.Bozumbayev.

4) Development of the market of petroleum products and refining.

In 2016, the task was set to deal with delaying the timing of modernization of the refinery, resolved its financing, determined the final terms of work, and personalized the responsibility of managers. According to K.Bozumbayev, the works at Atyrau and Pavlodar went to the finish line, modernized complexes will be put into operation in the second half of 2017. At the Shymkent OR in the first stage, construction and installation works were completed, and commissioning was started. The project is planned to be completed in the second half of 2018. After modernization, the volume of oil refining will increase from 14,5 to 17,5 million tons, production of light petroleum products, gasoline, diesel fuel, aviation fuel will decrease, production of fuel oil will drop, release of 80th gasoline will have to stop.

5) Elimination of wells ⁴⁴

Until 2019, 126 emergency oil and gas wells will be liquidated in Kazakhstan in the zone of possible flooding by the Caspian Sea and on land (according to the press service of the Ministry of Energy RK). In accordance with the plan, 10 wells were liquidated in 2015, in 2016 - 20, in 2017 - 30, in 2018 - 40, in 2019 - 26.

Earlier, in 2004-2009, 47 oil wells were liquidated in the flood zone by the Caspian Sea. Zhomart Aliyev, deputy chairman of the Committee for Environmental Regulation and Control of the Ministry of Environmental Protection of the Republic of Kazakhstan, reported that in 1900 oil and gas wells were Clarified in the Kazakh part of the Caspian shelf, some of which were dangerously flooded. They were liquidated and canned first. The state took all the work for their conservation and liquidation. For the period of the first state program 99 wells were liquidated.

⁴⁴ <http://energo.gov.kz/index.php?id=6904>

6) Increase the oil recovery factor in Kazakhstan to the indicators of the world's leading oil-producing countries.

At present, the efficiency of extracting hydrocarbons in Kazakhstan is almost twice lower than that of the leading oil powers⁴⁵.

“Today in the developed oil-producing countries, such as Norway and other countries of the North Sea, these indicators reached 55-60%. In Kazakhstan, the average level of the oil recovery factor reaches 30-35%. Therefore, our Ministry is working on the choice of technology. Accordingly, the task is set for subsoil users to increase the oil recovery factor to 55-60% in the medium-term, long-term outlook,” Mirzagaliyev, ME RK Vice Minister said. In the short term, that is, in the next year or two, this indicator is expected to increase by 5-10%. The main methods of enhancing oil recovery at the fields in Kazakhstan are technologies for pumping water, drilling horizontal wells, using steam-thermal well products, fracturing and injection of gas into the reservoir.

According to experts, at the Nuraly field in the Kyzylorda oblast, using methods such as injection of polymers and chemical effects, it is possible to increase the recovery ratio of oil production to 10%, at the Kalamkas field in Mangistau oblast to 8%. In general, with the injection of polymers, the country oil extraction factor is expected to increase by an average of 7% per year.

7) Transition to the international system of accounting for oil reserves by 2025⁴⁶.

Now the old Soviet classification of stocks is used, although most of the industry also applies the international inventory system. To avoid duplication, it is necessary to move completely to international standards. “a transitional period is envisaged until 2025. But the state expertise of geological reserves will remain in the part of hydrocarbon raw materials. As for the state control, only critical indicators of design documents will remain in control. We will not control absolute values, we will not control production volumes, but with some investment activity we will control the rationality of the use of subsoil, so that unsystematic or predatory workings do not take place. The deposits were exploited in the regime in which they should be exploited⁴⁷” Thus, with a change in the price environment, companies engaged in production will either be able to activate or slow down their work, and control by the state authorities will be aimed at the rational use of subsoil resources.

GAS

In 2014, the “**Concept for the development of the gas sector until 2030**”⁴⁸ was approved (Resolution of the Government of the Republic of Kazakhstan No. 1275 of 05.12.14⁴⁹), which presents data on reserves, and prospects for the development of the industry until 2030. Here are some key points:

RESERVES. According to one of the world's recognized sources of industry information, “British Petroleum”, gas reserves in Kazakhstan are 1,3 trillion m³, which allows the Republic of Kazakhstan to rank 22nd in the world on this indicator and third among the countries of the Commonwealth of Independent States - CIS) after Russia and Turkmenistan. This discrepancy between the indicators is caused both by the high share of associated petroleum gas in the gas reserves of the Republic of Kazakhstan and

⁴⁵ <http://energo.gov.kz/index.php?id=8588>

⁴⁶ <http://energo.gov.kz/index.php?id=11490>

⁴⁷ The First Vice-Minister of Energy of RK, Makhambet Dosmukhambetov

⁴⁸ <http://energo.gov.kz/index.php?id=1745>

⁴⁹ <https://www.zakon.kz/4676951-utverzhdena-koncepcija-razvitiya.html>

by the differences in the methods for calculating reserves, according to which the Republic plans to move to international standards shortly (as mentioned above).

About 98% of all proven gas reserves are concentrated in the west of Kazakhstan, with more than 87% in large oil and gas (“Tengiz”, “Kashagan”, “Korolevskoye”, “Zhanazhol”) and oil and gas condensate fields (“Karachaganak”, “Imashevskoye”).

The largest deposits of the Republic of Kazakhstan are characterized by the complexity of hydrocarbon extraction due to large depths (more than 5,000 meters), the multicomponent nature of the gas composition (relatively low methane share), and high content of hydrogen sulfide compounds. Existing gas deposits with small depths and low content of sulfur compounds are characterized by small gas reserves and are of local importance for gasification of local areas.

Kazakhstan at the same time has significant unrealized forecast hydrocarbon resources. Thus, the forecast resources of traditional (natural and associated) gas in the republic are estimated at 6-8 trillion m³. First of all, this refers to the Kazakhstan sector of the Caspian Sea, including its Caspian, Buzachi and South Mangyshlak zones.

In addition to traditional gas resources, Kazakhstan has considerable potential in terms of exploration and production of gas from alternative sources. In particular:

Coal bed methane. Forecast resources of methane of coal deposits in Kazakhstan are estimated at a level of up to 7 trillion m³. It should be noted that the production of coalbed methane is a much more expensive process compared to production in traditional fields and is characterized by lower energy efficiency indicators.

Shale gas. Shale gas in Kazakhstan has not been subjected to special studies, and therefore there is no data on the availability of geological and recoverable reserves.

Biogas. The basis of biogas production is the technology of methane digestion of organic wastes of livestock and crop production, as well as household waste. To date, in Kazakhstan the technology of producing combustible gas and other chemical compounds, including fertilizers, is practically absent with methane fermentation⁵⁰. Meanwhile, the Republic has significant potential in this area. Thus, according to the Project for the Development of Export Potential of Cattle of the Republic of Kazakhstan, in the country by 2020 it is planned to have about 1.1 million head of cattle on fattening, which can ensure production of biogas at the level of 95 million m³ per year. In addition, Kazakhstan has accumulated more than 22 billion tons of domestic waste, with the recycling of which it is possible to produce about 180 million m³ of biogas a year.

The production of biogas under current conditions is low-cost, but should be considered by the government through the prism of reducing greenhouse gas emissions, utilization of livestock waste, improving the ecology of cities, preventing fires and smoke from landfills and other positive results.

⁵⁰The biogas plant in combination with mini-combined heat and power electrical capacity of 360 kW was commissioned in 2011 in Kostanay oblast.

PRODUCTION

Gas production in Kazakhstan by the end of 2016 amounted to 46,7 billion m³ (Committee for Statistics of the Republic of Kazakhstan, see Table 6), which is 2,5% higher than the previous year. The main gas producing companies in the Republic of Kazakhstan are (calculations were made based on the data of JSC NC “KMG”⁵¹):

- 1) KPO B.V. - 17.6 billion m³;
- 2) TCO - 15 billion m³;

Thus, only two companies account for almost 70% of the gas produced in the country.

As already noted, a significant part of the gas produced in Kazakhstan is a by-product and is extracted together with oil, which, in case of its further sale, imposes obligations on preliminary expensive processing. As a result, more than 40% of the gas produced in the country is used by subsoil users for re-injection into the reservoir in order to increase reservoir pressure and oil production ratio, for own needs in the form of oil heating, electricity generation and other purposes. After the introduction of a ban on gas incineration in Kazakhstan, the annual volumes of burnt gas were reduced (about 2%) by more than 3.5 times and are close to the level of technologically unavoidable combustion. As a result, the volume of gas sent for processing for subsequent sale to the domestic market and exports is just over 50% of the production volume.

There are 3 gas processing plants operating in the country with a total processing capacity of 18.9 billion m³ of gas per year: the Kazakh Gas Processing Plant (KazGPP) with a capacity of processing natural gas of 2,9 billion m³, and the Zhanazhol Gas Processing Plant (JGPP) – 4 billion m³, “Tengiz gas processing plant” (TGPP) - 12 billion m³. In addition, in accordance with the Agreement on Counter-Gas Supplies between OJSC “Gasprom”, NHC “Uzbekneftegaz” and JSC “NC “KazMunayGas”, December 27, 2006, the gas of the Karachaganak field is processed at the Orenburg Gas Processing Plant. At the same time, the entire volume of gas imported from Uzbekistan to Kazakhstan is “swapped” at the same price and in equal volumes with the supply of gas from the Karachaganak field to the Orenburg Gas Processing Plant and the export of Russian gas to international markets.

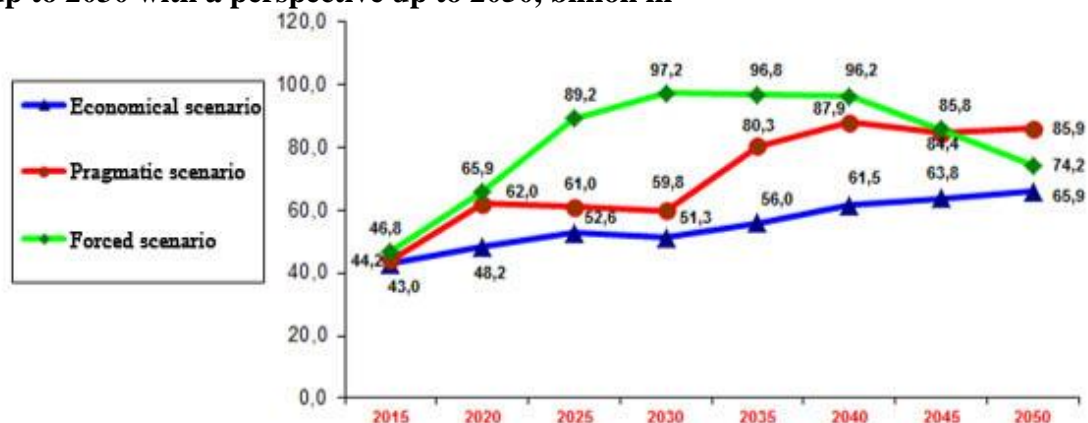
The “Concept for the development of the gas sector until 2030” notes that the most significant problem in the sphere of regulating the gas production and use sector is the imperfection of the existing system for recording the production and turnover of oil and gas resources. Current and forecast balance of gas production and use is formed on the basis of data provided by subsoil users, most of which are not equipped with modern automated accounting systems. As a result, the state lacks effective mechanisms to detect cases of irrational use of hydrocarbon resources, including latent flaring of associated gas.

Forecast of production and use ⁵². Based on the current balance of gas production and use, as well as existing plans for the development of oil and gas projects in the Republic of Kazakhstan, three scenarios for the development of the gas sector up to 2030 were developed, with prospects up to 2050: economical, forced and pragmatic.

⁵¹http://www.kmg.kz/uploads/AnnualReport_2016Rus2.pdf

⁵²<http://energo.gov.kz/index.php?id=1745>

Figure 6. Scenarios of the average annual volume of gas production in Kazakhstan up to 2030 with a perspective up to 2050, billion m³



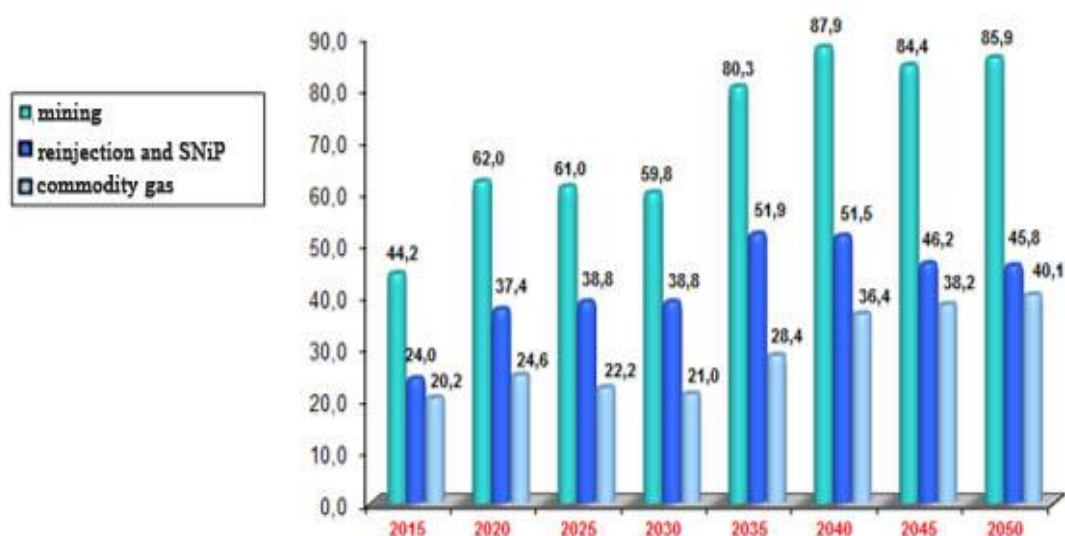
Source: Ministry of Energy of the Republic of Kazakhstan

The “*economical*” scenario is based on a restrained policy of oil and gas production with a growth corridor of 5-10 billion m³ per decade. As a result of its implementation, by 2030 the level of gas production in Kazakhstan will be 51,3 billion m³, and in 2050 - about 66 billion m³. The implementation of the “*economical*” scenario is related to the limited commissioning of new gas fields, as well as the moderate development of three major Kazakhstani fields (Kashagan, Karachaganak and Tengiz) at a level that allows replacing the decline in production at operating medium and small fields. Under this scenario, the Republic will retain a significant amount of gas reserves, but the efficiency of developing Kazakhstan's giant fields and meeting the growing domestic demand for gas will not be ensured adequately.

Within the framework of the “*forced*” scenario, the fastest increase in gas production is considered, which already by 2030 will reach the level of about 100 billion m³ per year. At the same time, such active development of deposits will lead to an accelerated depletion of existing hydrocarbon reserves in Kazakhstan. In addition, the effectiveness of this scenario in terms of producing commercial gas will be very limited due to its emphasis on the gas re-injection into the reservoirs (hereinafter - GRIIR) to increase oil production.

The “*pragmatic*” scenario provides for the inclusion of optimal parameters for the development of Kazakhstan deposits without their accelerated depletion. At the same time, by analogy with the “*forced*” in the framework of this scenario, together with the expected significant growth in gas production, in the future, up to 2030, volumes of gas pumped back into the reservoir will also increase. As a result, in the current period, with an increase in production 1,5 times (from 42,3 to 59,8 billion m³ per year), the free resources of commodity gas will remain at the level of 21-25 billion m³.

Figure 7. Forecast gas balance up to 2030 with a perspective up to 2050 (pragmatic scenario), billion m³



Source: Ministry of Energy of the Republic of Kazakhstan

In turn, after 2030, the production of liquid hydrocarbons on Tengiz and Karachaganak will begin to decline, which will lead to a reduction in the demand for gas for re-injection. Starting from this period, the volumes of commodity gas production in the Republic of Kazakhstan will significantly increase and amount to about 40 billion m³ per year by 2050.

EXPORT and TRANSIT of marketable gas

According to the annual report of JSC “NC “KazMunayGas” for 2016, the export of gas to external markets and the sale of gas for the needs of the domestic market of Kazakhstan, including through mutual supplies (SWOP operations), is carried out by LLP “KazRosGas”, established in 2002 on a parity basis of JSC “NC “KazMunayGas” and PJSC “Gazprom”. The main functions of the company are: conducting operations with Kazakh natural gas, including marketing, processing, transportation, sale of gas and products of its processing in the domestic and foreign markets. JSC “NC “KazMunayGas” decided to transfer to the trust management of JSC “KazTransGas” a 50% stake in LLP “KazRosGas”. The corresponding decision was made by the board of JSC “NC “KazMunayGas” on June 18, 2015⁵³.

For reference: LLP “KazRosGas” receives volumes for sale within the framework of the “Purchase and sale contract for the crude gas of the Karachaganak field for a period of 15 years”, effective from 1.09.2007. KazRosGas sends all purchased raw gas of Karachaganak for processing to the Orenburg gas processing plant. After that, dry gas is sent to the domestic market of Kazakhstan in the required amount, and the rest is sold under export contracts. In June 2015, KazRosGaz LLP, KPO and partners agreed to extend the long-term contract for the sale and purchase of raw Karachaganak gas until January 2038 (the new deal provides for an annual supply of up to 9 billion cubic meters of crude gas over 15 years - from 2022 to 2038.)⁵⁴

⁵³<http://www.kaztransgas.kz/index.php/ru/press-tsentr/publikatsii/537-50-dolya-too-kazrosgaz-peredana-v-doveritelnoe-upravlenie-v-ao-kaztransgaz>

⁵⁴<http://www.panoramakz.com/index.php/economics/item/38193->

The gas supply to the southern regions of the Republic of Kazakhstan and the Kostanay oblast is carried out within the framework of SWOP operations with PJSC “Gazprom”, at the expense of Uzbek gas resources via the “BGR-TBA” and “Gazli-Shymkent” gas lines, Uzbek and / or Turkmen gas for the “Turkmenistan – China” gas through the “Bozoy-Shymkent” gas pipeline, as well as Russian gas via the “Bozoy-Shymkent” gas pipeline. Gas supply to western regions of Kazakhstan is carried out at the expense of gas resources of Kazakhstan subsoil users.

- Realization of natural gas in 2016 amounted to 11,8 billion m³ per domestic market, and 4,3 billion m³ for export (total 16,08 billion m³).
- The total volume of transportation of commercial gas through the system of trunk gas pipelines of Kazakhstan amounted to 88,1 billion m³ in 2016, of which about 58,3 billion m³ were for transit, 13,3 for transportation of Kazakhstan gas for export and 13,3 for transportation of gas for domestic consumers – 16,5 billion m³.

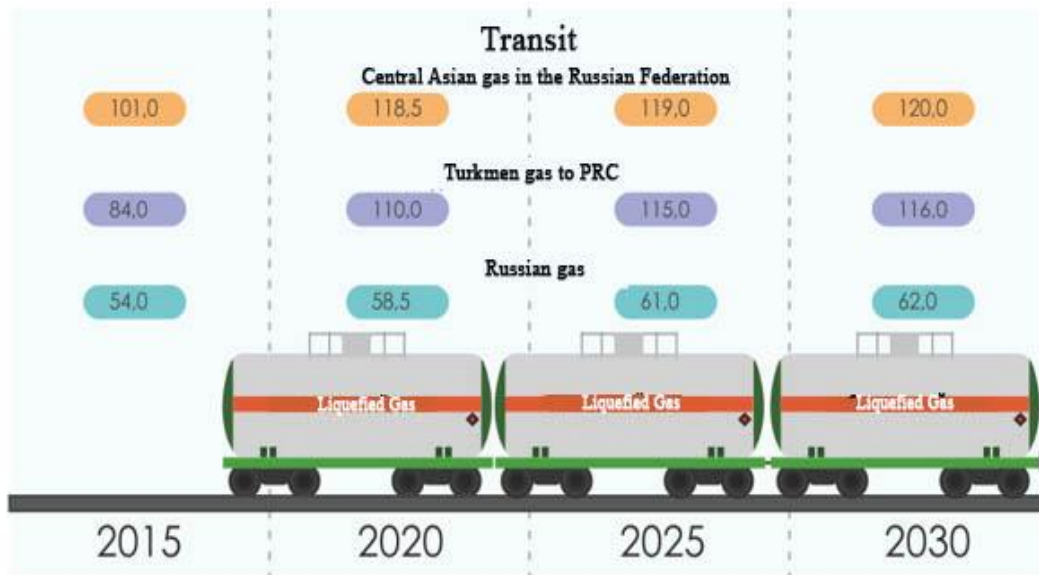
Kazakhstan transits natural gas from Turkmenistan and Uzbekistan to China and the Russian Federation. Gas deliveries for export are carried out in the direction of the Russian Federation and Kyrgyzstan.

According to the “Concept of gas sector development”, in the period from 2008 to 2013 the structure of gas transit in the Republic of Kazakhstan has undergone significant changes. So, in 2009 the main gas pipeline “Kazakhstan-China” was put into operation, the volume of gas transit through which amounted to 23,5 billion m³ in 2013. At the same time, the transit of Russian gas through the Soyuz GP was increased by 7,5 billion m³. On the other hand, the volume of transit of Central Asian gas to Russia by GP “Central Asia-Center” fell by 2,6 times, which was due to the reorientation of Turkmen gas supplies to China. According to available forecasts, in the foreseeable future, gas production at Russian fields will grow faster than demand on domestic and external (primarily European) markets. An additional factor is the high uncertainty in the volumes of future supplies of Russian gas to Europe. These trends in the long term may lead to replacement of Russian gas purchased by Gazprom with Central Asian gas and, as a result, further reduction of transit volumes for GP “Central Asia-Center”.

It is expected that after the completion of the construction of the third line and 8 compressor stations, the capacity of GP “Kazakhstan-China” will increase to 55 billion m³ per year, so that the transit of Central Asian gas to China will increase to 50 billion m³ per year. In addition, in case of a partial reorientation of Russian gas from the European to the Chinese market, Kazakhstan, due to the existing geographic advantages, should work with interested parties on options for the transit of gas from Russia to China through the territory of the republic. As a result, the aggregate volume of transit of commodity gas in Kazakhstan.

By 2030, it may amount to about 120 billion m³ per year (without taking into account the possible transit of Russian gas to China), but the achievement of this indicator depends more on the situation in the gas markets of neighboring countries.

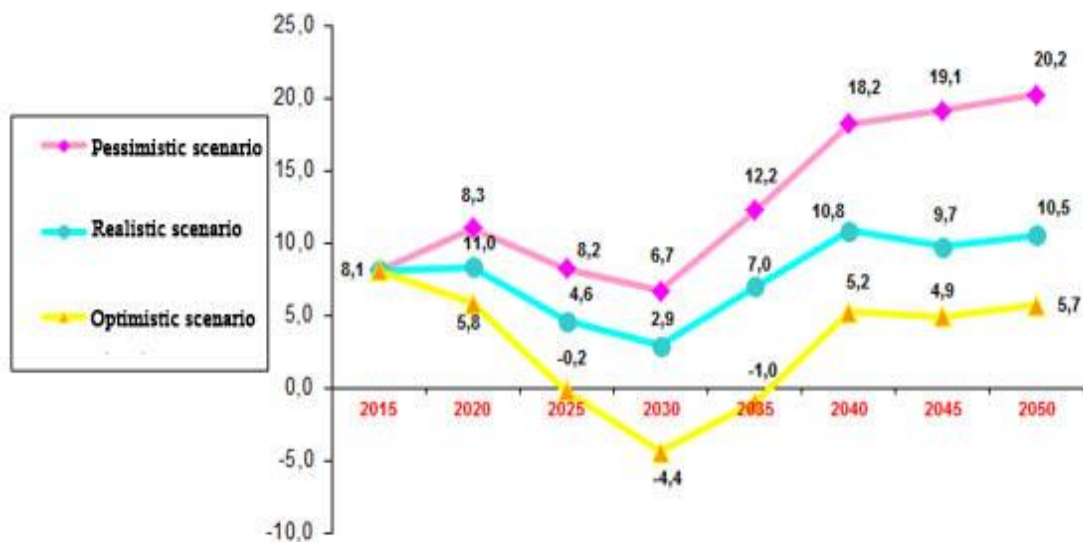
Figure 8. Forecast of commodity gas transit, billion m³



Source: Ministry of Energy of the Republic of Kazakhstan

Forecast of export / import of commodity gas. Based on the indicators of a “pragmatic” gas production and use scenario, as well as the above scenarios for the development of domestic consumption, appropriate scenarios for the development of export-import operations.

Figure 9. Forecast of exports (+) / imports (-) of commodity gas (excluding exchange transactions with OJSC Gazprom) according to domestic consumption scenarios, billion m³



Source: Ministry of Energy of the Republic of Kazakhstan

In connection with the expected growth of domestic gas consumption in all considered options, in the long term until 2030 the general characteristic for all scenarios will be a redistribution of the volume of gas supply from exports to the domestic market.

At the same time, according to the “realistic” scenario of gas consumption, the volume of free resources for export will not exceed 2,9 billion m³ by 2030 per year, while under the “optimistic” scenario of consumption development the republic will become import-dependent on gas in the period from 2025 to 2036.

In these conditions, the state already today needs to start working out the issues of identifying specific sources of reoriented gas and options for compensating for a corresponding decline in yield for exporters.

Overview of external markets for Kazakhstan gas. As it was already noted in the “Concept for the development of the gas sector in 2030”, currently the only external sales markets for Kazakhstan's commodity gas are Russia and Kyrgyzstan. At the same time, if the Kyrgyz Republic imports Kazakhstan's gas in insignificant amounts for domestic consumption, Russia acquires it for the purpose of subsequent resale. This supply chain has developed historically within the framework of the Soviet gas transportation infrastructure and is associated with the existence in the Russian Federation of a single export channel of OJSC “Gasprom”.

Meanwhile, at the present time, within the framework of the development of the Eurasian Economic Union, the issues of creating unified energy markets are being worked out, which in the long term may open the way for Kazakhstan to enter European gas markets. In addition, after the completion of the construction of the Beineu-Bozoy-Shymkent GP, the country will have the opportunity to supply gas from the western regions of the Republic of Kazakhstan to China via GP Kazakhstan-China.

In this regard, and also considering the extremely low probability of development of the gas transportation infrastructure in other areas relevant to Kazakhstan, an analysis of the prospects for further development of the markets of Europe⁵⁵, Russia and China.

COAL

According to the National Energy Report “KazEnergy” 2015⁵⁶, Kazakhstan produces significant amounts of coal. The country is the eighth in the world for proven coal reserves (balance reserves – 34,2 billion tons), which is almost 4% of the world's reserves and enough to maintain current production rates for about 300 years. Bituminous and sub-bituminous coal (according to the classification adopted in Kazakhstan, these two grades refer to coal) accounts for 64% of the reserves in Kazakhstan (21,5 billion tons). The remaining reserves (12,1 billion tons) are represented by lignite (also called brown coal). More than 9/10 of all coal reserves are concentrated in the central and northern parts of the country. The largest basins are: Ekibastuz (12,5 billion tons), Karaganda (9,3 billion tons) and Turgai (5,8 billion tons). The coal of the Ekibastuz Basin is particularly distinguished from the point of view of the low production cost; The coal seams are thick and lie close to the surface, which facilitates extraction by the open method.

At the same time, the main part of coal deposits is characterized by a high moisture content and relatively low calorific value, as well as a high content of ash and sulfur. These characteristics, combined with the presence of significant amounts of methane in most fields, lead to the fact that coal mining and consumption in Kazakhstan have a greater impact on the environment than in many other regions of the world, despite the fact that individual deposits (for example, the Ekibastuz basin) have high economic competitiveness due to extremely low production costs.

As a rule, about 25-30% of the total volume of production is exported (mainly to Russia). At the same time, increasing exports is a difficult task for the country, taking into account the problems associated with ensuring the competitiveness of coal from Kazakhstan in international markets.

Coal is the main fuel of the economy of Kazakhstan - currently it accounts for more than 60% of the volume of primary energy consumption in the country. Despite the predicted gradual decrease in the relative share of coal in the long term, coal will remain

⁵⁵European OECD countries.

⁵⁶<http://www.panoramakz.com/index.php/economics/item/38193->

the dominant position in the country's energy resources throughout the forecast period. The analysis of consumption by sectors of the economy shows that the future of coal in Kazakhstan is closely related to the generation of electricity. According to forecasts, the share of coal consumption, which is accounted for by demand from the electricity sector, currently at 3/5, will remain at the same level and practically will not change over the next 25 years.

After the restructuring and privatization of the industry in the mid-1990s, the coal mining industry is regulated within a decentralized management system. At the moment, there are 26 companies producing coal in the country, most of which are Kazakh, but there are also several foreign companies or joint ventures. The Control and Supervisory Body is the Electric Power and Coal Industry Department. Previously, he was a member of the Ministry of Industry and New Technologies (liquidated during the reorganization in August 2014), and is currently part of the expanded membership of the ME RK.

Extraction - Kazakhstan annually is a part of 10 world leaders on a coal mining. In 2016, Kazakhstan produced 103 million tons, but compared to 107,3 million tons in 2015, there is obviously a reduction in production.

ME RK Kanat Bozumbayev⁵⁷ explained this: “The first is the Russian government's order of June 21, 2014: the program for the development of the Russian coal industry for the period until 2030 has been adopted. It provides for the replacement of the consumption of Ekibastuz coals by the Russian power plants by the Kuznetsk coal. In addition, some of the Russian thermal power plants are switched to burning natural gas, for example, Verkhnetagilsk SDPS”. Another reason was the reduction in coal consumption by energy producing enterprises, both in Kazakhstan and the Russian Federation. Also, this is due to the high water content of rivers, which increased electricity in hydroelectric stations by 25%.

The current trend of reducing coal production in Kazakhstan is also characteristic for other countries. This is a consequence of the global processes for the transition to a “green” economy.

In 2016, 71,8 million tons of coal were supplied to the domestic market, and 26,2 million tons for export.

Companies. The largest coal mining company in Kazakhstan is LLP “Bogatyr coal”, which produces production at one of the world's largest coal mines - the Bogatyr section in the Ekibastuz basin. The company accounts for approximately 2/5 of the total volume of production in the country. It is followed by JSC “Eurasian Energy Corporation” (1/5), which accounts for about 30% of the total production of steam energy in the country. JSC “Samruk-Energo” and the private company RUSAL (Russian Aluminum) share approximately 20% of the state's interests. Another three coal-mining enterprises account for approximately 7% of the coal produced in the country: JSC “ArcelorMittal Temirtau” (underground mining in the Karaganda basin); JSC “Borly” and JSC “Shubarkol Komir”. JSC “ArcelorMittal Temirtau” is the only company that produces coking coal.

Forecast. According to the calculated indicators, in the period from 2000 to 2020, the growth rate of coal production averages 3.0% per year; However, between 2015 and 2040, production will slowly decline at a rate of just under 1% per year (from 108,7 million tons in 2014 to about 86,9 million tons in 2040). Visible consumption will follow a similar trajectory: in the period from 2000 to 2020, the increase in this

⁵⁷<http://energo.gov.kz/index.php?id=9567>

indicator will average 3,1% per year, after which it will start to fall from 82,7 million tons in 2014 to about 70 million tons. tons in 2040. Analysis of consumption by industry shows that the future of coal in Kazakhstan will continue to be closely linked with the production of electricity. The share of electricity in the total volume of coal consumption in the country remains surprisingly stable over time and is expected to remain at current levels throughout the forecast period (3/5).

Export. More than 25% of coal produced in Kazakhstan is exported (in 2016, the volume of net exports was about 23,8 million tons). Obviously, Kazakhstan could supply larger volumes of coal abroad, if not for remoteness from the largest export markets. In 2012 and 2013, the main buyer was Russia (slightly less than 30 million tons per year), where low-quality sub-bituminous coal was mainly supplied. Coal from the Ekibastuz basin accounts for more than 90% of the above-mentioned exports (mainly at the Ural power plant). This situation, in a sense, has developed historically, as a number of power plants built in Russia were designed specifically for burning coal from the Ekibastuz basin. In addition, in 2013, 0.9 million tons of coking coal from the Karaganda basin was supplied for the needs of metallurgical and other industrial enterprises in Russia. According to the agreement on coal supplies between Russia and Kazakhstan, the volume of coal supplied to Russia is about 29 million tons per year, although it is difficult for it to compete with Russian coal because of high transportation costs. In addition, Kazakhstan exports coal to Ukraine and Kyrgyzstan, and to a small extent - to Belarus, Georgia, Uzbekistan, Turkmenistan and from time to time even to EU countries (Latvia, Lithuania, Romania). Exports to EU countries are limited to coal from the Shubarkol field, which complies with EU requirements for ash content and calorific value.

It is expected that after 2015 (according to the forecast of the EIU-analytical department of the “Economist-Intelligence Unit” (EIU), the market will be more balanced, at which the risks of lowering prices for energy coal will become less and the price will rise from 74,80 USD/ tons in 2016 to 75 USD / tons in 2017 and 80 USD / tons in 2019 Bank of America Merrill Lynch (BAML) forecasts a more upward price trajectory from 72 USD / tons in 2016 to 82USD / tons in 2017.

The Ministry of Energy of the Republic of Kazakhstan developed a roadmap for the development of the coal industry until 2030, the priority of which is to improve the environmental situation in the regions⁵⁸.

Following the results of the meeting in August 2016, a working group led by the Minister from representatives of state bodies, national companies, organizations, coal mining companies, scientific centers was established by the decree of the Prime Minister. The Working Party considered all available issues in the coal industry and developed short-term measures to address them, regulatory measures, measures to address technical issues, and measures needed to increase coal exports. For today, according to the Minister, it can be stated that the main short-term issues have been resolved, except for the issue of equal access to the services of seaports on the territory of the states of the EEU members for the export of Kazakh coal. This issue should be worked out within the framework of the Eurasian Economic Commission with possible amendments and additions to the EEU agreement.

At the same time, despite the fact that trends in coal production decline are typical for many countries, Kazakhstan's energy ministers consider it necessary “to strengthen efforts to support the preservation of the level of coal production in the country through

⁵⁸<http://energo.gov.kz/index.php?id=9566>

the expansion of a number of programs.” These include programs for integrated deep processing of coal, the production of coal from diesel fuel and other liquid synthetic products, as well as a program to diversify exports.

Also, the Road Map addresses the development of single-industry towns and the improvement of the ecological situation: according to Minister Bozumbayev, “For the sustainable development of single-industry towns, including those engaged exclusively in coal mining, local executive bodies need to step up efforts to diversify the economy of single-industry towns based on the creation of new industries, retraining of staff, development of infrastructure projects and so on”. “The Ministry duly designed and approved an action plan, a road map for the development of the coal industry for the future until 2030. Priority was given to issues related to improving the environmental situation in the regions, and the receipt of high-value products from coal,” he said..

METALS

According to the analysis of the AGMP⁵⁹, the mining and smelting industry is one of the most competitive and dynamically developing sectors of Kazakhstan's industry. It employs almost 164,5 thousand people of basic occupations. In Kazakhstan, 30% of the world's chrome ore reserves are concentrated, 25% - manganese ores, 10% - iron ore. The reserves of copper, lead and zinc are 10% and 13% of the world, respectively. The total geological reserves and forecasted resources of coals of the Republic of Kazakhstan are estimated at 150 billion tons. Of the 105 elements of the periodic table in the bowels of Kazakhstan revealed 99, explored reserves of 70, involved in the production of more than 60 elements. According to the total volume of mining of solid minerals, the republic ranks 13th in the world among 70 mining countries. The mining and metallurgical complex of Kazakhstan today is mainly focused on the export of its own products. The main importing countries of the mining industry are Russia, China and the European Union. Data on export of ores are presented in the Table 3.

Nevertheless, in 2015, according to the PwC Report “Mining, 2016”, there was a rapid drop in commodity prices (25%). During the year there was a fluctuation in prices for individual commodities, while the most negative dynamics was demonstrated by the prices for nickel: the drop was 41%. Almost the same dynamics showed prices for iron ore, falling by 40%. The price of gold fell by a relatively modest amount of 14% in 2015 and, moreover, significantly recovered in the first quarter of 2016. By the end of 2015, the market capitalization of Top 40⁶⁰ companies was 494 billion USD, a decrease of 37% compared to the level for 2014 and reached its lowest level since 2004. In fact, all the benefits that the industry received during the super-cycle of rising commodity prices were lost. The current market capitalization of companies from the top 40 list is only a third of the same indicator five years ago and returns to the level at which it was before the huge investment was made to increase the supply at a time when demand growth rates began slow down. The increase in market capitalization was demonstrated only by nine of the 40 largest companies (these nine companies include four gold mining companies, which reflects a more positive dynamics of gold prices than other commodities).

PwC notes extremely high volatility: in 2016 there was a sharp recovery in commodity prices, but analysts say it is premature to say that in 2015 the market has bottomed out. At the beginning of 2016, the companies that make up the Top 40 were marked by the growth of market capitalization: by the end of April, it had increased by 30%. The

⁵⁹ http://www.agmp.kz/page/view/o_gmk_kazahstana

⁶⁰ Such companies as Cameco, Glencore, Rio Tinto are represented in Kazakhstan.

reason for these changes is the increase in commodity prices, which has been observed since the beginning of the year, as well as control and regulation of debt relations in the market. Diversified and gold mining companies were the biggest winners as a result of a jump in the prices of gold and iron ore. In the coal mining sector, on the contrary, recovery was not observed, which serves as a reminder of the problems faced by this sector. In 2015, in the iron ore market, prices plummeted to levels unprecedented since the global financial crisis. Volatility (considered at time intervals of 10, 30, 50 and 100 days) reached record levels in 2015 and intensified, albeit unexpectedly, in early 2016. It is unlikely that world demand for iron ore will return to pre-crisis levels. Demand from China alone is not enough to restore the commodity market. However, demand is just one aspect of the situation with volatility in iron ore prices. The state of this commodity segment was also influenced by speculative operations with futures. Many industry executives publicly welcomed the recent attempts by the Chinese government and commodity exchanges to solve the problem of speculative trading by reducing trading sessions and increasing commissions for deals.

In early 2016, the situation improved slightly. Commodity prices generally rose, and by the end of March 2016, the “HSBC Global Mining Index” rose 13%. In the same period, the dynamics of the shares of the 40 largest mining companies was even more impressive: their market capitalization increased by 29 %.

Dynamics of prices for basic metals (according to the analysis of KIDI):

In December 2016, prices for all base metals, except aluminum and nickel (prices for which slightly decreased compared to the previous month), show a significant increase due to the strengthening of demand from China and the expectations of an increase in infrastructure costs in the USA.

The most significant increase in prices is observed in prices for iron ore (+ 83% against the previous year). At the same time, in December 2015, iron ore prices fell to a record low for the last seven years.

It is also worth noting that in December the fall in prices for uranium, which lasted from October 2015, was stopped. In 2016, prices for uranium fell to record low in recent years, quotations due to the reduction in demand from the USA. However, the recent increase in the price of uranium leads to the fact that the world's leading energy suppliers tend to switch to uranium as an alternative. In addition, the administration of the new USA president expressed a desire to invest more in nuclear energy.

Prices for precious metals declined in December due to the beginning of the growth of long-term profitability of securities. This is due to the increase in December interest rates of USA FRS by 0,25 percentage points, which signals the strengthening of confidence in the stability of economic growth in the USA.

Table 7. Precious metals prices

Metal	Price (in USD)	% change	
		To the relevant period of last year	To previous month
Copper	5 523	17,4	3,6
Aluminium	1 704	13,6	-0,4
Zinc	2 558	60,6	3,5
Lead	2 000	11,3	0,7
Iron ore	80	82,6	6,8
Uranium	20,4	3,6	8,1
Gold	1 145	8,10	-7,0

IMF resources, Commodity market monthly

¹ the price is indicated per one pound, U₃O₈

² the price is indicated per one ounce

The view of point of the head of the gold mining company⁶¹ is as following: “The price of precious metals was speculatively lowered to the very bottom in 2015. What is due to? It's no secret that the volumes of “paper” gold are much larger than the actual ones, and, accordingly, it is unprofitable for major players of the financial sector, in the person of funds and banks, that prices are currently growing. From the point of view of the development of the world economy as a whole, there are prerequisites for pessimistic forecasts, since in 2015 we already observed a fall. There is an impact of political aspects that worsen the economic situation, reducing the price of metals, in particular price of gold. Last year, we expected that the price per ounce would be 1150 USD, but in fact we get no more than 1090 USD. Accordingly, the state of metal prices is unpredictable. 40 organizations specializing in this are trying to predict the prices for gold. The percentage of realized forecasts is less than 1%. Therefore, ten-year forecasts are completely irrelevant in this industry. Analyzing the data for 2015, the conclusion can be made that even with positive changes in the global economy, we should not expect an increase in prices of metals”.

URANIUM

According to the National Energy Report of “KazEnergy” in 2015⁶², Kazakhstan takes the fourth place in the world on reliable estimated uranium reserves and the first place on the extraction of natural uranium (more than 1/3 of the world's production). If we take into account only those reserves which production costs are less than 80 USD per 1 kg of uranium (which is equivalent to 31 USD per pound of U3O8), Kazakhstan is the second largest uranium reserve in the world in the amount of 0,2 million tons (16,5% of the world's total reserves), losing only to Canada. The uranium mining can be carried out at relatively low cost.

Currently, all of the produced uranium is exported, primarily to China, as well as to the EU countries, South Korea and the United States. The competitive advantage of Kazakhstan is that the bulk of the confirmed and expected uranium reserves is deposited in sandstone formations developed by the underground leaching method, which is more economically efficient and causes less damage to the environment than traditional methods of mining (from firm rock). In 2016, according to the information of Kazatomprom a forecasted production volume – 24 000 tons (in comparison, uranium production by JSC “NAC “Kazatomprom” in 2015 amounted to 12,9 thousand tons or 21% of the world uranium production).

As for today, Kazakhstan has markets that provide demand for the marketing of uranium, and expands export volumes at a rate that depends on the opportunities for increasing production in the country. In addition, according to forecasts, the demand for uranium on the world market in the period until 2035 will grow practically under any economic conditions due to the growth of electricity generation at nuclear power plants. At the same time, the recent growth in exports from Kazakhstan coincided with the rapid increase in demand in China, which is the main buyer, that accounts for more than half of exports from Kazakhstan. However, the recent increase in exports from Kazakhstan coincided with a fast increase in demand from China, which may become unstable after China fulfills the necessary uranium reserves on its territory.

At present, Kazakhstan participates not in all stages of nuclear fuel production. Uranium mining and primary processing are carried out in the republic. After processing, part of

⁶¹Stanislav Ryaskov, general manager of JSC “Central Asia Gold Corporation”, Interview CEO PwC 2016

⁶²http://www.kazenergy.com/images/NationalReport15_Russian.pdf

the uranium is sent to Russia for conversion and enrichment (at joint ventures with the attendance of state holding company “Kazatomprom”, specializing in nuclear fuel, and Russian partners), and then is returned to Kazakhstan, where it is used in the production of fuel pellets at the “Ulba Metallurgical Plant” (UMP). The current capacity utilization for production of fuel pellets at UMP is only 1-2% of the project due to the fact that in 2008 Russia stopped importing them in favor of purchases from its own producers. In order to increase the added value in the export of uranium products, several joint projects are implemented to create enterprises for the production of fuel assemblies for nuclear reactors in Kazakhstan. The country is also actively developing plans for the construction of one or more nuclear power plants.

JSC “NAC “Kazatomprom”, which belongs to the state (through JSC “SWF “Samruk-Kazyna”), is the major player in the nuclear industry, but the main production activity is carried out through joint ventures with participation of JSC “NAC “Kazatomprom” and foreign investors. The mining volume, which the company has, is about 56% of the total volume in the country. At present, there are 22 contracts for uranium mining in Kazakhstan, while 70% of production volumes are provided by joint ventures of JSC “NAC “Kazatomprom” and foreign investors.

Uranium exports are strictly regulated by the state and the IAEA. For example, for the transportation of uranium to export markets, railway wagons which are specially designed for this purpose are used. China is the largest importer of uranium from Kazakhstan: it accounts for more than half (56%) of the total volume of Kazakhstan exports. According to trade statistics, between 2010 and 2014, China imported over 80 000 tons of uranium, or an average of 16 000 tons per year, 70 percent of them from Kazakhstan. Nevertheless, such a level of demand may not persist in the long perspectives.

JSC “NAC “Kazatomprom” is the owner of three specialized enterprises that produce uranium concentrate consisting of uranium oxide. A number of other mining companies (JV with JSC “NAC “Kazatomprom) also have their own processing facilities. There are no capacities for conversion and enrichment of uranium in Kazakhstan. A joint venture, established in 2013, with equal shares of JSC “NAC “Kazatomprom” and Russian fuel company “TVEL” owns 25% plus one share of the Urals Electrochemical Combine (Sverdlovsk oblast, RF), the world's largest uranium enrichment plant, processing hexafluoride of uranium. In addition to the Urals Electrochemical Plant, a part of uranium from Kazakhstan is enriched in the International Uranium Enrichment Center (IUEC) in Angarsk, 10% of which belongs to JSC “NAC “Kazatomprom”. JSC “Ulba Metallurgical Plant” (UMP) produces fuel pellets (from already enriched uranium) and has the opportunity to launch production lines for the following components of nuclear fuel. Uranium concentrate of Kazakhstan provides about 40% of the world nuclear power needs and is supplied to almost all countries of the world where nuclear power plants are used. About 950 tons⁶³ were to be shipped to Iran.

In recent years, a number of joint initiatives have been taken to establish plants in Kazakhstan for conversion and production of fuel assemblies in order to increase the added value of uranium products and the load of fuel pellet production. In 2014, between JSC “NAC “Kazatomprom” and the China General Nuclear Power Corporation was reached an agreement, which provides for the construction of a fuel assembly at the UMP facility with a production capacity of 200 tons per year with the prospect of further expansion.

⁶³<http://energo.gov.kz/index.php?id=10827>

Kazakhstan proposed an initiative to deploy Nuclear Fuel Bank on its territory under the auspices of the IAEA to enable the countries developing nuclear energy to gain open access to low enriched uranium, to build up fuel reserves and strengthen the nuclear non-proliferation regime. In 2015, Kazakhstan and the IAEA reached a final agreement on the placement of the Nuclear Fuel Bank in Kazakhstan (the site will be located at UMP). In connection with the agreement on the solution of the Iranian nuclear problem, supplies of low-enriched uranium from Iran have become possible to replenish the reserves of the Nuclear Fuel Bank.

Although Kazakhstan has not yet restored its own nuclear power generation capacities (from 1973 and 1999 there was only one nuclear power plant in the country), the country is also actively planning the development of nuclear energy, with the construction of one or more new nuclear power stations (NPS) including to support domestic consumption of nuclear fuel. With the presence of the unique scientific research base in Kurchatov city for nuclear research and nuclear power, Kazakhstan can be recommended an initiative to create an international site for the development and construction of experimental-industrial reactors of the 4th generation. This initiative will allow Kazakhstan to become a significant participant of a science-intensive and high-tech program.

Minister of Energy Kanat Bozumbayev believes that, despite the difficulties in the world uranium market, Kazakhstan will remain at the leading positions in its extraction⁶⁴: “At present, there is an oversupply of uranium on the world uranium market and this trend continues from 2011 - this is the post-Fukushima period. During the whole of 2016 there was a fall in prices to the level of a 12-year period. Due to the deteriorating situation on the world natural uranium market in January 2017, it was decided to reduce the volume of uranium mining by 10% to 22 thousand tons. I would like to note that the market reacted to this decision, as a result, the price of uranium rose by 20%”. According to him, despite the existing difficulties in the world uranium market, Kazakhstan intends to save a leading position in production: “It is expected that uranium excess will remain in the market until 2020, as a result of which high volatility of prices for uranium and an imbalance of supply and demand are foreseen. Despite the current situation on the world market, Kazakhstan intends to maintain a leading position in the extraction of uranium”.

The Minister pointed out that the nuclear industry of Kazakhstan is one of the most promising resource industries in terms of developing technological potential. “With rational use of uranium in following 50-80 years, Kazakhstan will have an advantage in comparison with economically developed countries, where natural resources are less significant and significantly exhausted”.

Lithium

In June 2016, the President of Kazakhstan, Nursultan Nazarbayev, during the 30th plenary meeting of the Foreign Investors Council (FIC), announced a number of promising areas for further cooperation, in particular, drew investors' attention to rare-earth metals, namely, lithium.

“Technologies with the usage of rare-earth metals are actively developing around the world. According to experts, demand for lithium by 2025 can triple to 550 thousand tons per year. Therefore, lithium was dubbed as an “white oil”. Kazakhstan has large

⁶⁴<http://energo.gov.kz/index.php?id=10795>

reserves of various rare earth metals, including lithium. I suggest investors consider this sector for investment together with our government”, - said the head of the state.⁶⁵

An interest in lithium production is due to its use in the production of batteries. According to the PwC Report “Mining, 2016”, lithium has been taking the “favor of investors”: recently prices have increased almost twice. During the past year, there was an unprecedented demand for lithium, which is due to its wide application in the production of batteries. One of the main reasons for this process is the expected transition in the coming decade from the use of cars that run on hydrocarbon fuels to electric vehicles. According to Deutsche Bank's current forecasts, the volume of the world lithium market will increase triple times over the next ten years. As for the steady growth in demand for lithium, there are two questions to be arisen: 1) whether the lithium battery technology will be replaced by other sources of energy, such as hydrogen fuel elements, and 2) whether the rapid increase in demand for lithium, connected with the expected introduction of electric vehicles, to overproduction, and then to the end of growth in the volume of supplies? However, it is unlikely that the substitution of lithium will occur in the near future. Major corporate players, especially in the electric vehicle market, are developing their products based on lithium-ion technology, and this situation cannot change overnight. Time will show whether the demand for lithium will continue in the long term, since with the advent of other technologies using new metals, lithium can be ousted from the leading positions by other commodities. Mining companies quickly move to the South American market, and Deutsche Bank predicts a threefold increase in the volume of supplies over the next 10 years.

GOLD

Gold producers produced 74,6 tons of precious metal for 2016 – 17,1% more than a year earlier. Two thirds were provided by the enterprises of Akmola and East Kazakhstan oblasts, the analytical service Energyprom.kz⁶⁶ reports.

The largest volumes of production were registered in 2016 in the Akmola oblast – 35,1% of the Republic of Kazakhstan, 26,2 tons, + 25,9% per year. In the region there are such large companies as JSC “Altyntau Resources” (a subsidiary of “Kazzinc”), “MMC Kazakhaltyn”, “RG Gold”, etc.

On the second place East Kazakhstan oblast - 30,7% from RK, 22,9 tons, + 6,2% per year. For example, the Altai Ken-Bayytu gold recovery plant, the Altyntau Vostok branch, the Kamp-Vostok production and processing company, etc.

Closes the top three leaders in the production of raw and semi-processed precious metal Astana – 16,6% of the RK, 12,4 tons, + 22.6% for the year. The refinery of Tau-Ken Altyn LLP (a subdivision of the National Mining Company Tau-Ken Samruk) is located in the capital.

A brief review of the RK gold mining industry by reference⁶⁷.

Export - in 2016 Kazakhstan sold rough gold for 22 thousand USD to foreign countries, whereas a year earlier this volume was 17,4 million USD (according to the Committee of state incomes⁶⁸): the reduction in the sale of this metal was 99,9%⁶⁹. The whole volume of exports fell to the UK. Kazakhstan delivered to the country 0,1 tons of gold for 22 thousand USD.

⁶⁵https://www.kt.kz/rus/economy/nazarbaev_prizval_inostrannie_kompanii_investirovatj_v_dobichu_litija_v_kazahstane_1153641774.html

⁶⁶<http://mk-kz.kz/articles/2017/02/08/v-kazahstane-rastet-proizvodstvo-zolota.html>

⁶⁷<https://zolotodb.ru/news/11194>

⁶⁸http://kgd.gov.kz/ru/exp_trade_files

⁶⁹<https://ism.kz/kazahstan-sokratil-eksport-zolota-na-99>

Gold in other unprocessed forms, in ingots with a content of not less than 995 parts of gold per 1000 parts of alloy	0,1tonne	\$9,5 thous.
United Kingdom	0,1	9,5
Gold in other unprocessed forms, other	0,1	12,5
United Kingdom	0,1	12,5

Kazakhstan continues to increase its gold reserves. The National Bank has the preemptive right to purchase gold in Kazakhstan. The reserves of precious metal in the structure of gold and foreign exchange reserves of the National Bank at the end of 2016 amounted to 254,7 tons. According to the report of the World Gold Council, at the beginning of January 2017, the share of gold in the structure of international reserves of the country is 32,4%. Kazakhstan is on the 21st place in terms of precious metal. For comparison: at the end of 2015 the National Bank had 221,8 tons of gold⁷⁰.


SILVER ⁷¹.

The production of raw and semi-processed silver amounted to 1,18 thousand tons in 2016 (9,6% less than in the same period a year earlier). In the minus column - both key producer regions: EKO – 840,5 tons, -10,2% for the year, Karaganda oblast – 337,1 tons, - 8,3%. In the significant plus only Pavlodar region - at once by 74,9%, up to 2,6 tons (however, this is only 0,2% of the RK).

Large producers of silver in the RK are companies such as KAZ Minerals (silver - associated products, like gold, the main product is copper), Kazzinc (silver is also an associated product, the main one is zinc, it also produces copper and lead), and the Russian company Polymetal International plc (besides silver it also produces gold and copper).

For January-December 2016, exports of raw or semi-processed silver, as well as silver in the form of powder, reached 1,17 thousand tons and 584,6 million USD. Deliveries of the Republic of Kazakhstan to foreign markets in kind decreased by 8,8%, however, in monetary terms, they increased by 21,2%. From the total volume of exports in money, silver amounted to 1,6% in 2016, compared to 1% in 2015.

The main importing country of Kazakhstan silver is Great Britain. Also in 2016, supplies to Italy started (though this is only 0.002% of exports). In 2015, silver was also exported to Hong Kong.

Export. January - December 2016. Unprocessed or semi-processed silver, or in powder form						
	2016		2015		Annual growth	
	tons	\$thous.	tons	\$thous.	tons	\$thous.
<i>Unprocessed or semi-processed silver, or in powder form</i>	1 169,8	584 583,4	1 282, 5	482 419, 8	-8,8%	21, 2%
<i>United Kingdom</i>	1 169,8	584 583,4	1 275, 8	479 270, 5	-8,3%	22, 0%
<i>Italy</i>	0, 028	13, 0			-	-
<i>Hong Kong</i>			6,7	3 149, 3	-	-
<i>*Data for 2016 - operating</i>						
Source: KC RK MNE						

⁷⁰ <https://lsm.kz/nacbank-narastil-zapasy-zolota-do-maksimal-nogo-urovnya>

⁷¹ <http://www.energyprom.kz/ru/a/monitoring/kazahstan-v-2016-godu-sokratil-postavki-serebra-na-vmeshnie-rynki-na-9-odnako-zarabotal-na-eksporte-etogo-metalla-na-212-bolshe>

The largest enterprises of MMC of Kazakhstan are the following⁷²:

- **ERG – “Eurasian Resources Group” (formerly ENRC)**⁷³ is one of the world's leading mining and processing groups, with integrated mining, processing, energy and logistics companies. “Eurasian Resources Group S.a.r.l.” (ERG) company is registered in Luxembourg, in 2014. The Company celebrated its 20th anniversary. For today, “Eurasian Resources Group” is the largest producer of ferrochromium, and one of the main producers of iron ore and alumina in the world. The production assets and development projects of “Eurasian Resources Group” cover four continents, and the Company is also the largest employer in the industry. The Group is represented by more than 80 000 employees among the world.

Assets in the Republic of Kazakhstan have always been a priority for the Company. To date, ERG represents more than 4% of the GDP of this country and about a third of its metallurgical and mining industry. It is also the main electricity supplier in the country. JSC “TC “Kazkhrom”, JSC “SSGPO”, JSC “Aluminium of Kazakhstan”, JSC “Kazakhstan Electrolysis Plant” (JSC “KEP”), JSC “Eurasian energy Corporation”, JSC “Shubarkol Komir” and Transport Group “TransKom” are the main assets of the Group in the republic.

- **KAZMinerals (formerly LLP “Kazakhmys Corporation”)**⁷⁴ – is a fully integrated company, the activities of which cover all stages from ore mining to the production of marketable metal. The main activity of the company is the extraction and sale of copper. The copper extracting unit also produces large volumes of other metals as co-products, such as zinc, silver and gold.

After the completion of the reorganization, “Kazakhmys” Group was renamed into KAZ Minerals. The Group retained mining and processing enterprises of the Eastern Division, the “Bozymbchak” mining complex in Kyrgyzstan, and three major growth projects (“Bozshakol” “Aktogay” “Koksay”). As a result, the Group has become compact, but with a clearer profile of activity and significant growth potential as projects to expand production are implemented. In 2015, the Group's revenue was 665 million USD (81 000 tons of cathode copper, 94 000 tons of zinc in concentrate, 3,135 million ounces of silver in granules and 35 000 ounces of gold were produced).

The expected volume of production in 2016 will be about 135-145 thousand tons of copper in cathode equivalent, 70-75 thousand tons of zinc in concentrate, 95-115 thousand ounces of gold in the equivalent of ingots and 2,5-2,75 million ounces of silver. As of January 1, 2017, the market capitalization of KAZ Minerals was 2,0 billion USD.

- **LLP “Kazzinc”** – is a large integrated producer of zinc with a large share of concomitant output of copper, precious metals and lead.
- **JSC “ArcelorMittal Temirtau”** – is the largest enterprise of the mining and metallurgical sector of the Republic of Kazakhstan, which is an integrated mining and metallurgical complex with its own coal, iron ore and energy base.

⁷² ERC and KAZ Minerals are among the top five companies with the maximum income (mentioned above)

⁷³ <https://www.erg.kz/ru/content/o-kompanii/struktura-evraziyskoy-gruppy-2>

⁷⁴ http://www.kazminerals.com/ru/about_us/group_restructuring

- **JSC “NAC “Kazatomprom”** – is the national operator of Kazakhstan for the export of uranium and its compounds, rare metals, nuclear fuel for nuclear power plants, special equipment, technologies and dual-use materials.
- **LLP “Bogatyr coal”** – is the largest in Kazakhstan, a dynamically developing company on the extraction of coal by the open method. The Company accounts for 70% of the total coal produced in the Ekibastuz coal basin.

Also, the large metallurgical enterprises of the Republic include JSC “Ust-Kamenogorsk Titanium and Magnesium Plant”, LLP “Temirtau electrometallurgical plant”, LLP “Taraz metallurgical Combine”, LLP “KSPSteel” and others.

COMPANIES OF THE EXTRACTIVE SECTOR (registers of licenses and beneficial owners).

The above is a summary of the largest companies in the extractive sector in RK, both in the oil and gas and mining sectors. More detailed information about the license holder (in accordance with the EITI Requirement 2.3⁷⁵) can be found in the open electronic register <http://elicense.kz/>

According to the Law of the RK “On Licensing” (with amendments and additions as of July 15, 2010) the electronic register of the licensor⁷⁶ - is an integral part of the state electronic license register containing information on licenses issued, reformed, suspended, renewed and terminated by the licensor.

For the comparison of the data in electronic register of the RK and EITI requirements:

Electronic register	EITI standart
The electronic register of the licensor and the state electronic register of licenses shall contain the following information:	2.3.b) Implementing countries should maintain a publicly accessible register or cadastral system (systems) with timely and comprehensive information concerning to each license available to companies represented in the EITI Report:
- name of licensor;	i. Holder (holders) of license;
- date of issue and license number and (or) Attachment to the license;	iii. The date of the application, the date of granting the license, the term of the license;
- surname, name, father’sname (if available), place of residence, data of the identity document of the individual, as well as the number and date of issue of the certificate in the case of state registration of an individual as an individual entrepreneur - for an individual entrepreneur;	
-name, location, number and date of issue of a certificate of state registration (re-registration) of a legal entity - for a legal entity;	
- type of activity and (or) sub-types of activity;	If it is a license for mining activity – the name of mining product.
- license validity period;	
- taxpayer registration number;	
- the number of the payment order and the date of payment of the license fee;	
- the reason and date of re-registration of the license and (or) the Attachment to the license;	
- the reason and dates of suspension, renewal of the license;	

⁷⁵Guidance manual 3: Licenses registers, <https://eiti.org/guidance-notes-and-standard-terms-reference#GN3>

⁷⁶licensor is a state body that carries out licensing in accordance with existing Law;

Electronic register	EITI standart
- the reason and date of suspension of the validity period of the license.	

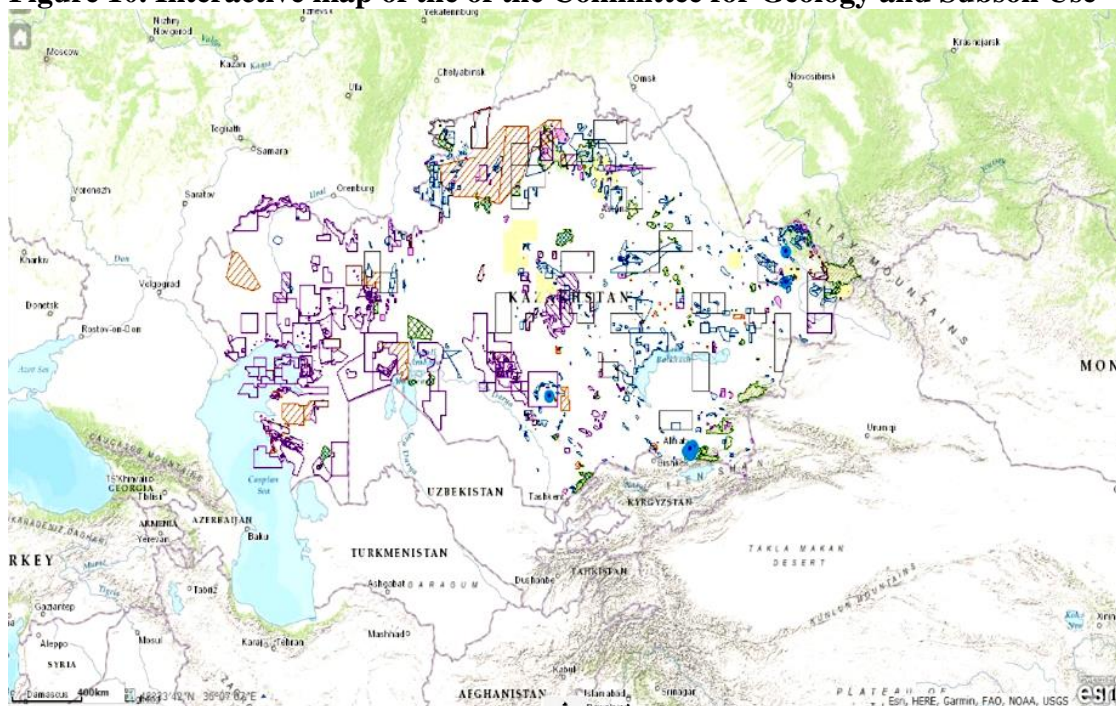
This license register contains information on the licenses of all companies, including companies that do not participate in the EITI report (i.e. when their payments are below the agreed threshold of materiality). However, to obtain all information it is necessary to know the source data, for example, BIN. And there is no list of license holders open to the public on the site.

Also the information is also available on the website of the RCGI “Kazgeoinform” (<http://rcgi.geology.gov.kz/ru/direction-of-activity/17-technological-support>) on the Interactive map of the location of the existing subsurface facilities in the Republic of Kazakhstan (Figure 10). For each site there are data that include the contract number, type of activity, type of mineral, data on the subsurface user, as well as its requisites. There are also working layers “State Geological Exploration of Subsoil resources”, “Specially Protected Natural Territories”, there is a division according to the territorial affiliation of interregional departments.

On the issue of disclosure of the coordinates of the land of the license⁷⁷.

⁷⁷ 2.3.b.ii“...When the coordinates are not selected, the government must ensure that the size and location of the license area is disclosed in the license register and that the coordinates are disclosed to the public through the appropriate state body without restrictions.

Figure 10. Interactive map of the of the Committee for Geology and Subsoil Use



Interactivemap, site of Committee of geology and subsoil use of MID of RK

A full list of subsoil users with the number and type of the contract, date of issue, object and place (area) of subsoil use, as well as type of minerals is on the website of the Committee of Geology of the Ministry of Investment and Development of the Republic of Kazakhstan (updated annually on January 1, information - from 2015) in the Press Center section - Useful information - Subsoil users of the RK:

- Alistof hydrocarbon crude on 01.01.2017 - <http://geology.mid.gov.kz/ru/pages/uglevodorodnoe-syre>
- Alistof solid commercial minerals on 01.01.2017 - <http://geology.mid.gov.kz/ru/pages/tverdye-poleznye-iskopaemye>

It should be noted that one company may enter into several contracts, and one contract may have subsoil use rights for several facilities:

- on the HC on January 1, 2017, there are 178 subsoil users in the list that have concluded 214 contracts for 236 facilities.
- On SCM – accordingly 366 subsoil users, 520 contracts for 538 facilities.

Detailed **information on the owners of licenses for exploration and production of minerals** in the RK will be fully disclosed by 2020. According to EITI Requirement 2.5a, “it is recommended that implementing countries maintain a publicly accessible register of beneficiaries⁷⁸ of corporate units that are involved in the bidding, exploit and invest in extractive industries assets containing the names of their beneficiaries, the level of ownership and information about how the property is owned or controlled”.

As noted in the EITI Report 2015, there is currently no precedent in Kazakhstan for maintaining a public registry of beneficiaries of corporate organizations that are participating in a tender, exploiting or investing in extractive industries, indicating the names of beneficiaries and their level of participation (including politically exposed persons).

⁷⁸2.5.a.The beneficiary in relation to the company means an individual (persons) who directly or indirectly owns or controls a corporate entity.

Partially some isolated information about the beneficiaries of certain companies at the moment can be obtained from:

- the data on companies on the website of the stock exchange www.kase.kz, if the company is public;
- the website of electronic government <http://egov.kz/cms/kk>;
- the website of depository of financial statement <https://dfo.kz>;
- the reports of some companies on their websites.

At the moment, there is no list of ultimate owners (beneficiaries) of subsoil companies in Kazakhstan open to the public.

As it is Clarified, if the company is public, it means that information about their owners is contained on the websites of exchanges, where these companies are listed. To date, it is difficult to say how many of the 159 companies reporting under the EITI in 2016 are public. For example, the following companies among the major players in the extractive sector mentioned above, are traded on the exchanges (information taken from their sites):

- TCO – “Chevron” and “ExxonMobil”⁷⁹ – on New York stock exchange NYSE, “LukArco” (belongs to Lukoil);
- KPO - a member of the consortium is listed: “Eni” – on Milan and New-York stock exchange⁸⁰, “Shell” – on Amsterdam, London and New York stock exchange⁸¹, “Chevron” - NYSE⁸², “Lukoil” - on Moscow, London and Frankfurt stock exchanges⁸³;
- JSC “KMG “EP” is listed on Kazakhstan and London stock exchanges;
- ERG - group members – on London stock exchange;
- KAZ Minerals⁸⁴ - the Group's shares are listed on London, Kazakhstan and Hong Kong stock exchanges.

The issues of the beneficial ownership (BO) were discussed at the NSC and with stakeholders. On May 17, 2016 at a meeting of the NSC (Protocol 59⁸⁵). The National Council agreed on the implementation of the requirement to disclose beneficial owners and decided to develop a Road map by September 2016, for which the parties had to submit their proposals within a month. A Working Group was established under the NSC on the implementation of new EITI requirements. At the meeting in September (Protocol 61⁸⁶) the draft of Road map was considered, in particular, the issues of coordination with state bodies, the appointment of responsible persons and sources of funding. The work was carried out within the framework of the Code “On Subsoil and Subsoil Use (CoS), as the provisions on beneficial owners were included in the CoS project. Also it was held a training in Astana in November 2016 on the implementation of the requirement to disclose the final beneficiary and prepare Kazakhstan for validation, organized by the EITI International Secretariat. Among more than 30 participants there were members of the National Council and other representatives of stakeholders, members of the Working Group on the implementation of new requirements, the Working Group on Validation, invited experts and representatives of

⁷⁹ <https://www.nyse.com/quote/XNYS:XOM>

⁸⁰ https://www.eni.com/en_IT/investors/eni-on-the-stock-markets/listing-and-indices.page

⁸¹ <http://www.shell.com/investors.html#iframe=L1NvbHV0aW9ucy9TaGVsbC8yMDg4L21pbmlxdW90ZTluYXNweA==>

⁸² <https://www.nyse.com/quote/XNYS:CVX>,

⁸³ <https://en.wikipedia.org/wiki/Lukoil>

⁸⁴ <http://www.kazminerals.com/ru/>

⁸⁵ <http://eiti.geology.gov.kz/images/stories/IPDO/protocol/protocol59.pdf>

⁸⁶ <http://eiti.geology.gov.kz/images/stories/IPDO/protocol/protocol61.pdf>

the national secretariat. On December 22, 2016, the “**A roadmap for the disclosure of beneficial ownership**” (**RDBO**)⁸⁷ was approved by the National Council of the Interested Parties of the EITI of Kazakhstan (Protocol 63⁸⁸).

The *RDBO* includes the development of definitions and thresholds, the collection and publication of data, the level of disclosure and verification of data. In the “EITI Work Plan of the RK for 2017-2018”, the disclosure of beneficiaries is indicated as a priority task, the implementation of which can be beneficial to all interested parties. For companies, this is an improvement in the investment climate (investors will have confidence in what they invest in), reducing reputational, financial and legal risks associated with suspicious assets or politically significant persons. For the government - to attract larger and high-quality investments, reduce reputation as a corrupt country, ensure tax payments by companies to prevent income concealment and tax evasion, and ensure that the country receives all the funds it owes to its extractive sector assets. For tax and other government agencies - the opportunity to ban illegal practices. And also for civil society, it is combating corruption and illegal financial flows, improving the accountability of government and companies, reducing mistrust⁸⁹.

According to the Roadmap, discussions began in 2016 on the relationship of the BO with national priorities and institutional frameworks.

A pilot project was launched by Competent bodies in the field of subsoil use, which are part of the Ministry of Energy and the Ministry of Investment and Development, for the voluntary disclosure of the ultimate owners. At the time of writing the report, only 30% of subsoil companies participated in the pilot, and information on owners was mostly provided by open companies that are already listed on KASE or the London Stock Exchange, including national enterprises. The reason for the low percentage of disclosure on a voluntary basis is the need to harmonize the legislation in this part in such a way that, on the one hand, investors' interests are protected in terms of information, and on the other hand, to make it open⁹⁰.

From January 1, 2020, the Standard requires that the implementing countries request and the companies disclose information on the beneficial interest for inclusion in the EITI Report. Companies will be required to indicate the identity of their beneficiaries, the level of their ownership and information about how ownership or control is exercised.

⁸⁷ <http://eiti.geology.gov.kz/ru/homepage/bo-roadmap>

⁸⁸ http://eiti.geology.gov.kz/images/stories/IPDO/protocol/protocol_63.pdf

⁸⁹ http://eiti.geology.gov.kz/images/stories/ipdo2/work_plan/work1718.pdf

⁹⁰ <http://eiti.geology.gov.kz/ru/about-us/eiti-news-kazakhstan/222-vy-chikh-budete>

GEOLOGICAL EXPLORATION (GE)

Strategies and investments. Above, in the section on the review of the oil and gas sector, there was a need to increase the increment and replenishment of reserves by attracting investments in geological exploration and systemic measures to stimulate investment, developed by the ME of RK and MID.

Analyzing the development trends of the mining sector in 2016, the experts of LLP “Deloitte” stressed that geological exploration is an alpha and omega of the industry, the basis of which is depleted resources. At the same time, in 2013, on attraction of investment in sq. km. Kazakhstan was almost the last in the world. 20 USD was spent at 1 sq. km in about a year, China spent 45 USD, Australia - 167 USD, Canada - 203 USD⁹¹.

Figure 11. Level of geological exploration by countries



Figure –Level of GE by countries⁹²

In terms of costs for geological exploration, world experts predict a decline in costs for the period up to 2020.

Figure 12. A forecast of geological exploration costs for the period up to 2020.

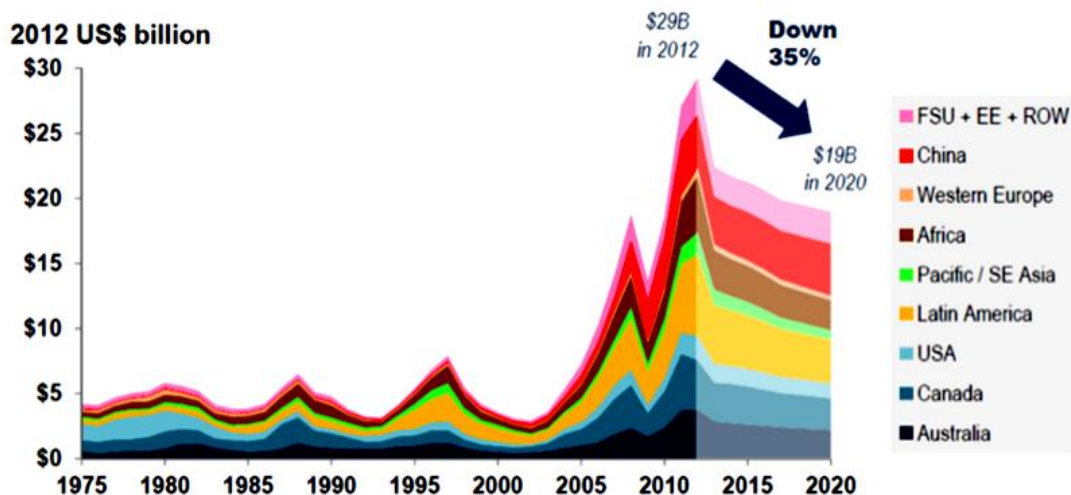


Figure – forecast of GE costs for the period up to 2020.

⁹¹<https://articlekz.com/article/13817>

⁹²<http://www.minexrussia.com/2014/ru/point-of-view/>

According to the information-analytical agency “CNL Metals & Mining”, early in 2014, the global volume of expenses for geological exploration decreased by 26%. At the same time, budgets fell from 22 billion USD (threshold in 2012) to 11,4 billion USD. Previously, it was noted that with a general increase of reserves in Kazakhstan over the past three years, the increase in the result of exploration was only 36%. Investments in oil and geological exploration should amount to about 1 billion USD per year.

In 2014, the “Geological Exploration Program in the RK” for 2015-2019 was approved by the Government of the RK on May 21, 2014. It was aimed at studying the territory of Kazakhstan to estimate the forecast resources, to strengthen the mineral resource base by opening new mineral deposits, filling the database with digital geological information and liquidating emergency oil and gas wells.

On October 7, 2016, the Government of the RK recognized this decision as ineffective. According to the deputy Galina Baimakhanova, in 2015 KZT 11 billion KZT was allocated for geological exploration, and the work has been begun. But in 2016 out of the declared KZT 17,3 billion KZT only KZT 3,2 billion KZT was allocated. According to the Ministry of Investment and Development, KZT 6.3 billion KZT was transferred to local executive bodies for prospecting and exploration work on water⁹³.

Currently, regional search, prospecting and evaluation work is being carried out at the expense of the republican budget, which includes studying the geological structure of subsoil areas throughout Kazakhstan, creating state geological maps, determining prospects for the availability of minerals, estimating the forecast resources, monitoring the state of the subsoil.

The state company which carries out these works is JSC “NEC “Kazgeology” (www.kazgeology.kz).

Exploration and mining operations on sites prepared as a result of regional studies and prospecting are implemented within the framework of subsoil use contracts at the expense of investors. In addition, at present state geological study of subsoil is carried out by companies at their own expense, which makes it possible to further increase the geological study of the territory of the republic, without investing budgetary funds.

HYDROCARBON CRUDE (HC)

• EXPLORATION PRODUCTION JSC “NC “KazMunayGas”

For JSC “NC “KazMunayGas” one of the priority areas is the growth of reserves due to geological exploration – see. “Annual Report of JSC “NC “KazMunayGas” for 2016. In 2016, JSC “NC “KazMunayGas” continued work on current offshore projects (Block “N”, “Zhambyl”, “Satpayev”) and onshore projects (“Urikhtau”, “Kansu”, “East Bekturly”, “Samtyr”, etc.), as well as in accordance with the “Program for Development of Exploration Work for the Period from 2016 to 2020” adopted by the Board of “NC “KazMunayGas”, conducted geological assessment and pre-contract preparation of new projects as “Koskol”, “Korolevskoie” (post-salt), “Beyneu”, “Zhaiyk”, “Saraishyk”, “Zaburunie”, “Buzachi”, “Karabulak” and etc.

As a part of the execution of the instructions of the Head of State, work continued on the international project “Eurasia”. In 2016 LLP “KMG-Eurasia”, which together with “NC “KazMunayGas” held negotiations and consultations with potential project participants to attract investors for joint implementation of the project. According to the estimates of scientists from Russia and Kazakhstan, up to 40 billion tons of hydrocarbon

⁹³<https://kapital.kz/economic/45727/v-kazahstane-sokratili-podderzhku-geologorazvedki.html>

resources are concentrated in the Caspian oil basin, which have not yet been studied by more deep-seated horizons. In order to achieve the strategic goals of increasing the resources of the HC and determining the direction of geological exploration in Kazakhstan, “NC “KazMunayGas” together with LLP “Scientific-Research Institute of production&drilling technology of “KazMunayGas” (SRI PDT) carried out works on two regional projects: “Pre-Caspian” and “Ustyurt Bozashy & Mangyshlak” basins, as a result of which, at the end of the first stage, promising areas were identified and a portfolio of five exploration blocks was compiled. The work on the regional study of the two basins will be continued in 2017.

Also in 2016, “NC “KazMunayGas” initiated and carried out work jointly with SRI PDT in accordance with the approved schedule for the Program for Additional exploration of old deposits for a five-year period from 2017 to 2021. In the framework of “Strategy 2020” (which provides for expansion of the oil-bearing contours based on the results of 3-D seismic exploration and drilling, the identification of deep unopened horizons, the allocation of missed horizons according to the data of JSC “Kazakhstan GIS Center” (Geoinformation Systems and Cartography), and the transfer of reserves from C2 category to C1 category).

Reserves. The strategy of “NC “KazMunayGas” provides for the increase of HC reserves by 2025 in the amount of 1 billion tons. To realize this task, “NC “KazMunayGas” adheres to the position of developing of large-scale geological exploration both in the areas of existing deposits and exploration blocks with confirmed prospects, and in new promising areas. As of January 1, 2017, the proved residual recoverable reserves of oil and gas condensate of “NC “KazMunayGas” (including shares) amounted to 785,8 million tons. The total increase of oil and condensate reserves (including shares) amounted to 7,2 million tons.

- The Ministry of Energy of the Republic of Kazakhstan reported on the discovery of deposits of light oil and gas in the Devonian sediments of the subsalt hill “Ansagan”⁹⁴.

The “Ansagan” field is located in the Zhylyoi region of the Atyrau oblast, the identified oil and gas bearing horizons lie relatively deeper than at the Tengiz field.

The possible reserves of the field are estimated highly, and the planned large volume of geological exploration is aimed at confirming the projected hydrocarbon resources.

Receiving high debits of light oil at the “Ansagan” confirms the great resource potential of the salt deposits at great depths of this territory.

In the future, it is planned to carry out appraisal work at the “Ansagan” field, expand geological exploration in the entire contract territory with the setup of prospecting and exploration drilling in the promising areas of “Maksat”, “Prorva Glubokaya” and others confirmed by detailed seismic surveys.

- In 2016, a new gas field was Clarified in Kazakhstan. Perspective reserves are in Zhambyl oblast. The deposit is located in the south-eastern part of the Shu-Sarysu cavity, in the very center of the Moyinkum sand. Geological and seismic exploration was carried out a year and a half. According to preliminary calculations, hydrocarbon reserves are almost 33 billion cubic meters.

A total of 35 kilometers from this geological structure is the “Amangeldy” field. Exploration work here began in 2016 (according to information of “NC “KazMunayGas”). The new field will give a powerful economic effect and will allow to

⁹⁴<http://energo.gov.kz/index.php?id=9552>

provide the southern regions with domestic gas (it currently consumes about 4 billion m³ per year in the south of the republic)⁹⁵.

The project “Central” (report of “NC “KazMunayGas”). On September 5, 2016, the Federal Agency of the Russian Federation issued a license to LLC “Oil and Gas Company Central” for geological study, exploration and production of hydrocarbon crude in the subsoil located in the Caspian Sea, within which the “Central” structure is located for a period of 27 years (among them 7 years - the stage of geological study). The parties started to ensure the implementation of a set of works on the geological study of the subsoil located in the Caspian Sea, within which the structure “Central” is located.

SOLID COMMERCIAL MINERALS (SCM)

JSC “NMC “Tau-Ken Samruk”⁹⁶ in its Annual Report for 2016⁹⁷ describes the following geological exploration work: “The main objects of geological exploration of the Company are gold and copper deposits. During the year, the Company continued exploration works at 2 subsoil use sites (in Tuyuk - Temirlik ore district and at South-Moytinsky area), the work at the “Spasskaya copper ore zone” is at the exploration stage, the “Shokpar”, “Gagarinskoie”, “Progress” gold ore deposits are being evaluated. At the end of the year, the geological exploration work was completed and the reserves of the “Hadzhikongan” field in the Spasskaya copper ore zone in Karaganda oblast and reserves of placer gold in category C2 at the “Predgorny Ketmen” section in Almaty oblast were put on the state balance.

The total amount of investments invested in geological exploration (for geological exploration and registration of subsoil use rights) for 2016 amounted to KZT 2,14 billion KZT excluding VAT.

In 2017, exploration is planned for the “Tuyuk-Temirlik”, “Upper Kairaktinskoye”, “Spasskoye MPZ” and “Shokpar-Gagarinskoye” fields.

In 2015, the MID of the RK⁹⁸ began geological exploration work with large foreign investors, such as the Australian-British concern “RioTinto”, the South Korean national company “Korea Resources Corporation”, the Australian company “Iluka Resources Limited”, and the private fund for German investments “Ulmus Fund”. At present, work is under way on the border territories with the CIS countries within the framework of the Intergovernmental Council for the Exploration, Use and Conservation of Subsoil. At the same time, the joint international project “Geological Structures and Metallogeny of North - Central - East Asia and Adjacent Territories” is being implemented with the participation of 5 countries (*Russia, China, Mongolia, Republic of Korea and Kazakhstan*). Work is in progress on linking geological maps of the border areas of Kazakhstan and China with the preparation of joint geological, tectonic and mineralogical maps.

According to the Department of Subsoil Use of the MID of the RK, in 2016 two exploration contracts were concluded:

⁹⁵<https://www.kioge.kz/ru/sponsorskie-vozmozhnosti/vystavka/11-press-tsentr/novosti/491-eksklyuziv-v-2016-godu-nachnetsya-razrabotka-novogo-mestorozhdeniya-gaza-na-yuge-strany>

⁹⁶JSC “NMC “Tau-Ken Samruk”, a member of the Group of companies JSC “NWF “Samruk-Kazyna” (hereinafter – the Fund JSC “Samruk-Kazyna”)

⁹⁷<http://tks.kz/storage/0f/0fab22505465af3aea401854c90bd455.pdf>

⁹⁸<http://www.mid.gov.kz/ru/news/v-kazahstane-nachaty-geologorazvedochnye-raboty-s-krupnymi-inostrannymi-investorami>

1. Exploration of nephriteids at the “Akzhal” ore manifestation in Kostanay oblast LLP “AK-TAS SK” protocol of direct negotiations dated January 14, 2016; Contract No. 4999-SCM of November 14, 2016);

2. Exploration of gold-bearing ores at “Karatas-Maibulak” field in Zhambyl oblast LLP “Aurum Deutschland” (protocol of direct negotiations of June 19, 2015, Contract No. 4769-SCM of January 18, 2016).

Also in 2016, “Aurora Minerals Group”⁹⁹ (Consortium) on the request of large-scale foreign investors conducted Aero Geophysical surveys to search for polymetallic and copper-porphyrated ores in the North Kazakhstan and Karaganda oblasts, with a total area of 36 000 linear kilometers.

The research will be carried out on the “Cessna 208” aircraft, on which modern equipment is installed, which makes it possible to carry out a comprehensive aero geophysical survey.

Ensuring the availability of geological information and an international system for reporting on mineral reserves.

To create a favorable investment climate in the industry, as well as high-quality performance of geological exploration work, the department continued work to ensure the availability of geological information. For today, the electronic geological report file is complete by 76%. By the end of the year, 100% implementation is expected. Thus, it will be possible to work remotely with reference information on all geological studies throughout Kazakhstan. The systematic work on updating the data of the Interactive map on solid minerals has been completed. By the end of the year, it is planned to place similar maps for hydrocarbon crude materials and groundwater. To date, 8 manuals have been prepared on types of minerals (deposits of diamonds, titanium, aluminum, copper, lead and zinc, gold, gold placers).

In 2016, Kazakhstan joined to the International Mineral Reserves Reporting System CRIRSCO (*the Committee on International Mineral Reserves Reporting Standards*), on reserves of minerals, which was noted out in the Nation's Plan - 100 concrete steps to implement 5 institutional reforms (step 74). Membership in this body means international recognition of the standards of public reporting developed in Kazakhstan and increasing the competitiveness of the mineral and raw materials sector for international and domestic investments. The adoption of Kazakhstan as a member of CRIRSCO¹⁰⁰ Mining and Metallurgical Congress “Astana Mining & Metallurgy” (AMM 2016).

For reference: In terms of solid minerals, to date, in accordance with the requirements of CRIRSCO in Kazakhstan, the Association of Legal Entities “Kazakhstan Association for Public Reporting on the Results of Exploration Work, Mineral Resources and Mineral Reserves” (KAZRC Association) has been created and a number of documents have been developed (“Kazakhstan Codex of public reporting on exploration results, Mineral Resources and Mineral Reserves” (KAZRC Code), Guidelines for Harmonization of Kazakhstan Reporting Standards the International Standards on the CRIRSCO system; the Code “Professional ethics of the expert”; “The procedure for attracting independent experts and expert groups, conducting an independent

⁹⁹<http://www.aurora-mg.com/?tag=%D0%BD%D0%B5%D0%B4%D1%80%D0%BE%D0%BF%D0%BE%D0%BB%D1%8C%D0%B7%D0%BE%D0%B2%D0%B0%D0%BD%D0%B8%D0%B5&lang=ru>

¹⁰⁰To date, only 9 national organizations representing countries and regions are members of the CRIRSCO Committee. These are CIM (Canada), JORC (Australia and New Zealand), SME (USA), PERC (Europe), SAMREC (South Africa), IMEC (Chile), MPIGM (Mongolia), NAEN (RF), CBRR (Brazil). The standards of all CRIRSCO members are developed according to a single template.

examination of the subsoil and paying for their services”; Charter of the Association of Legal Entities of the “Kazakhstan Association” for Public Reporting on the Results of Exploration Work, Mineral Resources and Mineral Resources (Charter of the KAZRC).

TRANSPORTATION

Consider the transportation of oil, gas and solid minerals in Kazakhstan.

National companies in the transport sector:

- **JSC “KazTransOil”** (100% state share, sole shareholder - “NC “KazMunayGas”) - transportation of oil, export and import of oil and oil products http://www.kaztransoil.kz/ru/o_kompanii/;
- **LLP “NMSC “Kazmortransflot”** - The only shareholder is “NC “KazMunayGas” The main objective of the activity of LLP “NMSC “Kazmortransflot” is the development of the national merchant marine fleet of the Republic of Kazakhstan and the organization of international shipping of domestic cargo by own forces. LLP “NMSC “Kazmortransflot” carries out transportation of dry and liquid cargo (in particular, oil). LLP “NMSC “Kazmortransflot” has four subsidiaries: “Kazmortransflot Ltd”, “Kazmortransflot UK Ltd”, “AltaiShipping Ltd” and “AlatauShipping Ltd”. <http://www.kmtf.kz/obshchai-informatii/>;
- **JSC “KazTransGas”** (the only shareholder of JSC KazTransGas is “NC “KazMunayGas”). The company manages a centralized infrastructure for the transport of marketable gas through gas pipelines and gas distribution networks, provides international transit and sells gas on the domestic and foreign markets, develops, finances, builds and operates pipelines and gas storage facilities. In accordance with the Decree of the Government of the RK No. 914 on July 5, 2012, JSC KazTransGas was determined as the National Operator in the field of gas and gas supply. <http://www.kaztransgas.kz/index.php/ru/>;
- **JSC “NC “Kazakhstan temir zholy”**- has a holding structure based on ensuring the functional integrity and controllability of the railway industry in the transportation process. The sole shareholder of JSC “NC” KTZ” is JSC “NWF Samruk-Kazyna” <http://www.railways.kz/>. The railway transport plays a significant role in the transportation of key energy sources in Kazakhstan, including coal, oil products and uranium, as well as crude oil.

Transportation of oil and gas (*Annual Report of “NC “KazMunayGas”*)

Oil transportation through the main oil pipelines is carried out by a subsidiary organization of JSC “KazTransOil” (total length of 5,4 thousand km). In addition, “NC “KazMunayGas” owns share capital in the “Caspian Pipeline Consortium” pipeline at a rate of 20,75%.

For today, the main export routes of Kazakhstan oil are:

- “Atyrau-Samara” pipeline (JSC “KazTransOil”- 100%);
- “Caspian Pipeline Consortium” pipeline (“NC “KazMunayGas” – 20,75%);
- “Atasu-Alashankou” pipeline (JSC “KazTransOil” - 50%);
- “Aktau” sea terminal.

The largest volume of Kazakhstan oil in 2016 was exported via the CPC pipeline – 40,8 million tons and “Atyrau-Samara” - 15 million tons. To the Chinese direction there were transported 10,1 million tons. Sea exports amounted to about 2,2 million tons.

Development of export destinations of oil supply

Diversification of the transportation routes of Kazakhstan oil has a special role for “NC “KazMunayGas”, as it allows choosing the most economically profitable routes for transporting hydrocarbon resources to world markets and serves as a guarantee of ensuring energy security.

- The “Atyrau-Samara” pipeline provides access to markets across the Russian Federation via the pipeline system of PJSC “Transneft” to the ports of the Black and Baltic Seas. According to the results of 2016, the volume of oil transportation through the “Atyrau-Samara” oil pipeline amounted to 15 million tons.
- “Caspian Pipeline Consortium” - the CPC pipeline provides access to Kazakhstani oil from the sea terminal located in the village South Ozereevka (Novorossiysk) on the world markets. In 2016, the CPC pipeline transported 44,3 million tons of oil, including Kazakhstan oil – 40,8 million tons.

The members of CPC project are:

- Russian Federation (PJSC “SC “Transneft” - 24% and “CPC Company” - 7 %) - 31%;
- Republic of Kazakhstan (“NC “KazMunayGas” - 19% and LLC “Kazakhstan pipeline ventures” - 1,75%) - 20,75%;
- producer companies: “Chevron Caspian Pipeline Consortium Company” - 15%, “Lukarco B.V.” - 12,5%, “Mobil Caspian Pipeline Company” - 7,5%, “Rosneft-Shell Caspian Ventures Ltd.” - 7,5%, “Eni International N.A. N.V” - 2%, “B G Overseas Holdings Ltd” - 2% and “Oryx Caspian Pipeline Ltd” - 1,75%.

The CPC pipeline is currently working to expand its capacity, which provides for a gradual increase in the capacity of the pipeline from 28,2 to 67 million tons per year, including 52,5 million tons per year for Kazakhstan oil. The CPC expansion project involves the replacement of 88 km of the pipeline in the territory of the Republic of Kazakhstan, the reconstruction of five existing ORS (two in the territory of the RK and three in the RF), the construction of ten new ORS (two in the RK and eight in the RF), and the construction of a third outboard quay unit and six tanks of 100 thousand m³ at the sea terminal. The project to expand the throughput capacity of the CPC pipeline is scheduled to be completed in 2017.

- The “Kazakhstan-China” oil pipeline is one of the export routes for oil transportation, which made it possible to supply hydrocarbon crude materials from the fields of Western Kazakhstan to the promising Chinese market. In 2006, the “Atasu-Alashankou” oil pipeline was put into operation with a throughput capacity of 10 million tons per year. In 2009, the construction of the “Kenkiyak-Kumkol” oil pipeline with a capacity of 10 million tons per year was completed. At the present time, the expansion of the “Kazakhstan-China” oil pipeline is under way, under which it is planned to increase its capacity step by step in all areas from Atyrau to Alashankou to 20 million tons per year, as the need to increase export capacities and requirements of the domestic market includes the following activities:
 - Expansion of the throughput capacity of the “Atasu-Alashankou” oil pipeline to 20 million tons a year - completed in December 2013.
 - Reverse and expansion of the “Kenkiyak-Atyrau” oil pipeline.
 - Expansion of the “Kenkiyak-Kumkol” oil pipeline.
 - Reconstruction and expansion of the “Kumkol-Atasu” oil pipeline section.

According to the results of 2016, the transportation of oil through the “Atasu-Alashankou” pipeline in the direction of China amounted to 10,1 million tons of oil. In 2016, within the framework of the second phase of the second stage of the “Kazakhstan-China” oil pipeline construction project, the reconstruction and expansion of the ORS 663 km was completed, which will function as the main oil pipeline of the “Kenkiyak-Atyrau” oil pipeline in the reverse mode.

Oil transportation by sea

For today, the main operational routes of oil transportation by sea are:

- Routes in the water area of the Caspian Sea;
- Routes in the water area Black and Mediterranean Seas.

Table 8. Transportation of oil by the marine fleet

Name	2016	2015
<i>Caspian Sea</i>	2 875	2 724
Aktau - Baku	33	915
Aktau - Makhachkala	1 611	1 115
Turkmenbashi - Baku	1 072	694
Makhachkala (Yu.Korchagin*) - Baku	159	-
<i>Black Sea</i>	2 968	2 175
Mediterranean Seas	1 238	2 133
Total:	7 082	7 033

**thedepositafterYu.Korchagin PJSC“Lukoil” in the Caspian Sea*

Transportation and delivery of natural gas

JSC “KazTransGas” is a member of the group of companies of JSC “NC “KazMunaGas” and controls the main network of transport gas pipelines, the length of more than 17 thousand km with an annual capacity of up to 160 billion m³, gas distribution network with a length of more than 40 thousand km, ensures uninterrupted operation of 31 compressor stations, on which 322 gas pumping units are installed, serves 3 underground gas storage facilities.

Figure 13. Volumes of gas transportation through main gas pipelines



Kazakhstan transits natural gas from Turkmenistan and Uzbekistan to China and the Russian Federation.

In 2016, the volume of natural gas transportation through the main gas pipelines was 88,1 billion m³.

The gas supply to the southern regions of Kazakhstan and Kostanay oblast is carried out within the framework of SWOP operations with PJSC “Gazprom”, at the expense of Uzbek gas resources via the “BGRP-TBA” and “Gazli-Shymkent” gas lines, Uzbek and / or Turkmen gas for the “Turkmenistan-China” GP, Kazakhstan gas via the “Bozoy-Shymkent” gas pipeline, as well as Russian gas via the “Bozoy-Shymkent” gas pipeline. Gas supply to western regions of Kazakhstan is carried out at the expense of gas resources of Kazakhstan subsoil users. Gas deliveries for export are carried out in the direction of the Russian Federation and Kyrgyzstan.

Gas pipeline development projects

- Increase of capacity of the “Kazakhstan-China” GP (1st site). On July 27, 2011, Protocol No. 2 “On Amendments and Additions to the Agreement between the Governments of the RK and PRC on Cooperation in the Construction and Operation of the “Kazakhstan-China” Gas Pipeline dated August 18, 2007” was signed, according to which the Parties agreed to increase The capacity of the first section of the “Kazakhstan-China” GP to 25 billion cubic meters per year, of which 20 billion cubic meters per year are intended for use by the Chinese side for the transit of Turkmen and Uzbek gas to the PRC, and 5 billion cubic meters per year for the Kazakh for the purposes of provision of gas in the domestic market of Kazakhstan, as well as possible gas exports to PRC. The project envisages the construction of a 1308 km long gas pipeline with a throughput capacity of up to 25 billion cubic meters per year.

Term of the project: 2012-2017. September 26, 2011 JSC “NK “KazMunayGas”, JSC “KazTransGas” and “TAPLine” (Trans-Arabian Pipeline - Trans-Arabian oil pipeline) signed the Agreement on the basic principles of organizing the design, financing, construction and operation of the thread “C” of the first section of the “Kazakhstan – China” gas pipeline. As of December 31, 2016, the following main works were performed on the project:

- On July 09, 2015, the linear part of the gas pipeline was put into operation.
- On July 16, 2015, the compressor station No. 6 was put into operation.
- On July 23, 2015, the compressor station No. 2 was put into operation.
- On August 3, 2016, the compressor station No. 4 was put into operation.
- On August 10, 2016 the compressor station No. 8 was put into operation.

At present, the design capacity of up to 20 billion m^3 / year has been achieved, further, taking into account the construction of compressor stations No. 1, No. 3, No. 5, No. 7 in 2017, it is planned to increase the capacity of the gas pipeline to 25 billion m^3 / year. Since the start of the gas pipeline, as of February 5, 2017, 21 billion m^3 have been transported.

- Construction of the main gas pipeline “Beineu-Bozoi-Shymkent”. In order to ensure stable gas demand in the southern regions of the RK, reduce dependence on imported gas and ensure energy security of the RK, the project “Construction of the “Beineu-Bozoi-Shymkent” gas pipeline continues. The gas pipeline route (length of 1 477 km, diameter 1 067 mm in single-section version) passes through the territory of Mangistau, Aktobe , Kyzylorda and South Kazakhstan oblasts and has the following main technical characteristics:

Stage I - 2012-2017, throughput capacity up to 6 billion m^3 per year;

Stage II - 2013-2017, throughput capacity up to 10 billion m^3 per year,

At the end of 2013 the transportation of gas on “Beineu-Bozoi-Shymkent” GP on the “Bozoi-Shymkent” section (311-1453 km) with the throughput capacity of up to 2,5 billion m^3 of gas per year has been started. December 30, 2016, The act of the acceptance commission on commissioning of the linear part of the “Beineu-Bozoi” (0-311km) section with a capacity of up to 5 billion m^3 of gas per year was signed.

- Projects of gasification of regions. JSC “KazTransGas” continues work on gasification and modernization of settlements of the RK. In 2016, works were completed on the following projects: “Modernization of the GDS in Shymkent” (Stage I of the project “Modernization of the gas distribution system of the South Kazakhstan oblast”, “Gasification of settlements in Kyzylorda oblast”).

The following projects are under implementation:

- “Modernization of the gas distribution network of Taraz city”;
- “Gasification of settlements and modernization of gas distribution networks of Aktobe oblast”;
- “Modernization, reconstruction and new construction of gas distribution networks of settlements of Mangistau oblast”;
- “Expansion of gasification of settlements of Kostanay oblast”.

Gas pipeline system¹⁰¹

Main gas pipelines. The total length of the main gas pipelines of Kazakhstan is 16 042 km, including:

- | | |
|--|--------------|
| 1)JSC “Intergas Central Asia” | - 11 861 km. |
| 2)LLP “Asian Gas Pipeline ” | - 2 610 km. |
| 3)LLP “Beineu – Shymkent Gas Pipeline” | - 1 143 km. |
| 4)JSC “KazTransGas Aimak ” | - 432 km. |

¹⁰¹<http://energo.gov.kz/index.php?id=1745>

Table 9. The main gas pipelines of Kazakhstan

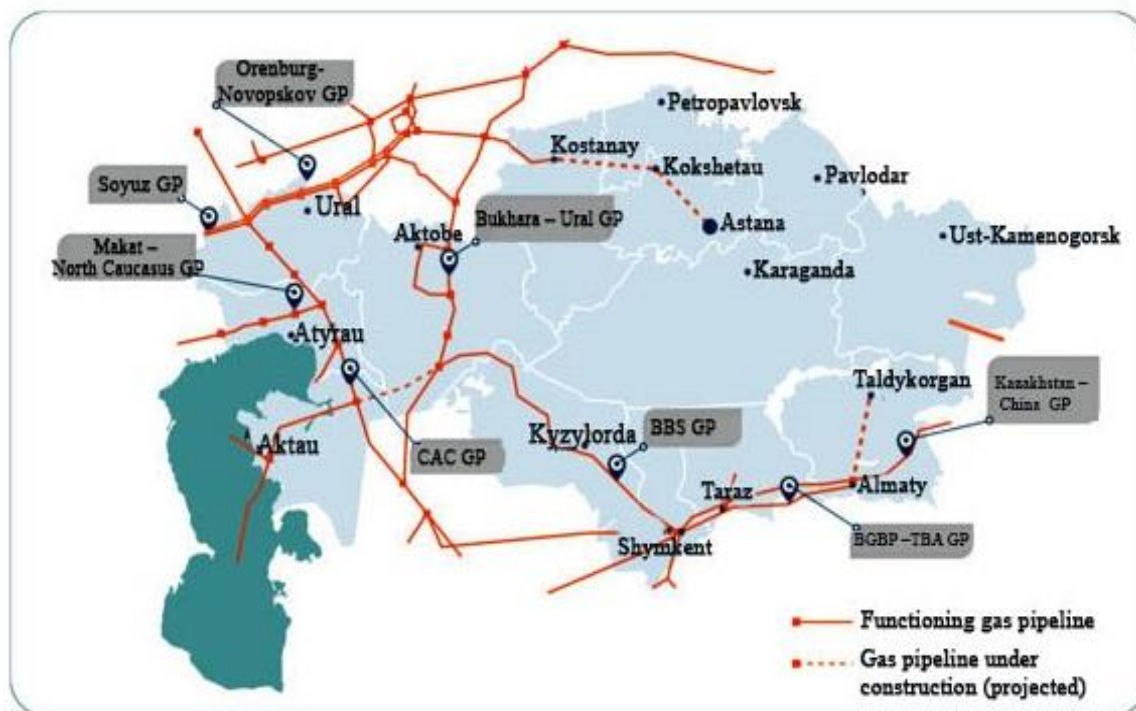
№	Pipeline	The length in single execute, km	First exploitation year	Actual power, mln.m³ per a year
1	“Central Asia – Center”	4 163	1966 – 1975	60 200
2	“Kazakhstan- China”	2 610	2009 – 2013	30 000
3	“Souyz” (with loop line)	424	1976	25 185
4	“Makat – North Caucasus”	372	1987	21 900
5	“Orenburg-Novpskov”	382	1975	14 600
6	“Bukhara – Ural”	1 577	1964	8 030
7	“Okarem- Meineu” (with loop line)	547	1972 – 1974	7 300
8	“Bukhara Gas-Bearing Province”- “Tashkent – Bishkek – Almaty”	1 639	1966 – 1999	5 840
9	“Gazli-Shymkent”	309	1988	4 380
10	“Beineu- Bozoi – Shymkent”	1 143	2013 – 2016	2 555

Resource: Ministry of Energy of the Republic of Kazakhstan

The largest gas pipelines of the republic were built in order to transit Central Asian gas in the direction of Russia and, subsequently, China. As a consequence, the share of transit in the total volume of gas transportation in the Republic of Kazakhstan currently stands at more than 80%. Meanwhile, most of the transit gas pipelines are also used to supply gas to the domestic market and exports.

The development of the gas transportation infrastructure has an independent strategic importance for the economy of the country and ensuring the country's energy security. So, earlier the main gas pipelines laid on the territory of the republic were technologically not interconnected, which prevented the use of gas pipelines for pumping gas extracted in the western regions to the southern ones.

Figure 14. The scheme of the main gas pipelines of Kazakhstan



Resource: Ministry of Energy of the Republic of Kazakhstan

In order to solve this problem, the construction of the “Beyneu-Bozoy-Shymkent” gas pipeline is on its process, the linear part of the first section of which has already been put into operation, and the second section is scheduled to be commissioned in 2016. In addition, construction of the third line of the “Kazakhstan-China” (1,304 km) gas pipeline (hereinafter - GP) is currently underway.

The forecast of the development of gas transmission systems. In the framework of the “General Scheme of Gasification of the Republic of Kazakhstan” prepared by the Ministry of Energy of the Republic of Kazakhstan, until 2030, large-scale modernization and construction projects for gas pipelines in the regions of the country are planned. In accordance with the basic (realistic) gasification scenario, the gasification level is expected to reach 56%, for which about 39 thousand km of gas distribution pipelines will be built, and the volume of investments in gasification will be about 656 billion KZT in prices of 2012.

The basic scenario of gasification of the regions of the Republic of Kazakhstan provides for:

- 1) completion of construction of the “Kazakhstan-China”, “Beineu-Bozoi-Shymkent” gas pipelines;
- 2) in Western regions - further implementation of measures for full-scale coverage of gasification of territories;
- 3) in southern regions - gasification of settlements of regions along existing and planned gas pipelines, construction of gas pipelines-branches from transit gas pipelines in Almaty, Zhambyl, South-Kazakhstan oblasts, and reconstruction and modernization of gas distribution networks in South Kazakhstan and Zhambyl oblasts;
- 4) in the eastern regions - the beginning of gasification of settlements in the Zaisan region of the East Kazakhstan oblast.

In turn, to provide gas to the northern and eastern regions of the republic at the initial stage for certain categories of consumers, the technology of liquefying natural gas will be used. At a later stage, as the gas markets develop, various options for the supply of

network gas will be considered, including the construction of a gas pipeline from the Kostanay oblast and gasification from coalbed methane resources in the Karaganda basin.

An alternative option for supplying network gas to the northern and eastern regions of the Republic of Kazakhstan may be the gas pipeline from the Russian Federation to China if it passes through the territory of Kazakhstan.

Railway transportation

Kazakhstan has an extensive and efficient railway network, the operational length of the general railways of the RK in 2016 was 14 680,7 km¹⁰². Cargo turnover decreased in comparison with 2015 and amounted to 239 billion tkm.

Table 10. Cargo turnover of public railway transport

	billion tkm			
	2013	2014	2015	2016
Republic of Kazakhstan	231,3	280,7	267,4	239,0

Statistics Committee of the RK

Rail transport plays a significant role in the transportation of key energy sources in Kazakhstan, including coal, oil products and uranium. As noted in the National Energy Report “KazEnergy”, with the expansion of pipeline capacities, the importance of rail transport for the transportation of crude oil is reduced. In particular, in 2016, 332,27 million tons of cargo were transported, of which 64,96 million tons (19,5% - for comparison in 2013 – 35,8%) fell on coal, and 8,6 million tons (2,6% - for comparison in 2013 – 9,1%) - for oil (crude and oil products). For all listed large energy carriers in the aggregate it was necessary about 25% from total amount of railway transportation.

Table 11. Transportation of freight by oblast

Including by road departments							Note
Kyzylorda	Mangystau	WKO	NKO	EKO	EKO	SKO	
1 887,2	3 138,5	2 395,8	70 468,6	8 517,2	8 537,9	9 542,5	Cargo departed - total, thous.tonns
							including:
10,1	184,0	257,6	-	-	-	210,0	Crude oil
31,5	77,3	250,0	3 573,7	80,8	7,1	3 988,3	Oil product
86,9	65,1	582,4	150,8	-	0,7	140,1	Natural gas
1,0	66,8	-	269,7	0,1	-	122,5	Flued cargo in bulk
0,2	-	-	59 473,7	5 485,6	0,7	0,4	hard coal
-	-	-	26,2	-	0,3	-	Carbonite
-	-	-	331,1	-	14,7	1,2	Iron ore
-	-	-	-	-	-	-	manganese ore
0,6	-	-	1 991,1	19,3	4 160,3	3,5	nonferrous metal ores
2,9	19,2	26,0	1 257,7	0,7	3,4	55,6	Ferrous ore

Statistics Committee of the RK

¹⁰²http://www.stat.gov.kz/faces/wcnav_externalId/homeNumbersTransport?_afzLoop=5751312225933692#%40%3F_afzLoop%3D5751312225933692%26_adf.ctrl-state%3D1dpyhi7hum_168

The railway network operator is the railway company of JSC “NC “Kazakhstan temir zholy”. In 2016, the railway transport fleet consisted of 1 725 locomotives and 129 352 freight (cargo) wagons. The rolling stock for the transportation of goods consisted of 56 504 wagons belonging to KTZ (43.6% - in comparison, in 2013, 51% owned by JSC “NC “KTZ”), and 72848 were owned by private operators.

Table 12. Railway rolling stock

	Unit			
	2013	2014	2015	2016
Locomotives – total	1 896,5	1 892,5	1 803,5	1 725
including:				
Steam locomotives	-	-	-	-
Electric locomotives	563	577	549,5	539
Diesel-powered locomotives	1 333,5	1 315,5	1 254	1 186
Rail motor cars–total	327	315	307	287
Passenger wagons	2 217	2 214	2 590	286
Baggage wagons	29	29	28	28
Cargo wagons, which belong to railway – total	65 803	60 940	59 025	56 504
including:				
covered wagons	9 801	9 051	8 806	8 415
open wagon	32 329	30 982	30 797	30 146
waggon– platforms	3 725	3 360	3 000	2 280
tank-wagon	6 492	5 769	5 657	5 438
Other wagons	13 453	11 775	10 762	10 224
Wagons, which belong to private companies and enterprises	63 477	71 351	73 177	72 848

Most of the railway tank cars in Kazakhstan, intended for transportation of liquids, such as crude oil, petroleum products, sulfur and liquefied hydrocarbon gas (LHCG), belongs to private operators. The rolling stock of KTZ have only 5 438 cisterns in total (less than 10% of the total number). The main private operators specializing in transportation of liquid products include JSC “Kaztemirtrans” (about 7 200 cisterns), LLP “Eastcomtrans” (about 4 600 cisterns), “TengizTransGroup” (about 2 000 cisterns), “Golden Eagle”, JSC “PetroKazakhstan Kumkol Resources” and “Plzha” (about 800 cisterns each), as well as JSC “Torgai Petroleum” (about 600 cisterns) (according to data for 2013). Due to the high volumes of liquid cargo transportations inside the country, Kazakhstan is also significantly involved in the rolling stock of Russia and Ukraine, and the largest Russian freight rail operator OJSC “FFC” is a serious player in the Kazakhstan market.

According to “KazEnergy” analysis (see “National Energy Report” 2015), transportation of oil and oil products is the most profitable segment of the transportation of bulky goods in the railway system. In fact, such transportation “subsidizes” the transportation of coal and other bulk cargo in the railway system of Kazakhstan. For today, tariffs for transportation of coal are 30-50% lower than tariffs for transportation of oil and oil products for a similar distance (in tons per kilometer). This is primarily due to the possibility of oil sector participants to pay more for transporting products that can be sold at relatively high prices, primarily in international markets. And although coal transportation is in fact a low-profit business for the railway industry, its importance is nonetheless significant, since coal provides the greatest turnover (in terms of tons transported, as well as in tons per kilometer) of all goods transported by the railway system.

This leads to the fact that tariffs for transportation of coal, which, in the end, are one of the decisive factors determining its overall competitiveness in the markets of final consumers (since transport costs are a significant component of the total cost of coal supplied), are closely interrelated with transportation tariffs oil and oil products.

At the same time, it should be noted three factors that could affect the change in rail tariffs in the future.

First, the construction of new pipelines has already drawn on a significant part of the profitable transportation of crude oil (and, further, possibly, oil products) from the railway system. The total volume of deliveries of oil and oil products by rail kept at a relatively stable level, amounting to about 26-27 million tons per year until 2013. However, in 2014 the volume of oil transportation began to decline, especially in connection with the expansion of the CPC and a reduction in the volume of crude oil exports by rail to the Black Sea region. In 2014 there was a sharp decline in the volume of rail transportation of crude oil for export to 1,8 million tons from 8,7 million tons in 2013.

Secondly, it is expected that the volume of fuel oil will be reduced at the OR of Kazakhstan and the shift from the export of fuel oil surplus (mainly in the EU) to an increase in the supply of light oil products to the domestic market. The total volume of deliveries of oil refining products may not increase significantly, but the reduction of transportation distances means a reduction in highly profitable transportation and a reduction in the total profit for the railway system of Kazakhstan.

Finally, the Government's proposals on harmonization of tariffs for export and domestic transportation throughout the Eurasian Economic Union will lead to a reduction in real effective tariffs for the transportation of oil and oil products in the backstage of similar trends in the Russian railway system. Ultimately, these three factors will push up tariffs for the transportation of coal by rail, which currently only slightly exceed the breakeven level for the railway system.

It is obvious that the pricing in the railway industry is currently being rigged. On the one hand, the transportation of goods should be profitable for operators to compensate for losses in the sphere of passenger transportation and significant investments in the construction of new railway infrastructure (including the construction of a new railway station in Astana for EXPO 2017). On the other hand, a significant increase in tariffs will lead to the ousting of Kazakh coal from foreign markets because of uncompetitive prices. The situation requires close attention.

Income from transportation

According to explanations of transport companies, the amounts of taxes and other mandatory payments to the budget are paid in whole from all the Company's activities and are not divided by types of activities (the Tax Code of the Republic of Kazakhstan does not provide for mandatory division of activities). The Company has no separate methodology used to calculate taxes by type of activity. The Company maintains tax accounting in accordance with the Tax Code of the Republic of Kazakhstan

Revenues from oil transportation of the JSC “KazTransOil” in 2016 amounted to 166,0 billion KZT. The table shows taxes paid by the Company in total for all types of activities.

Table 13. Taxes of JSC “KazTransOil” in 2016

Tax name	Amount, thousand KZT
Corporate income tax	21 381 679
CIT held at the source of payment of legal entities of non-residents	38 714
VAT on non-residents	24 285
VAT on the Customs Union	38
IIT	3 787 305
Social tax	3 494 092
TEMR (underground water)	3 164
Property tax	5 751 143
Land tax	25 037
Vehicle tax	37 230
Fee for emissions to the environment	76 447
Fee for use of water resources	7 982
Fee for use of radio-frequency spectrum	22 872
Other taxes	80 605
Total:	34 730 593

Source: data of JSC “KazTransOil”

According to the Annual Report of 2016, the JSC “KazTransOil”¹⁰³ group of companies has paid 27,8 billion KZT of taxes and other mandatory payments to the state budget.

Financial indicators:

	mln.KZT			
	2014	2015	2016	in % 2015
Income from sale of products and services	136 725	240 788	316 201	131%
Gross profit	52 450	62 297	38 387	62%
Net profit	25 521	-26 683	29 093	192%

Information of the JSC “NC “Kazakhstan temir zholy” (see Attachment 7): cost of products transportation by rail by intra-republican and international (export-import) routes is formed of four components:

- tariffs for the backbone railway network services (hereinafter referred to as BRN), approved by the order of the Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (hereinafter - CRNMPC);
- tariffs for transportation of goods (for locomotive traction services (hereinafter referred to as LT), freight and commercial work (hereinafter referred to as “CC”), for use of freight wagons and containers (hereinafter referred to as UW) approved by the order the “KTZ – Freight Transport”.

Principle of tariffs for the transport of goods construction is based on differentiation depending on:

- transportation distances;
- type of rolling stock;
- rolling stock ownership (inventory (general) or own (leased));
- kind of cargo;
- loading of car, etc.

¹⁰³http://www.kaztransgas.kz/files/ktg_annual_report_2016-rus.pdf

Tariff guide (price list) of the “KTZ – Freight Transport” introduced on July 1, 2016 determines the procedure for services tariffs calculation for transport of goods by rail and charges for additional operations associated with transportation.

In accordance with the Law of the Republic of Kazakhstan “On Natural Monopolies”, the scope of natural monopoly includes BRN services. Remaining components of the railway tariff (LT, CC, UW), providing services of goods transportation, in accordance with the “Entrepreneurial Code of the RK” refer to publicly significant services, prices for which are also regulated by the state.

The KTZ data for 2016 for the following goods transportation:

Name	thousand tons	ton-km mln.	income billion KZT
Coal	91 745	48 903	57,94
Iron ore	20 320	12 023	16,87
Crude oil	925	211	3,65
Colored Ore	17 139	10 959	19,03
Non-ferrous metals	1 153	2 032	7,46
Black metals	10 038	12 978	53,37

Total income of the KTZ for transportation of goods amounted to 158,2 billion KZT.

3.3.Extractive industry management:

Legal basis, fiscal regime, functions of state bodies¹⁰⁴. Quasi-public sector. Role of the state in the sector management

3.3.1 Legal basis (2.1)

Taking into account role of mining sector in Kazakhstan's economy, effective and qualitative legislation of the Kazakhstan on subsoil and subsoil use has a strategic importance for the Republic. In the opinion of experts¹⁰⁵, since the appearance of the first regulatory legal acts of independent Kazakhstan regulating relations in field of subsoil use, and up to now this legislation has undergone a huge number of changes, both conceptual and less significant.

Changes adopted in December, 2014 have significantly changed the situation, and for the first time in 15 years there has been a trend towards liberalization of legislation regulating the most important industry for the country.

The *EITI Report for 2015* describes in detail the legal basis for extractive industries in Kazakhstan to date. It includes¹⁰⁶:

- The Constitution of the Republic of Kazakhstan of August 30, 1995;
- Civil Code of the Republic of Kazakhstan (General part of December 27, 1994 and Special Part of July 1, 1999 No.409-I);
- Land Code of the Republic of Kazakhstan of June 20, 2003 No.442-II;
- Water Code of the Republic of Kazakhstan of July 9, 2003;
- Ecological Code of the Republic of Kazakhstan of January 9, 2007;
- Code of the Republic of Kazakhstan “On Taxes and Other Mandatory Payments to the Budget (Tax Code)” of December 10, 2008;

¹⁰⁴in accordance with EITI2.1 requirements

¹⁰⁵legal firm «AEQUITAS» (Olga Chentsova, the Managing Partner and Natalia Brainina, the Partner)

¹⁰⁶<http://adilet.zan.kz/rus/index/docs>

- Law of the Republic of Kazakhstan “On Subsoil and Subsoil Use” of June 24, 2010 No.291-IV;
- Resolution of the Government of the RK “On Approval of the Rules for Subsoil Use Rights” of December 30, 2010 No.1456;
- Rules for granting subsoil use rights approved by the Decree of the Government of the Republic of Kazakhstan of December 30, 2010 No.1456;
- Law of the Republic of Kazakhstan “On Gas and Gas Supply” of January 9, 2012 No.532-IV;
- Law of the Republic of Kazakhstan “On Energy Saving and Increasing Efficiency” of January 13, 2012 No.541-IV;
- Law of RK “On the main pipeline” of June 22, 2012 No.20-V;
- Resolution of the Government of RK “On rules approval for solid minerals deposit assigning (groups of deposits, part of deposit), with exception of common minerals, to the category of low-profit and taxation in part of mineral extraction tax” dated December 31, 2012 No.1379 (with amendments and additions as of 19.09.2014);
- Code of the Republic of Kazakhstan on Administrative Violations of June 5, 2014 No.235-IV (effective from 01.01.2015);
- The Entrepreneurship Code of the Republic of Kazakhstan of October 29, 2015 No.375-V;
- The Labor Code of the Republic of Kazakhstan of November 23, 2015 No.414-V;
- Resolution of the Government of the RK “On approving the list of subsoil plots, deposits of strategic importance” of October 4, 2011 No.1137 (with amendments and additions as of 07.08.2015);
- Order of the Minister of Energy of the RK “On Approval of the Rules for the Main Gas Pipelines Operation” of January 22, 2015, No.33;
- Order of the Minister for Investment and Development of the Republic of Kazakhstan “On Approval of the Unified Calculation Methodology by Local Content Organizations in the Purchase of Goods, Works and Services” dated January 30, 2015, No.87;
- Model subsoil use contracts approved by the Ministry of Investment and Development of March 31, 2015 No.412 (*registered with the Ministry of Justice on 26.05.2015, No.11167*);
- Order of the Minister of Investments and Development of the Republic of Kazakhstan of April 19, 2016 No.387 “On Amending the Order of the Minister of Industry and New Technologies of the Republic of Kazakhstan No.223 of June 29, 2012 “On Approval of the Instruction Form on Elimination of Violations of the Legislation of the Republic of Kazakhstan on Energy Conservation and Energy Efficiency Increasing”;
- Law of the Republic of Kazakhstan of April 8, 2016 No.491-V “On Changes and Amendments to Certain Legislative Acts of the Republic of Kazakhstan on Environmental Issues” and others.

At present, the adoption of the Code “On Subsoil and Subsoil Use” (hereinafter - the Code) is being considered in Kazakhstan. The experts of the “KazEnergy” Association, the Kazakhstan Petroleum Lawyers Association (KPLA), The Association of Mining and Metallurgical Enterprises (AGMP), and the employees of line ministries¹⁰⁷ were involved in the development of the Code Concept. Based on the Concept analysis it can be assumed that adoption of the Code will significantly change legal regime of subsoil use in the country, and it is possible that these changes will more closely meet expectations of investors. When developing and adopting this legislative act, it is important to take into account all accumulated experience and implement the idea of

¹⁰⁷ at the time of the Report drawing up the Dossier on the Draft Code “On Subsoil and Subsoil Use” can be found on the “Paragraph” Information System (for August, 2017)- <http://online.zakon.kz/>

establishing a legal regime in subsoil use that ensures a balance of interests between investors and the state.

In anticipation of this significant change in the existing legal regulation, it seems useful to briefly review the history of the Kazakhstan subsoil use legislation development, analyze positive sides of the regulation that has been in place over the past 20 years, and what has caused investment reductions in recent years in Kazakhstan's mining and oil industry, and also what legislative changes will attract investment.

Brief history of the Kazakh legislation on subsoil development¹⁰⁸

The analysis allows to conditionally allocating: I stage - 1990-1994; II stage - 1994-1999; III stage - 1999-2004; IV stage - 2004-2014. We believe that starting from December 2014, following the changes that initiated liberalization of the subsoil use legislation, the next stage of its development began, in which it is expected to develop and adopt the Subsoil and Subsoil Use Code based on the Concept. Briefly outlined stages can be characterized as follows.

I stage (1990-1994) - the beginning of special legislation on subsoil use in Kazakhstan formation - is associated with adoption of one of the first laws in this field - the Code on Mineral Resources and Mineral Processing dated May 30, 1992. It is believed that the Code of 1992 laid legal basis for subsoil use in the country. However, very soon not only its numerous gaps and contradictions were revealed, but also unfitness of its ideological concept to the new economic conditions.

In 1993-1994, the Ministry of Geology and Suboil Protection of the RK has been developing two versions of the Concept for Management and Regulation of Subsoil Use and Protection in the country. An intensive legislative work has started to settle relations of various aspects of subsoil use. However, the normative acts adopted by the President and the Government are rather laconic and regulate only certain subsoil use issues, and only licensing provisions have been elaborated in sufficient detail.

Despite an apparent insufficiency of the legislative base available during this period, foreign investors, nevertheless, began to invest in mining and oil projects. At this time the most important project for the country, LLP Tengizchevroil was launched, successfully implementing to date.

II stage (1994-1999) - coverage of all major subsoil use areas by Kazakhstan legislation. The beginning of this stage can be timed to the adoption of the two most important laws at that time - the Law "On Oil" of June 28, 1995 and the Law "On Subsoil and Subsoil Use" of January 27, 1996. During 1996, 1997, 1998 in term of their development a whole group of government resolutions of different directions was adapted.

The Law "On Subsoil" at the time of adoption was distinguished by a logical structure (with some exceptions), an existence of a number of progressive norms (for example, a pledge of a subsoil user's right) and a sufficient detailization for the act of such level. Unfortunately, the Law "On Oil" and the Law "On Subsoil" in practice did not regulate relations after a contract conclusion, including at the stage of deposit preparation for production and at the production stage (for comparison, the Code of 1992 contained some of these provisions).

The main provisions of the Law "On Subsoil" in terms of its legal concept were on licensing and contractual subsoil use system, on an exclusive right of the license owner on exploration in event of commercial discovery to obtain license for extraction; stabilization provisions in accordance with which the changes and amendments to the legislation worsening the status of subsoil user do not apply to licenses and contracts

¹⁰⁸<https://www.zakon.kz/4755276-zakonodatelstvo-o-nedrakh-i.html>

issued and concluded before such changes and amendments. The right of subsoil use was accepted both based on investment program competition, and based on direct negotiations for any circle of persons.

That is, at this stage, the subsoil use regime in Kazakhstan was fairly liberal and focused on attracting investors. In addition, since 1990, a system of new economic legislation has been actively forming in Kazakhstan, including corporate, banking, currency, land, legislation on foreign investment, etc., creating a legal regime for subsoil use in general. On December 27, 1994, a new General Part of the Civil Code of the Republic of Kazakhstan was adopted. Kazakhstan joined several international economic conventions, including the Energy Charter Treaty.

The legal regime formed allowed attracting a significant amount of investments into the oil and mining sectors of the country. Investors very positively perceived the state's efforts to establish the “most favored regime for investors” and began to acquire assets for subsoil use implementation in Kazakhstan and the subsoil use right, including through privatization¹⁰⁹. At the same time, a number of contracts were concluded for exploration and/or extraction of various minerals, both through direct negotiations and tenders results.

III Stage (1999-2004) - transition from a licensing contract system to a contractual subsoil use system and the beginning of its regime tightening. On August 11, 1999, the Law, which introduced a number of conceptual changes to the Law “On Subsoil” and the Law “On Oil” was adopted.

The most important innovation of the Law of 1999 was transition from a licensing and contractual system for granting subsoil use rights to a contractual one, which made it possible not only to simplify the process of obtaining and further exercising the subsoil use right based on subsoil use contract, but also to focus on contractual nature of the latter.

Practice has shown that the most important issues in subsoil use field remained completely or substantially unclarified, which was done in one way or another by the Law of 1999 (for example, regulation was made in part of protecting the environment and developing resources at sea). In addition, the two basic laws were more mutually agreed.

Changes of 1999 marked the beginning of the legal regime of subsoil use toughening process, which lasted until December, 2014. Thus, for example, a general rule was established for obtaining subsoil use rights based on a tender results and only some exceptions to this general rule were made; a definition of the National Company was given and its privileged position was established; Stricter requirements were introduced for acquisition of goods, works and services from local manufacturers and the rule on their acquisition based on a tender, etc.

Introduced innovations were reflected in the updated versions of many by-laws that deal with specific aspects of subsoil use.

¹⁰⁹During this period, for example, JSC “Yuzhneftegaz” (now JSC “PetroKazakhstan”) was privatized; the acquirer was the Canadian company Hurricane Kumkol Limited, which also acquired shares in joint ventures of “Yuzhneftegaz” – “Kazgermunai” and “Turgai Petroleum”. SJSC “Ekibastuzkomir” was privatized, which included a unique coal mine “Bogatyr”. As a result of privatization process, a number of contracts were concluded between investors and the state for exploration and production of oil in the Kyzylkiya, Aryskum, Maibulak and South Kumkol fields and coal production at the Ekibastuz field within the “Bogatyr”, “Vostochnyi” and “Severnyi” sections.

IV stage (2004-2014) - regular changes in the legislation on subsoil and oil, generally aimed at further tightening the subsoil use regime. Among the largest legislative decisions were adoption in 2005 and abolition in 2009 of the Law “On Production Sharing Agreements (Contracts) in conduct of oil operations at sea”, as well as abolition of the Law “On Subsoil” of 1996 and the Law “On oil” of 1995, which replaced the new Law “On Subsoil and Subsoil Use” of June 24, 2010. At the same time, the Law of 2010 “On Oil” was incorporated into the Law of 2010 in a slightly modified form.

The law of 2010 largely took into account provisions contained in the previous legislative acts, the most important of which is preservation of the subsoil use contractual system. Adoption of this Law did not change the policy of setting the regime for permissible state interference in economic activities of subsoil companies and their subcontractors, strengthening state control and establishing a regime that can be conditionally called a “regime of protection and support lack for investments in the oil and mining sectors of Kazakhstan”. The same was promoted by provisions of other legislative acts, most vividly - ecological and tax.

The law contained a lot of norms forming an unfavorable legal regime for long-term investments: reduced in comparison with initial guarantees of subsoil use contracts regime stability, including the lack of stability of the tax regime; regulations governing an unilateral contract termination by the competent authority (especially for deposits of strategic importance); a wide range of subsoil user's duties, including on the social sphere financing, research works, etc.; requirements for Kazakhstan content, procurement procedures. The system of environmental payments and fines, established by environmental and tax legislation, led to the fact that in some cases an amount of imposed property liability began to reach the value of the entire business. Most of these norms are still in force.

Adoption of the Law “On Subsoil” of 2010 also did not stop the process of unrestrained lawmaking on its adjustments. A logical question arises: is it possible to invest in a country where the actions of the base law have changed 25 times in five years, with the changes in most cases being significant. A separate person should be engaged in monitoring subordinate regulatory and legal acts in subsoil use, since their number and changes are impossible to count. For example, after redistribution of state bodies competence in September and December 2014, exercising state regulation in field of subsoil use, a considerable amount of authority was transferred from the Government of the RK to the competent authority. As a result we can see the process of repealing the by-laws adopted earlier by the Government and re-enacting them by the relevant competent authority.

V stage (2014 onwards) Beginning of subsoil legislation liberalization and its proposed codification. Taking into account the problems arisen with replenishment of the country's mineral resource base, the need to search for and explore new deposits and attract new investments, the state for the first time in many years decided on some liberalization of the legislation in December 2014.

As a result of changes adopted:

- the sphere of the state priority right application is limited only to contracts at fields, subsoil plots of strategic importance;

- application of a two-year moratorium on the transfer of subsoil use rights is limited to contracts for extraction, exploration, combined exploration and production of hydrocarbons;

- possibility of holding a tender for obtaining subsoil use right not only in the form of a tender, but also in the form of an auction (which, by its procedure and timing, is a simpler form of bidding);

- a simplified procedure for obtaining the right to explore on poorly studied subsoil plots not exceeding ten blocks, each of which is equal to one minute in the geographic coordinate system with the conclusion of a typical contract for exploration, etc.

However, under existing conditions, this is not enough. The next step on the way of creating a favorable investment environment should be the adoption of the Code “On Subsoil and Subsoil Use”.

Law firm “AEQUITAS”

Over the last 5 years more than 670 projects have been reviewed and approved in Kazakhstan, which fixed the subsoil users' obligations to the amount of more than 27 billion USD. 136 new contracts for groundwater, solid minerals, except for uranium and coal, have been concluded. In total for 2015 there were 523 operating contracts.

The first open auction was held in 2015 after above-mentioned liberalization in field of subsoil use, using English method. Trades for subsoil use rights were held in 38 deposits. Total amount of proceeds is over 1,4 billion KZT. Start is given on granting subsoil use right on the principle of “first came - first received” (in pilot mode, a block of the Stepnogorsk gold zone was exposed).

The Concept of the Draft Code of the Republic of Kazakhstan “On Subsoil and Subsoil Use”, as well as accompanying Draft Law were approved, within the framework of which was continued the work on codification of the RK legislation on subsoil use. The MID RK together with JSC “NMH “Zerde” started work on the project “Development and implementation of an interactive map for granting right by the Australian method”. The map of the existing subsoil use facilities for solid minerals, hydrocarbon raw materials and groundwater location has been updated, and now it allows to determine free from subsoil use territory of Kazakhstan (if earlier it took about 30 days to receive information, now this information is available on the website of the Committee for Geology and Subsoil Use, it is possible to compile cartograms online (www.imap.geology.gov.kz). It is important to note that using this interactive map a subsoil user may not only to get acquainted with geological information, but also to obtain the right of subsoil use on-line. While the terms of right granting by 2017 will be reduced by 180 times (compared to 2014) and the search and assessment of the deposit will take only 3 days (in 2014, this period was 18 months (540 days), in 2015 - 25 days).

As for the terms of geological information provision, they have also been significantly reduced from 240 days to one day. Time for contract conclusion was reduced from two years to 25 days¹¹⁰.

According to the Minister of MID A.Isekeshev, these measures should attract junior companies to Kazakhstan, which today account for up to 50% of new mineral deposits discoveries in the world. So, in the MID of RK believe that, given the country's great potential, as well as extensive territories, there is a real prospect of discovering dozens of new deposits in Kazakhstan until 2020, among which may be unique ones. It should be noted that currently the area of perspective subsoil plots for investment purposes is 1 138 920 km² or 41,8% of the total RK area. But the area of subsoil use for solid minerals under existing contracts is only 139 510 km² (5,1% of the total area). For comparison, in Australia, the area of geological exploration is 27% of the total area of the country. And considering that the progressive Australian model of subsoil development was chosen for implementation, it is expected that the number of junior

¹¹⁰<http://nalogikz.kz/news/novyy-kodeks-o-nedrah-cto-zhdat-nedropolzovatelyam-i-investoram.html>

companies will double in the next three years. This, in turn, entails conclusion of new contracts and creation of additional jobs.

Australia is one of the most advanced countries in the mining industry. According to the Fraser Institute annual survey of mining companies(Canada), to date, Western Australia is on the first place in the world in the index of investment attractiveness, Kazakhstan - is on the 20th. However, the Institute's experts say that in Central Asia Kazakhstan is the most attractive country for investment in geological exploration. In 2015, Kazakhstan rose in this rating as much as 68 positions. After the Code adoption the MID expects that Kazakhstan will enter top ten countries in the mining and metallurgical complex.

Model contract was also optimized (98% reduction of overlapping text), up to 60% reduction of the mandatory expertise on contracts, feasibility studies were excluded from the list of mandatory project documents. The need to coordinate changes in contracts with changes in production volumes within 20% of the project indicators and other norms were abolished (from the report of Minister Isekeshev to Minex - 2015¹¹¹). 77 new subsoil use contracts were signed (9 - for extraction and 67 - for exploration, 1 contract in simplified order), 167 additions to existing subsoil use contracts. (See 100 Affairs of the MID for 2015 in Geology and Subsoil Use - *the MID of RK*¹¹² site).

In 2016 this work was continued (see the MID of RK Department of Subsoil Use Report), in April, an auction¹¹³ for 101 sites was announced, but in May¹¹⁴ due to insufficient number of applications for participation in tender and, as a consequence, its inexpedience, the Ministry of Investment and Development of the Republic of Kazakhstan announced the tender cancellation and suspended receipt of applications for participation.

In 2017, it is planned to place more than 100 sites on an auction on geological exploration. The regions to be covered are practically the whole Kazakhstan (East-Ore Altai, where the prospects for discoveries of solid mineral deposits exist, Central Kazakhstan). Also, the principle of simplified granting of subsoil use rights is in effect, in essence it is the principle of the same first application (which is laid in the Code) - currently the principle of the first application is available across the territories around the city of Stepnogorsk (about 4 000 blocks were placed for February, 2017). According to information provided by the Head of the Department of Subsoil Use of the MID R. Baimishev¹¹⁵, “since February 1 of this year, application receipt has been started in the East Kazakhstan oblast, there are poorly studied territories and monocities, Arkalyk. There are 3 000 blocks to the East, about 10 000 blocks to Arkalyk and 4 000 blocks to Stepnogorsk. People apply and 25 days later they have a contract on their hands. For the first time we “roll” this principle in Kazakhstan. There are no fears about which we thought that everyone would start taking these sites. Those territories that have been studied are contracted, and poorly studied sites are taken by people thoughtfully. Of 4 000 blocks that were placed in Stepnogorsk, 18 contracts were concluded. These are adequate people who have come and are working now, who expect to receive results of their development and start extraction. In the East Kazakhstan oblast about 20

¹¹¹<http://www.mid.gov.kz/ru/news/vystuplenie-ministra-po-investiciyam-i-razvitiyu-respubliki-kazahstan-na-6-m-gornopromyshlennom>

¹¹²<http://www.mid.gov.kz/ru/pages/100-konkretyh-del-mir-rk-za-2015-g>

¹¹³<http://www.mid.gov.kz/ru/pages/ministerstvo-po-investiciyam-i-razvitiyu-obyavlyat-konkurs-v-vide-aukciona-na-poluchenie>

¹¹⁴<http://www.mid.gov.kz/ru/pages/izveshchenie-ob-otmene-konkursa-v-vide-aukciona-na-poluchenie-prava-nedropolzovaniya>

¹¹⁵<http://metalmininginfo.kz/archives/4593>

applications have been received so far (*February, 2017*). In principle, this system works. And we expect that if we open the entire territory of Kazakhstan and simplify these procedures, there will be much more such contracts”. This year it is planned to place about 20 000 blocks to attract investors.

According to the RK MID Department of Subsoil Use, 5 contracts for subsoil use of solid minerals were canceled in 2016, 82 notifications on violation of license and contractual obligations were sent.

Granting of subsoil use right:

Within the pilot mode of granting the right to exploration in simplified order according to the principle “*first come - first received*” (Australian method), sections are identified and divided into blocks in the area of Stepnogorsk, and since November 2015 applications receipt has been started; this work will be carried out on permanent basis with a phased coverage of the entire territory of the country. To date, about 18 contracts have already been concluded.

At present, the competent body has approved a list of subsoil sites granted in a simplified order for exploration by the regions of Arkalyk-Shubarkol and East-Kazakhstan oblast and is aimed at publication. Applications receipt started on these sites from January 23, 2017.

Information on direct negotiations.

In total, in 2016, direct negotiations were held on 46 subsoil use sites, including 19 - with national companies, 2 - with state program of industrial-innovative development objects (SPIID); transition to production stage - 3; simplified method - 18; on groundwater - 4.

According to SPIID, 2 facilities of these are:

1. Exploration of nephrites on the “Akzhal” ore manifestation in Kostanay oblast LLP “AK-TAS SK” (protocol of January 14, 2016, Contract 4999-SCM of November 14, 2016);
2. Exploration of gold-silver-bearing ores at the deposit “Kyrgau” in Zhambyl oblast LLP “Alatau-Kordai” (protocol of January 20, 2016).

Information on the concluded contracts and amendments thereto.

The Department of Subsoil Use held 24 meetings of the Working Group in 2016 to review the terms of draft contracts and amendments, which examined more than 273 issues and held 19 meetings of the Central Commission for the Exploration and Development of Minerals, which considered more than 140 issues.

67 contracts for subsoil use and 176 amendments to contracts were signed. Also, 16 model contracts for exploration were signed.

Another improvement of 2016 is the principle of one-stop shop for public services provision, which has been extended to all investors since January 1, 2016. Since 2015, the “one-stop-shop” mechanism for state services, operated in a pilot mode only for investors implementing priority investment projects¹¹⁶. According to the MID: “Investors will be able to obtain over 363 permits and licenses through “one-stop shop”. This will limit direct interaction of investors with government agencies, and also reduce the bureaucratic and administrative burden on investors”. Currently, work is also

¹¹⁶https://expressk.kz/news/lenta_novostey/printsip_odnogo_okna_dlya_polucheniya_gosuslug_budet_ras_prostranen_na_vsekh_investorov_v_kazakhstane-61659

underway to automate the system of investor support. In future this will allow investors to register, receive information and send applications for obtaining permits online. In order to assist investors in obtaining public services in Astana, the “Investor Service Center” was opened on the first floor of the “Transport Towers” building.

REFORMS.NATURAL RESOURCES CODE.

Although certain changes in legislation aimed at greater transparency and attractiveness for investors since 2015 are very noticeable, at the same time there is a need to prepare a codified act on subsoil use. The reason for this was the problems accumulated in the industry over the years, in particular, need to replenish mineral resource base and attract investment in geological exploration. More than 90% of the main mineral resources of Kazakhstan are contracted, that is, they are already being mined. Investments in exploration are very low. According to the analysis of the MID of RK¹¹⁷ - from 1 trillion KZT, which were invested by companies-subsoil users in the country last year, only 25 billion KZT were assigned to geological exploration. This is 2,5%, although, ideally, the quantity of extracted material should be equal the amount of recovered reserves.

As mentioned above, current legislation was characterized by “bureaucratized” procedures and closure of geological information (although about 130 thousand reports are in the Funds), fragmentation, it contains a lot of vague provisions on important issues and does not leave the subsoil user an opportunity to make independent quick and effective decisions in its production activities, as well as difficult for investors to understand, is subject to frequent changes. In recent years there has been an active discussion of the draft Code in working group, at various industrial sites (in particular, in Minex, AGMP, “KazEnergy”, with foreign investors, in regions and public hearings, etc.), which also noted the importance of parallel changes - in particular in the Tax Code.

AGMP Executive Director Nikolai Radostovets emphasized¹¹⁸, that the Subsoil Code draft being developed in the country should be adopted in parallel with the Tax Code new edition. In course of discussions, the issues of tax burden experienced by the companies of the mining and metallurgical complex (MMC) were also discussed. “From the Ministry of Finance's point of view, this load does not exceed 13-14%, but if it is calculated as the ratio of taxes and payments to profits, then it will be about 66% in the mining sector and 37% in the metallurgy sector”.

Undoubtedly, it is very important to achieve the state and investors' interests balance observance (to attract them, especially for purpose of reserves replenishment and development of additional value production).

Development of the Code of the Republic of Kazakhstan “On Subsoil and Subsoil Use” will be completed in the third quarter of 2017. At the meeting with population in summer of 2016, the Minister for Investment and Development of the RK, Zhenis Kasymbek¹¹⁹, informed that “this year we will actively work on this project with companies, with population, but three basic postulates that will be in this Code are already considered: mineral resources will not be sold, mineral resources can be transferred to geology, exploration, extraction, use”. He also explained that according to the Code, the RK state bodies will have right to block any transactions and operations on the issues of the Kazakhstan's mineral resources use.

¹¹⁷<http://metalmininginfo.kz/archives/4593>

¹¹⁸http://www.gmprom.kz/site/gmprom/repository/file/GMP_4-2017.pdf

¹¹⁹<http://meta.kz/novosti/kazakhstan/1072542-kodeks-rk-o-nedrakh-i-nedropol-zovanii-vnesut-v-parlament-rk-v-2017-godu.html>

The concept of the new Code “On Subsoil and Subsoil Use” according to the lawyers' assessments¹²⁰ contains a number of provisions that can be assessed as undoubtedly desirable for investors. Some suggestions - for example, on replacing a contract for exploration with a license - is quite controversial. However, in general, it is expected that this will be a qualitatively new legislative act in comparison with the current Law “On Subsoil”:

“... - methods and approaches in the industry state administration will change, with a reduction of administrative-command method use in its regulation;

- a guarantee for stability of contract regime and applicable legislation will be established, including tax stability;

- open access to geological information for all potential investors will be provided;

- conditions for granting right to exploration and its implementation will become more investment-attractive;

- conditions for granting right to mining and its implementation will also be changed and become less risky for investors, etc.

The Concept also proposes to revise legal regulation of a number of issues, as well as to establish new rights for subsoil users that are not provided for by current legislation. Thus, it is proposed to

- completely change approaches used in preparation and approval of project documents;

- change methodology and system for calculating reserves;

- change national companies legal status, depriving them of their privileges;

- provide for the possibility of prospecting;

- provide for the right of subsoil users to suspend exploration and production operations, for example, due to significant drop in raw material prices to the point that leads to unprofitable production, etc.”

Experts point out that if everything happens as planned, an almost “investment paradise” will come.

An important innovation for subsoil users will be introduction of rent. “There are many tax payments in the current law incomprehensible for many investors, which are like punishment - these are the subscription bonus, commercial discovery bonus, past costs. Within the framework of the draft Code all these bonuses, tax payments, will be canceled and rent will be introduced, negotiations are currently under way with the Ministry of Finance and the Ministry of National Economy, rates are calculated” explained in the Ministry¹²¹.

It is important to highlight a number of points of the draft Code “On Subsoil and Subsoil Use”:

Firstly, an issue of the need to adopt the Code, rather than the new Subsoil Law, was discussed both from a perspective of the theory of law, and from a practical point of view. Experts agree that adoption of a legislative act in form of the Code under the existing system of regulatory legal enactment (RLE) in Kazakhstan will facilitate the resolution of a number of issues, in particular: it will solve the problem of contradictions between normative legal acts of different legal force, occupying a higher

¹²⁰<https://www.zakon.kz/4755276-zakonodatelstvo-o-nedrah-i.html>

¹²¹<http://nalogikz.kz/news/novyy-kodeks-o-nedrah-cto-zhdat-nedropolzovatelyam-i-investoram.html>

position in the RLE hierarchy compared with laws. In addition, almost all other branches of legislation regulating use of natural resources are codified (in Kazakhstan there are Land, Forest, Water, Environmental, Customs). According to the Concept developers, the adoption of the Code will serve as an additional lever to ensure the subsoil legislation stability, since “changes to the codes are made in a complicated order in at least two readings by sequential consideration at separate sessions of the chambers of the Parliament of the RK”.

Secondly, new **principles of subsoil use** are proposed - for example, the principle of presumption of conscientious use of subsoil use and resources, and it is also proposed to replace the existing principle of “openness of subsoil use operations” with the principle of “transparency of state bodies’ activities and access to information”. This principle provides for the responsibility of state bodies to ensure unimpeded access of any interested persons, including through relevant Internet resources, to information on the conditions for granting subsoil use rights; to information on fulfillment of the conditions for granting subsoil use right under the concluded contracts and issued licenses; to the decisions of state bodies on granting, changing and terminating the right of subsoil use; to documents based on which subsoil use rights arise; to geological information that is not confidential and does not relate to state secrets; to the reports on subsoil users’ fulfillment of contractual and license terms.

Thirdly, it is expected to change **the methods and approaches in the state administration of subsoil use**. The Concept developers are proposed to establish exhaustive powers and responsibilities of state bodies exercising regulation in the field of subsoil use, which will exclude the possibility of law enforcement at discretion of the official holder as much as possible. It is supposed to use so-called “indicator based regulation” method, in which state control in the sphere of subsoil use should not focus on fulfillment or non-fulfillment of certain actions by subsoil users, but will focus on achievement of subsoil user’s certain results, in compliance with norms of environmental legislation, rational and effective use of subsoil and industrial safety standards. It is expected that application of the proposed method will reduce the risk of contract termination for any admitted violation existing at the present time, since the state will control only the final result.

Fourthly, **the stability of subsoil use conditions** was introduced as a separate provision of the Concept and was named as a measure capable of restoring investor confidence in Kazakhstan. Experts note that subsoil use is a capital-intensive industry that requires significant and long-term investments. Stability in subsoil use can be considered as minimization of number of changes and additions to the basic legislative acts regulating relations in the field of subsoil use and in establishing a guarantee that the legislation will not worsen the subsoil user's position on contracts concluded prior to enactment of this legislation.

Currently, the Law “On Subsoil” of 2010 establishes that *“changes and amendments to the legislation that worsen the results of entrepreneurial activities of a subsoil user under contracts do not apply to contracts concluded before introduction of these changes and amendments. Guarantees established by this article do not apply to changes in the legislation of the Republic of Kazakhstan in field of national security, defense, in spheres of environmental security, health, taxation and customs regulation”* (Article 30). That is, currently established guarantee is only applied if the entrepreneurial activity’s results deteriorate, and at the same time contains too “broad language”, such as “ensuring national security” or “environmental security”. The wording should be clear and understandable, with clear boundaries for their application.

Fifth, the legal conditions for exploration and production in Kazakhstan. Among other things, experts propose to establish general legal conditions for exploration and production, among which we should note the following:

- exploration and production of any type of minerals will be carried out within the main groups of minerals: hydrocarbons, solid minerals, common mineral resources. An exception to this list will be uranium, groundwater, therapeutic mud and geothermal resources, exploration and production of which will be carried out based on specified type of mineral based on a special license;
- lease payments at increasing annual rates for one block;
- unlimited volume of geological exploration;
- lack of commitment to the costs of socio-economic development of the region, training of local personnel, research and development and other expenses that are not directly related to exploration during the exploration period;
- transition to production without issuing a new license or concluding a new contract, i.e. exploration and subsequent production on a combined basis.
- absence of requirements for volume and production limit (based on the best world practice of field development), with exception of groundwater, for which the upper limit of water withdrawal will be established;
- payment of expenses for social and economic development of the region, training of local personnel, research and development work during the production period in the amounts provided for by the Code, etc.

It is proposed to provide for some special conditions for exploration and production of hydrocarbon raw materials on poorly researched and unpromising site, as well as for solid minerals.

That is, it is proposed to maximally liberalize conditions for carrying out subsurface use operations, granting the subsoil user the right to decide what works should be done, how much to finance, how much to extract, etc. In order to ensure this possibility, it is proposed to proceed from the fact that indicators of project documents and work program are only planned, forecast indicators, and significant deviations are possible. Also the return of joint exploration and production possibility is considered.

Sixthly, the license VS the contract (see license information).

It was noted that the Code is expected to enter into force in January 2018 - it is interesting and important to what extent the adopted document will correspond to the original concept (before the adoption document passes a series of very serious agreements with state bodies) and fulfill its initial goals of simplifying, improving the effectiveness of legislation and attracting investments with the state interests observance.

Information on licenses¹²² (2.2) and contracts¹²³ (2.4)

The EITI Report of 2015 states that the Law “On Subsoil and Subsoil Use”¹²⁴ contains a legal basis for provision (Article 35), transfer (Article 36), transfer by succession (Article 38, Article 39) or termination of subsoil use rights (Article 40, Article 41).

Currently, prior to the Subsoil Code adoption, the Law “On Subsoil and Subsoil Use” (hereinafter - the Law) specifies that the granting of subsoil use rights for exploration, production, combined exploration and production can be carried out by concluding a contract based on a tender results (Chapter 4) or based on direct negotiations without holding a tender (Chapter 5), or without direct negotiations and holding a tender based on conditions stipulated by law. Subsoil use rights for exploration, production, combined exploration and production of minerals, with the exception of common, are carried out by the competent authority.

Competent bodies for granting subsoil use rights are:

1. for exploration, production, combined exploration and production of hydrocarbon raw materials, uranium and coal - ME RK;
2. for exploration, extraction, combined exploration and extraction of groundwater, therapeutic mud and solid minerals, with the exception of uranium and coal, –MEMR RK.

A tender for granting subsoil use right is carried out by the competent authority in accordance with the “conditions for holding a tender for subsoil use” (art. 47) and “notices of the auction” (art. 47-1) of the Law of the Republic of Kazakhstan “On Subsoil and Subsoil Use in the Republic of Kazakhstan”. The competent authority conducts a tender and concludes production contracts only after the state subsoil expertise in relation to fields’ reserves and confirmation of approved reserves availability.

In connection with Kazakhstan's accession to the Foreign Trade Organization (WTO) in 2015, amendments were made to the RK Law “On Subsoil and Subsoil Use” in the Republic of Kazakhstan¹²⁵ (in particular, the Article 61 “Types of Subsoil Use Contracts” of the Law was amended regarding subscription bonus; expenditures for socio-economic development of regions and development of its infrastructure; local content, amount of expenditures allocated for training, liquidation fund, etc.). In 2015, the Law of the RK “On Subsoil and Subsoil Use” in the Republic of Kazakhstan was amended regarding the right to provide subsoil use - in particular, by auction (the auction is organized and conducted by the Commission for holding tenders for subsoil use rights. The auction winner is a participant who proposed the largest amount of subscription bonus, after three-time announcement of which there were no proposals for

¹²²In accordance with the EITI Requirement 2.2.Licensing. a) Implementing countries should disclose the following information relating to the granting or transfer of licenses to companies covered in the EITI Report for the reporting period covered in the EITI Report: i. description of the process of license transfer or granting; ii. technical and financial criteria used; iii. information on the licenses recipients that were transferred or granted, including members of the consortium, as appropriate; and; if. any non-trivial deviations from the applicable regulatory framework governing the transfer and granting of licenses (see Guidance Note 4: Granting Licenses, <https://eiti.org/guidance-notes-and-standard-terms-reference#GN4>)

¹²³In accordance with the EITI Requirement 2.4 (see Guidance Note 7: Contract Transparency,

<https://eiti.org/guidance-notes-and-standard-terms-reference#GN7>)

¹²⁴<http://adilet.zan.kz/rus/docs/Z100000291>

¹²⁵The Law of the Republic of Kazakhstan “On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan in Connection with Accession to the World Trade Organization” dated October 27, 2015, No. 365V.

its increase from other participants of the auction), as well as regarding granting of subsoil use rights in a simplified order for exploration of poorly studied subsoil plots.

According to the Report of the Department of Subsoil Use of the MID of RK (see p.98), about 18 contracts were concluded under a simplified procedure for the pilot granting of exploration rights. Through direct negotiations, in total in 2016, direct negotiations were held on 46 subsoil use objects (including 19 with national companies, 2 with SPIID entities; transition to the production stage - 3, simplified method - 18, groundwater - 4, among them 2 objects of PFIID). Also in 2016, 67 contracts for subsoil use and 176 amendments to contracts were signed. Also, 16 model exploration contracts were signed.

As mentioned above, within the framework of **the Subsoil Code Concept, License VS Contract issue is being considered**. According to analysis of legal experts¹²⁶: “... Since 1999, the right to explore and extract minerals originates in Kazakhstan based on a contract concluded between a subsoil user and a competent authority (there are only some exceptions to this general rule).

The Concept developers propose to define the license as the basis for emergence of the right to explore and extract solid minerals, common minerals, therapeutic muds, groundwaters, geothermal resources, use of underground cavities (man-made and natural), useful components from technogenic formations and technogenic mineral state-owned entities, as well as exploration of hydrocarbons on poorly researched and unpromising subsoil plots. A contract is proposed to be concluded only for exploration and production of hydrocarbons. The Concept authors, arguing expediency of licensing procedure introduction refer to a significant reduction in time frame for obtaining subsoil use rights. However, in this case, this right can also be quickly lost - after all, the license, at least within the meaning of Kazakhstan's legislation, is a public legal authorization document that is unilaterally granted and recalled by the state.

Under the licensing procedure, if the license is understood as an administrative act, and not a contractual document, the investor's security is low, primarily because he has no opportunity to discuss the license terms, cannot provide for disputes consideration in arbitration. In addition, unlike the contract, the license, being at least in the Kazakhstan legal reality an administrative act, is not stabilized.

In some countries even work based on a license does not entail administrative nature of relationship between the state and subsoil user. In fact, the state enters into a civil law contract with a subsoil user, detailing its terms and strictly monitoring their implementation.

There has been an attempt to introduce a licensing procedure for granting subsoil use rights in Kazakhstan (from 1994 to 1999), but licenses were in effect combined with contracts, the license was always perceived as a permit, in this case, permission to contract for the base conditions specified in the license. The contract had to comply with the license terms; the license withdrawal resulted in contract termination. Changes in the contract most often required changes in license conditions, licensing and competent authority did not always coincide, there was a period when licenses were changed only by a special decree of the Government of the RK, as a result, in practice, subsoil use was constantly carried out with violation of license conditions, under threat of its recall. In the end, the license grant was abolished”.

With all this said, transition from a contract to a license, in the opinion of a number of experts, requires careful consideration, in view of legal meaning of the license and contract (their public, legal and civil-law components, respectively) existing in Kazakhstan.

¹²⁶Legal firmAequitas, <https://www.zakon.kz/4755276-zakonodatelstvo-o-nedrakh-i.html>

Disclosure of contracts¹²⁷(2.4)

At present, in accordance with the Law “On Subsoil” with the subsoil user, the following types of contracts can be concluded:

- 1) for exploration;
- 2) for production; or
- 3) on combined exploration and production.

Validity period, as well as the contract renewal, depends on its type. Thus, exploration contracts can be concluded for up to six years, with a possible extension of two years for reconnaissance at sea. Production contracts may last up to 25 years, and for deposits with large and unique reserves of minerals - up to 45 years, with possible extension. A contract for combined exploration and production may be concluded only by a decision of the Government of Kazakhstan regarding deposits of strategic importance and/or complex geological structure¹²⁸.

Major contracts for exploration and production of hydrocarbons, carried out under the terms of the Product Section (APS and LLP Tengizchevroil Contracts - 15) were concluded until 2009.

In the *EITI Supplementary Report for 2015*, the confidentiality conditions stipulated in Section 17 of the Order of the Minister of Investment and Development of the Republic of Kazakhstan of March 31, 2015 No.412 “*On Approval of Model Contracts for Subsoil Use Types*” were highlighted. The wording of paragraph 62 states that “*Information received or acquired by the parties in process of the contract performance is confidential and is subject to protection in accordance with the civil legislation of the Republic of Kazakhstan*” and this is a rather broad formulation. Par.66 describes an exception to this rule: “*Information regarding contractual obligations performance in terms of local content, planning and carrying out goods, works and services procurement by a subsoil user, as well as costs of training Kazakh specialists and costs of socio-economic development of the region and development of its infrastructure is not confidential*”.

Therefore, in terms of contracts disclosure, companies refer to the principles of confidentiality laid down in legislation and by-laws.

Publication of contracts and APS was discussed earlier at the meeting of the NCS (Minutes No.52 of March 10, 2015), but it was decided that the implementation of contracts disclosure and the APS was considered premature.

In 2017, the issue of contracts disclosure discussing (and the APS in particular) was included in the EITI Work Plan for 2017-2018 in the Activity section of the NCS. In February, the issue of information disclosure of APS was raised in the context of beneficiaries’ disclosure (and introduction of relevant norms in the Draft Code “On Subsoil”). It was noted that there are already “many public companies and norms will be the same for all, but in the case of companies’ interests infringement - the norms do not apply” (Minutes No.65 of 28.02.2017¹²⁹).

¹²⁷EITI Requirement 2.4 Contracts. a) Implementing countries are encouraged to publicly disclose any contracts, agreements and other documents that contain conditions relating to the extraction of oil, gas and mineral resources. b) It is necessary that the EITI reports document government policy on the disclosure of contracts and agreements regulating exploration and development of oil, gas and mineral resources, etc. (Guidance note 7: Transparency of contracts, <https://eiti.org/guidance-notes-and-standard-terms-reference#GN7>)

¹²⁸<http://investkz.com/journals/111/1545.html>. Colibri Kazakhstan company

¹²⁹<http://eiti.geology.gov.kz/images/stories/ipdo2/protocol/no65-28022017.pdf>

Discussion of the issue continued at the NCS on June 15, 2017 (NCS Protocol No.67). Representatives of the companies said that they do not support an idea of contracts disclosure now, and this should be done step by step. Disclosure of contracts is included in the Draft Code on Subsoil and should become the EITI's task (in the opinion of deputies and MID representatives). Non-governmental organizations (NGO) said that already for the 12th EITI Report it is possible to determine which contract information can already be disclosed in stages.

The *EITI Supplementary Report for 2015* states that “the National Secretariat participated in a webinar on contract disclosure organized by the EITI International Secretariat on May 19, 2017, which was attended by representatives of several countries implementing the EITI with a different range of experience in meeting the 2.4 EITI Standard requirement “Contracts”. Issues on disclosing documents containing interests of the society were discussed, some of which have already been disclosed in Kazakhstan, for example: fiscal conditions, including taxes and royalties; health and safety of workers; social obligations, including infrastructure, local content. It is announced what should be disclosed: the main contract (license, permit); other documents containing the rights and duties of companies that are of interest to the company; applications, additions, documents; laws and regulations.

Five steps are proposed for the contracts and licenses disclosure in the EITI:

- Step 1: Discussion of contracts and licenses disclosure;
- Step 2: Determination the amount of disclosure;
- Step 3: Build and verify documents;
- Step 4: Determination of open access modes;
- Step 5: Maximizing public understanding and awareness.

The EITI's requirement for contracts disclosure has not yet entered into force, as a mandatory, but it is one of the most important steps for countries implementing the EITI, as it is aimed at more efficient management of extractive resources. Transparency of contracts helps to establish constructive relations between citizens, companies and the Government, which can reduce conflict and promote stability in this sector. This helps to establish realistic expectations about the terms and conditions of extraction, which facilitates collection and forecasting of government revenues. The contracts disclosure also provides greater opportunities for stakeholders to monitor compliance with obligations, which encourages all parties to act responsibly in the implementation of the project.

That is, the issue of contracts full disclosure remains open in Kazakhstan, however, the discussion continues.

3.3.2. Fiscal mode (2.1)

The EITI Report for 2015 details current taxation regime in subsoil use area. Let's briefly dwell on taxes, royalties and duties¹³⁰ - the Tax Code of the Republic of Kazakhstan establishes a number of the following special taxes payable by subsoil users to the state budget in addition to taxes applicable to all legal entities (such as CIT (20%), VAT (12%), social tax (11%) and other mandatory payments):

- Subsoil user special payments:
 - Subscription bonus is a one-time fixed payment for acquisition of subsoil use right. The amount of subscription bonus varies depending on type of contract awarded, type of minerals, etc. So, for example, the subscription bonus for oil exploration contracts is 2 800 monthly calculation index (MCI); on contracts for oil production with unapproved reserves – 3 000 MCI, and with approved reserves - in accordance with established formula, but not less than 3 000 MCI.
 - Commercial Discovery Bonus (0,1%) is a one-time payment that is paid by a subsoil user in case of commercial discovery on a contract territory. The tax base for its calculating is the value of confirmed extractable resources volume (ER), which is usually determined based on market quotations on international exchanges.
 - Fee for past costs compensation - a fixed payment for reimbursement to the state of all costs incurred by it for contract territory geological exploration and deposit exploration prior to subsoil use contract signing.
- Excess profit tax (0% - 60%). Object of taxation is a part of subsoil user's net income for the reporting period, which exceeds the amount equal to 25% of the subsoil user's deductions for the purpose of excess profit tax calculating. The tax is calculated annually, on a progressive scale.
- TEMR mineral extraction tax (0,5% - 18%) is paid separately for each type of mined mineral, oil, groundwater and therapeutic mud. TEMR is applied to crude oil, gas condensate and natural gas. Rates and tax base vary depending on what is produced and where it is sold - in the domestic market or exported.
- Rental tax for export and export customs duties are paid when a subsoil user exports crude oil, gas condensate and petroleum products. Rental tax on exported oil is 0% - 32%

Reforms - improvement of tax and customs legislation?

In general, according to the information of the Ministry of National Economy of the RK, tax revenues amount to about **64%** of the **RK** state revenues - therefore, optimization of customs and tax policy is an important factor of economic growth, along with increasing the investment attractiveness of the republic¹³¹.

Under the auspices of the Nation Plan, activities aimed at optimizing tax regime are being implemented - drafts of the new **Customs and Tax Codes** have already been drawn up. In particular, there will be simplification of business administration by state bodies, stimulating lending and investing in geological exploration. In addition, it is planned to introduce the institute of tax advisers, tax credits and remote audit.

¹³⁰ <http://investkz.com/journals/111/1545.html>

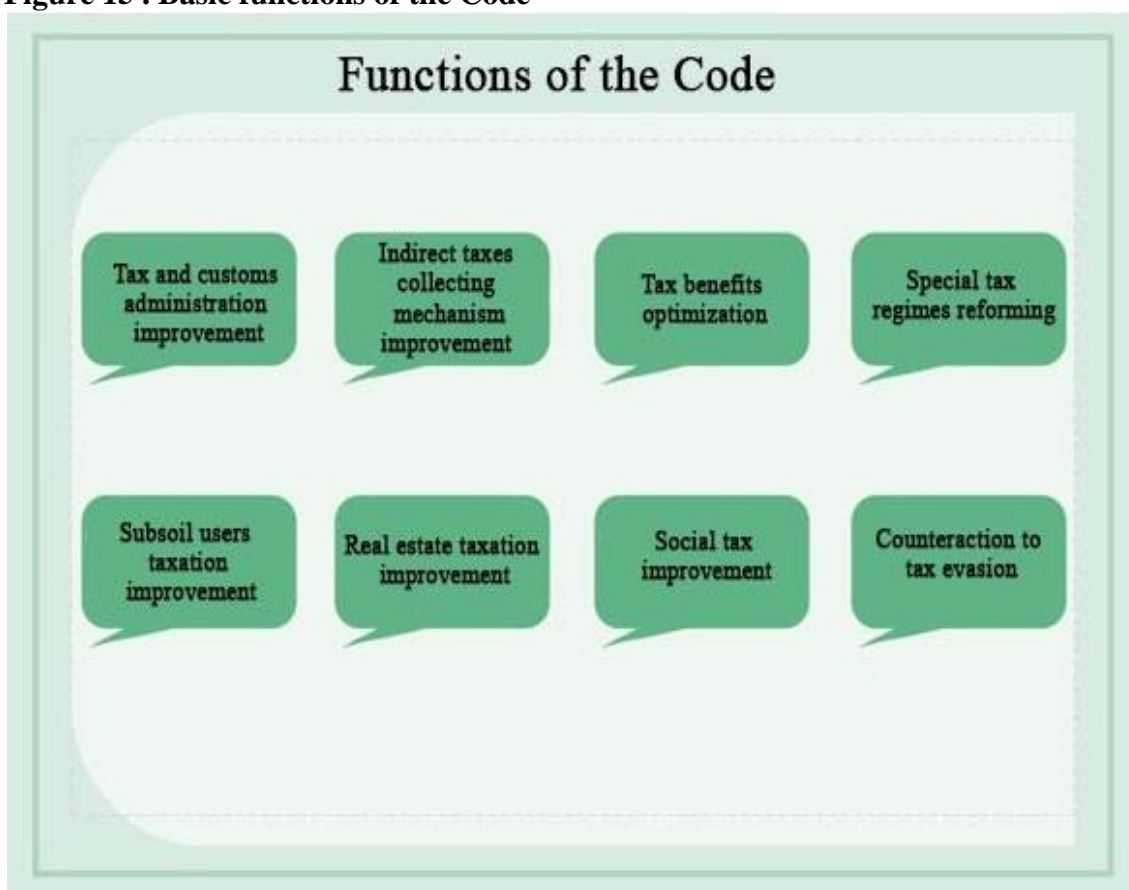
¹³¹ <http://rk-news.com/2017/08/02/mne-rk-novyie-proektyi-nalogovogo-i-tamozhennogo-kodeksov-razrabotanyi-po-planu-natsii/>

With regard to customs control, emphasis will be made on introduction of IT-technologies in declaring, customs operations, along with the “one stop shop” mechanism.

Initially, it was expected that in 2016 a unified Tax and Customs Code¹³² will be developed in Kazakhstan. “A radical reform of the tax system will be carried out in accordance with the “National Plan - 100 concrete steps”, the taxation emphasis will be shifted from production to final consumption”, - the Minister said. “For successful implementation of these initiatives in the fiscal sector, it is proposed to develop joint Tax and Customs Codes and the new Budget Code in 2016”.

LLP “Ernst & Young” analyzed integration of the Tax and Customs Codes¹³³: this step was based on the Nation's Plan “100 Specific Steps for Five Institutional Reforms Implementing” of May 6, 2015 (STEP 39). In January 2016, the Ministry of National Economy of RK (MNE) began internal work on the development of the Code of the Republic of Kazakhstan “On Taxes and Other Mandatory Payments to the Budget and Customs” (the “Code”) and draft Code should have been submitted to the Parliament of the Republic of Kazakhstan before September 1, 2016.

Figure 15 . Basic functions of the Code



In terms of subsoil use, *the Concept of the Draft Code of the Republic of Kazakhstan “On Taxes and Other Obligatory Payments to the Budget and Customs Regulation”*¹³⁴ suggested the subsoil users taxation system improvement, including through:

¹³² <http://bb.f2.kz/ru/zakon/proekt-novogo-nalogovogo-kodeksa-rk-t10477.html>

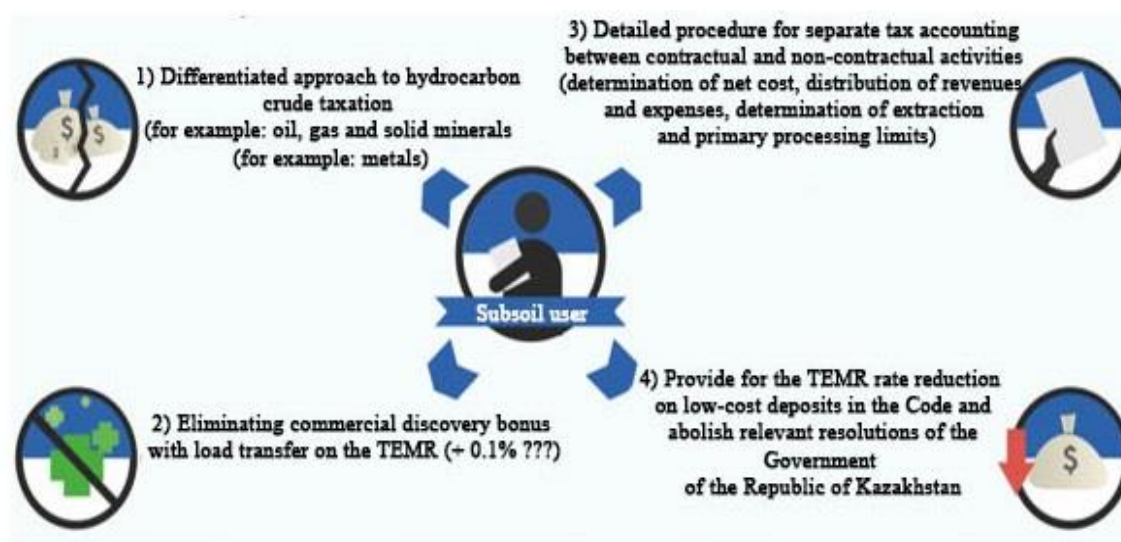
¹³³ http://www.eurobak.kz/uploads/attachments/post_attachments/1091/00c5147982383c3870ea12659dffe43.pdf

¹³⁴ <http://bb.f2.kz/ru/zakon/proekt-novogo-nalogovogo-kodeksa-rk-t10477.html>

- 1) maximum detail of the procedure for maintaining separate tax accounting for each type of activity (determining the cost, assigning types of costs and revenues to contract activities, determining the extraction and primary processing boundary by the authorized body);
- 2) exclusion of the commercial discovery bonus with the load transfer on the TEMR;
- 3) introduction of a differentiated approach to the hydrocarbon crude (HC) and solid commercial minerals (SCM), including uranium taxation;
- 4) revision of the abstractpoolentry minerals (AM) list with the establishment of a TEMR rate in the MCI on them.
- 5) other issues related to subsoil users taxation.

LLP “Ernst & Young” also noted a reduction in the TEMR rate for low-profitable deposits in the Code.

Figure 16. Subsoil Users Taxation Improvement



- Implementation of the Single Rental Payment (“SRP”) for the use of subsoil resources instead of land tax, the PCCP subscription bonus and social payments at the stage of the exploration based on payment for the land use.
 - For contracts concluded after the Subsoil Code enactment
 - SRP differentiated rates
- Accrual of subscription bonus, commercial discovery bonus and past costs compensation payments based on data from authorized bodies without submission of declarations.
- The TEMR rates on common minerals in the MCI
- Save preferences for subsoil users, independently directing extracted crude oil for processing at OR and selling petroleum products.
- Exclude coal from the export tax units with transfer of the tax burden on the TEMR (3% of the MCI per tonne of coal extracted to surface). Zero rate when selling coal to organizations whose activities are of high social importance.
- Distribution of functions between the SRC and the ME in respect of charges for emissions to the environment.

Concerning low-profitable deposits - the Ministry of Energy of the RK participated in the working group for this code draft development. To improve investment climate and economy of subsoil users, a number of conceptual proposals were suggested in the framework of above-mentioned works of the ME of the RK, including introduction of direct action rules for the application of preferential mineral extraction tax rates (TEMR) for low-cost, high-viscosity, watered, low-yield and developed deposits¹³⁵. This norm would allow subsoil user to independently apply a reduced rate of TEMR in accordance with established criteria. According to the MNE of the RK, this issue is being worked out and has a conceptual nature, requiring detailed study of the relevant financial and economic calculations and assessing the macroeconomic effect. The MNE RK plans to consider the above proposals in 2017-2018 as part of the work to develop a unified Code of the Republic of Kazakhstan draft “On taxes and other mandatory payments to the budget and customs regulations”. The press service of the Ministry of Energy of the RK informed that the government already provides for benefits and preferences, namely the TEMR reduced rate to subsoil companies that are developing low-profitable deposits, which is certainly an incentive for maintaining taxation of profitable deposits at the current level and stimulating investment activity to increase oil production through mature fields and exhausted fields¹³⁶.

At the same time, in February 2017, it was decided not to combine the codes¹³⁷. At the meeting of the Government, the Prime Minister of the RK instructed the Ministry of National Economy together with the interested state bodies when developing the new Tax Code to drastically simplify administration and make it as simple as possible for understanding. “Within the framework of this task it is necessary to audit tax benefits and preferences. It was planned to develop a joint Tax and Customs Code earlier, but in accordance with the President’s instructions, the Ministry of National Economy and Finance needs to develop a separate Tax and Customs Codes”. Development of documents is in progress.

¹³⁵ <http://energo.gov.kz/index.php?id=9539>

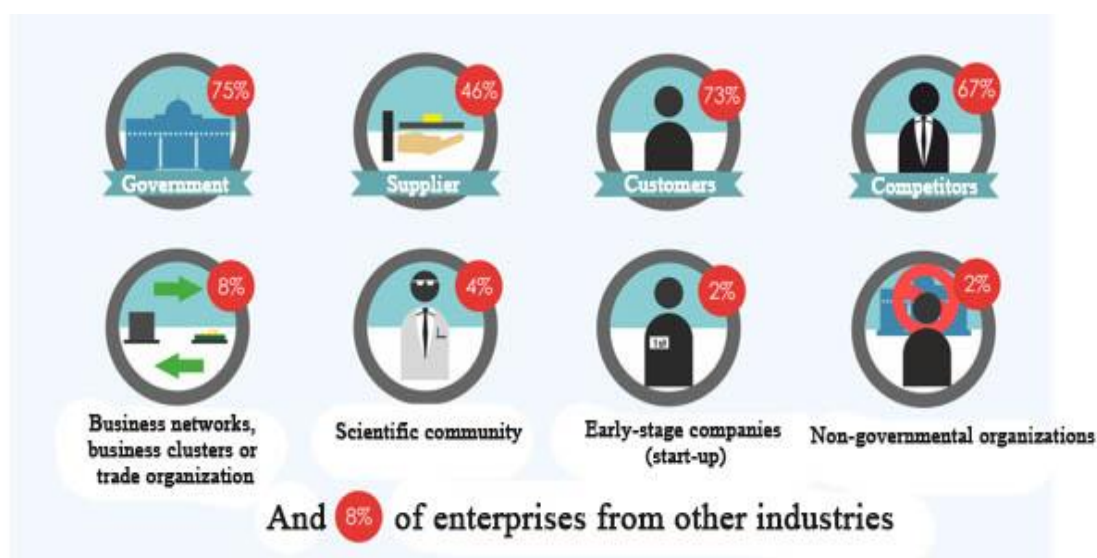
¹³⁶ The state helps to companies, including LLP “Embamunaigas”, which is developing low-profit fields, which allows not to reduce employment, the correspondent of MIA “Kazinform”.

¹³⁷ <https://www.zakon.kz/4842645-nalogovyjj-i-tamozhennyjj-kodeksy-rk-ne.html>

3.3.3. The role and participation of the government¹³⁸ (2.6)

PwC published the enquiry results of Kazakhstan¹³⁹ largest companies' CEO (CEO – Chief Executive Officer) in 2016. The question pool concerned the role of the government. Traditionally, the government is the main factor of business influence for Kazakhstan CEO, as with the positive side and negative side. The Kazakhstan government has even greater impact to the business than its direct customers. Kazakhstan CEO pointed out that the government (75%) and customers (73%) have a significant impact on their business (and the second indicator is lower in comparison with the global (90%). Herewith, according to companies' CEO, such groups as the business unions, associations, scientific community, startups, NGOs and others do not have significant impact on business. Nevertheless, they are ready actively cooperate with some of these groups.

Figure 17. The enquiry results of Kazakhstan largest companies' CEO



Speaking about the priorities of the government, the CEO named the maintenance of macroeconomic predictability, increase of investment attractiveness of the country, the corruption control. They are quite critical of the government's achievements in the above priority areas.

Some companies that working in Kazakhstan, used to work closely with the government, receiving support from time to time in the form of the state order, financing from state sources of targeted regulatory support. In return, the company is ready for loyal attitude to over-regulation, bureaucratic and other obstacles. Business needs government assistance in overcoming its economic difficulties no less than the

¹³⁸Participation of government. When the government participation in the extractive industries leads to a substantial increase in payments of income, the implementing countries should disclose: a) An explanation of the prevailing rules and practices on financial relations between the government and state enterprises (SE). b) The government and/or state enterprises disclose their level of beneficial ownership...and any changes in the level of participation during the reporting period. ...the government and/or SE will disclose the terms of the transaction, including information about money value and income. In cases where the government and/or SE has provided loans or loan guarantees to mining, oil and gas companies operating in the country, information about these transactions should be disclosed.

¹³⁹Sep 6 2016 Forbes - https://forbes.kz/leader/ceo_survey_2016/. The survey polled 52 of the head in Kazakhstan, and 30 CEO gave detailed interviews. It was not the heads of the national companies. To obtain the most complete picture in the country was selected CEO from different industries: metallurgy, oil and gas, financial, energy, telecommunications, automotive, retail, construction, transport and logistics, light industry, medical services and insurance, tobacco, etc.

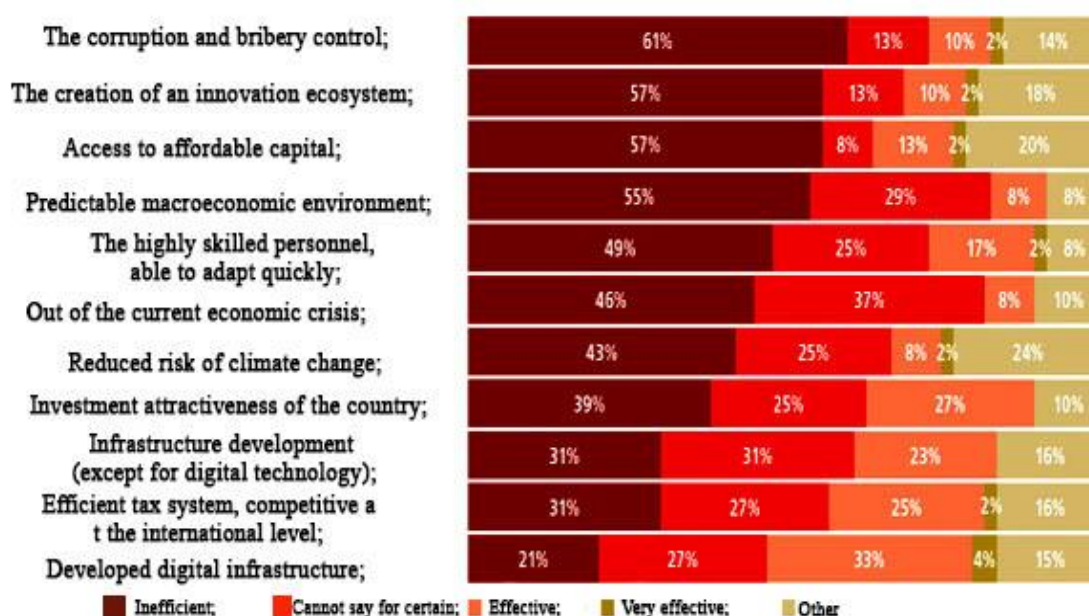
state in its support in resolving socially important tasks, including providing employment and maintaining stability.

The extractive industries representatives statements relate mainly to over-regulation legislation (noted above in the report) and the need for its reform of the business transfer part of government functions “Interaction with private companies should be based on an understanding of the common goals of the entrepreneur and of the state in creating a successful business, acting as a large employer and taxpayer”. From this point of view it is advisable to trust the entrepreneur government-regulated function.¹⁴⁰

The presence of the government in the economy should be reduced, but in general, the role of the government is seen in providing a cyclical economy: “It is necessary to reduce public expenditure, reduce government presence in the market and in the economy as a whole, and in the hard time, the government needs to mitigate measures and it can be tighten when the economy goes on the amendment¹⁴¹”.

Evaluation of government work effectiveness - according to 61% of CEO, the government corruption and bribery control is inefficient. Respondents noted that this control is often declared and even when it is conducted, it is limited to some selective and lack a systematic approach. More than half of the respondents consider inefficient actions on creation of innovative ecosystems that many want to see more efficiency in creating access to affordable capital. Clearly, businesses need a more active and effective actions of the authorities in these areas. It is also clearly that businesses overwhelmingly focus on the problematic points, rarely noting progress in one direction or another.

Figure 18. Evaluation of government work efficiency



At the same time, compared with the previous year business interest in cooperation with the government increased. Half of CEO are willing to work together with government to increase investment attractiveness of the country. The government can and should involve the private sector in crisis management processes, including improving environment for investors, thus relying on the support are really interested in the improvements of the parties. The government also has reason to expect from a business using global best practices. A smaller number of CEO (48%) are interested in working

¹⁴⁰Marat Seitkulov, CEO of Caravan Resources Ltd:

¹⁴¹Serik Tolukpayev, CEO of LLP “Aitas Group”

together with the government in the education and training of highly qualified personnel, able to adapt quickly in a changing environment (last year the figure was only **18%**).

Another **44%** of executives are willing to join hands with government in the framework of the development of an efficient tax system (15%) and increasing access to affordable capital (**16%** respectively).

The business has also identified new areas of cooperation is corruption control, predictable macroeconomic environment, out of the current crisis.

Thus, in general (and in particular in the extractive sector) the role of the government is high, and the business is ready to work together to improve the business environment and its effectiveness.

In Kazakhstan, the government plays a significant role in the sphere of subsoil use and as a regulator (through the implementation of the government functions) and as a member of the civil legal processes (**as the owner and state assets manager** - through the national company (NC) and state enterprises (SE).

In the framework of the EITI at the international level it was noted that according to the International Monetary Fund (IMF) of 2012 approximately 80% of the world's oil reserves are controlled by state companies and 15 of the 20 largest oil companies are state-owned. In the mining sector, their role is not so significant, but in many countries is also considerable. State enterprises may own and operate projects directly or through joint participation.

As mentioned in the 1st part of OECD report noted that “the share of public enterprises and budgetary institutions still account for 30% to 40% of GDP (*15% in OECD countries - author's note*). In 2013, under the control of JSC “SWF “Samruk-Kazyna” that established in order to improve the competitiveness and ensure the stability of the national economy, were the assets corresponding to about half of GDP. The concentration of economic power in the hands of the state and a small group of private players hinders the inflow of investments and the dynamics of economic development”. Detail the government involvement in the extractive industries described in the 11th National Report for 2015 (pp. 34-38, p. 64 - 68). It will be focused on the scheme of state involvement in the industry and as regulator (exercising the functions of government), and as a party to the contract (as national companies and state holdings).

The functions of government body.

According to the *EITI Report - 2015*, the extractive industries is under the control and regulation of various governmental bodies.

Government management of oil and gas industry, the formation and implementation of state policy by the **Ministry of energy of the Republic of Kazakhstan**¹⁴²(MOE). Objectives of the MAE are:

1) formation and implementation of state policy, improving the system of state management in the areas of oil and gas, petrochemical industry, transportation of raw hydrocarbons, governmental regulation of production of oil, gas and gas supply, main pipeline, power generation, coal industry, nuclear energy, environmental protection, security, control and supervision over the rational use of natural resources, solid waste, development of renewable energy sources, state environmental control, economic methods of environmental control over the state policy of development of “green

¹⁴²<http://energo.gov.kz/index.php?id=854>

The Statute on the Ministry of energy of RK. Approved by the Government Resolution dated 19.09.2014 № 994

economy” and the normative legal acts in the field of technical regulation and normative and technical documents within its competence;

2) coordination of central and local executive bodies activities control on implementation of state policy in the sphere of activities related to the competence of the Ministry;

3) development of fuel and energy complex;

4) implementation of the state policy on international cooperation in areas related to the competence of the Ministry;

5) ensuring the reproduction of hydrocarbon, coal and uranium resources and its rational use, including associated gas;

6) improving environmental quality, conserving natural resources, ensuring ecological safety and achieving a favorable level of ecologically sustainable development;

7) development of information system dissemination and education in the field of environmental protection;

8) ensuring the implementation of competence authority resulting from agreements on production section;

9) governance and provision of state control in regulated areas;

10) implementation of other tasks assigned to the Ministry within its competence.

Its power cover such areas as oil and gas production, oil refining, hydrocarbon transportation, processing and distribution of gas, electricity, coal mining and nuclear power.

ME carries out regulation and control in industry, including organization and holding of tenders for granting subsoil use rights for hydrocarbons, coal and uranium, approval of subsoil use contracts and representation of interests of Kazakhstan in the framework of such contracts, the implementation of the various control functions in the oil and gas, coal industries, as well as supervision and control over observance of environmental requirements. ME has the authority to regulate export and import of energy. ME carries out trust management of company shares defined in an authority in agreements on production section. State functions of the authority in the Agreements about section of production is carried out by LLP “PSA”. The founder of LLP “PSA” is the JSC “NC “KMG”. According to power of attorney issued by the Ministry of energy of the Republic of Kazakhstan, LLP “PSA” is empowered to make representation on behalf of the Ministry of energy of the Republic of Kazakhstan. In accordance with the contract on transfer of property in July 2010 JSC “NC “KazMunayGas” handed over to the Ministry of oil and gas of the Republic of Kazakhstan (now the Ministry of energy of the Republic of Kazakhstan) in trust 100% of the share capital of LLP “PSA”.¹⁴³

Government management of the mining industry conducted by the **Ministry of investment and development of the Republic of Kazakhstan (MID)**¹⁴⁴. The Ministry is a state body of the Republic of Kazakhstan, carrying out management in the spheres of industry and industrial-innovative development, scientific and technological development of the country, *mining and metallurgical complex*, local content development, engineering, chemical, pharmaceutical and medical industry, light, woodworking and furniture industry, construction industry and manufacture of building materials; safety of machines and equipment and safety of chemical products in

¹⁴³<http://www.psa.kz/seehereaboutauthority> - <http://www.psa.kz/about/history/>

¹⁴⁴<http://www.mid.gov.kz/ru/pages/polozhenie-o-ministerstve>

Some questions of the Ministry of investments and development of RK. The resolution of the Government dated 14.09.2014 No. 995

accordance with industry orientation; state investment policy and investment support, creating a favorable investment climate; the creation, functioning and abolition of special economic zones; export controls; technical regulation and ensuring unity of measurements; mineral resources, except for hydrocarbonic raw materials; the state geological studying, reproduction of mineral resources base, rational and integrated subsoil use, state management of subsoil use in groundwater and therapeutic muds, solid minerals, except for uranium and coal; energy conservation and energy efficiency, tourism activities, implementation of the state policy of investments support; in the areas of rail, road, inland water transport, trade navigation, in the use of airspace of the Republic of Kazakhstan and activities of civil and experimental aviation, highways; industrial safety; regulation of precious metals production and turnover of precious metals and precious stones and commodities containing precious metals, jewellery and other items (hereinafter - regulated spheres).

The Ministry of national economy of the Republic of Kazakhstan¹⁴⁵ (MNE) is the state Executive body of the Republic of Kazakhstan, carrying out management in the spheres of:

1) strategic planning, tax and budget policy, and policy in the field of customs, the national and state guaranteed borrowing and debt, public-private partnership, public investment projects, protection of competition and restriction of monopolistic activity, natural monopolies and regulated markets, the international economic and financial relations, including the regulation of international economic integration, regulation and development of foreign trade, regulation of trade, the management of state assets, including improving the quality of corporate governance, development of system of state administration development of the state policy in the sphere of rendering the state service, mobilization training and mobilization, migration, state material reserves;

2) regional development, development and support of private entrepreneurship, architecture, urban planning and construction activities, housing and utilities, state regulation in the field of water supply and sanitation, power, heat and gas supply within borders (line) of settlements of land resources management, geodesic and mapping activities;

3) protection of competition and restriction of monopolistic activity on corresponding commodity markets, control and regulate activities related to the field of public monopoly, and to the extent provided by legislation, intersectoral coordination and other special executive, permissive and control functions;

4) regulation and control in spheres of natural monopolies and regulated markets, except for spheres in the field of telecommunications and postal services, in accordance with the legislation of the Republic of Kazakhstan, as well as control and regulation of energy-producing and energy supplying organizations in accordance with the Law of the Republic of Kazakhstan “About electric power industry”;

5) state statistical activities;

6) consumer rights protection, sanitary and epidemiological welfare of the population, control and supervision over observance of requirements, established by technical regulations and normative documents on products and services provided to consumers, as well as in the field of food safety at the stage of its implementation (hereinafter – regulated sphere) carrying out inter-sectoral coordination, strategic, regulatory, supervisory and control, realizable and licensing functions.

¹⁴⁵<http://economy.gov.kz/ru/pages/polozhenie-o-ministerstve-nacionalnoy-ekonomiki-respubliki-kazahstan>

MNE is responsible for developing a coordinated macroeconomic policy, through strategic and budget planning. MNE develops recommendations on tax and budget policy, including the mining sector. MNE is considering a draft subsoil use contracts and feasibility study of projects for exploration and production, from the point of view of economic effect. Also, the committee for regulation of natural monopolies and protection of competition MNE monitoring and regulation, the development of tariffs of the companies responsible for main oil and gas pipelines, distribution gas networks.

The main tasks of the **Ministry of Finance of Kazakhstan** (MF)¹⁴⁶ are to develop proposals on execution, accounting, budget accounting and statistics of public finances, the budgetary reporting on execution of the Republican budget and, within its competence, local budgets, National Fund of the Republic of Kazakhstan on the basis of the report of the National Bank of the Republic of Kazakhstan, budget planning, and participation in the development of proposals on the main areas of tax, customs, budgetary policy, ensuring the completeness and timeliness of receipts of taxes and other obligatory payments to the budget, calculation, withholding and transfer of obligatory pension contributions to accumulative pension funds, calculation and payment of social deductions to the State Fund of social insurance, participation in the implementation of tax policies, ensuring within its competence the economic security, ensuring compliance with tax legislation of the Republic of Kazakhstan state regulation of production and turnover of ethyl alcohol and alcoholic products of production and turnover of tobacco products production and turnover of separate types of petroleum products, government regulation in the sphere of customs business, government and government-guaranteed borrowing, budget loans, disposal of Republican state property, management of government and state-guaranteed debt and debt to government, public procurement, internal financial control, control over carrying out of procedures of bankruptcy (except for banks, insurance (reinsurance) organizations and accumulative pension funds), regulation of activities in the field of accounting and financial reporting regulation in the field of auditing and overseeing the audit and professional organizations, carrying out the state monitoring of ownership, implementation of financial monitoring to counteract legalization (laundering) of illegally gained income and financing of terrorism.

Reforms - The code on subsoil.

Within the framework of developed Code on mineral resources there is one point which you should pay attention on the involvement of the state in subsoil use as regulator – it is a permissive regime and the right of the government to block transactions on the alienation of subsoil use rights. As explained by the former Vice-Minister of investment and development Albert Rau last year¹⁴⁷, the right of the government to block the transaction is remained, if it involves national security. At the same time, disputable issues about the priority right of the state to be a party to the transaction are discussed. Currently, questions its abolition is supposed to solve by substitution on the right of the state to block any transaction on the example of OECD countries.

As it was mentioned above, in the framework of the subsoil Code, it is assumed the reform of the administration of subsoil use. Developers of the Concept proposed to establish comprehensive powers and responsibilities of state bodies, carrying out

¹⁴⁶ http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_about_ministry/about_ministry/regulations_fldr

¹⁴⁷ <https://agmpportal.kz/proekt-kodeksa-o-nedrah-rassmatrivayut-so-vseh-storon/>, discussion of the draft Code at AGMP (a round table AMM-2016)

regulation in the sphere of subsoil use, which will maximally exclude the possibility of enforcement at the discretion of the officials.

3.3.4 Quasi-public sector.¹⁴⁸

National companies and state-owned enterprises (6.2).

*In respect to EITI reporting, according to the Standard, **state enterprise (SE)** is a wholly government-owned or majority government-owned company that carries out mining activity on behalf of the government. Wikipedia gives the following definition: Public company, public Corporation, state enterprise - the organization of any organizational-legal form, assets which are state-owned (or municipal), and CEO are appointed or employed under the contract by government bodies.*

Legal scholars note that¹⁴⁹ “if during the period of planned economy, the government has transferred property belonging to it in the operational management or economic management in government agencies and enterprises, while remaining the owner of the property, now widespread cases of transfer of state property into private property in which the state becomes a party to the private entity, as a rule, joint stock company or limited liability partnership. Naturally, the state-owned stakes and shares in business partnerships also belong to the category of state property, however, the legal regime of such property fundamentally change the legal regime of property of state enterprises or institutions. Having a stake in JSC or shares in the LLP, the state becomes an ordinary member of the legal entity, and is fully subject to the rules governing the participation of legal entities in relations regulated by civil legislation, including related to participation in private legal entities (article 114 of the civil code of Kazakhstan). The state owns shares or shares in organizations that have special economic importance: it is the major mining companies, transportation organizations, energy companies, etc. Thus, at the present stage among the issues of implementation of state ownership right, pride of place goes to the problem of effective management of state blocks of assets and shares in LLP”.

About 10 years ago, there was the tendency of failure of Kazakhstan economy government sector from such organizational-legal form of state business as state enterprise. In the strategically important sectors of the Kazakhstan economy the place of the state enterprises is a private legal entity – joint stock company with predominant state participation. “The concept of **National company** is enshrined in paragraph 5 of article 34 of the Law “About joint-stock companies”: “The national company is a joint-stock company controlling stock belongs to the state, created by the decision of the government of Kazakhstan in strategically important industries that form the basis of the national economy”. The focus is on the division of authority between national companies and state bodies operating in the same field, as well as the functions of the national companies in solving strategic issues of development of the economy and the form of realization of state interests.

For the management of national companies and other legal entities with state participation in Kazakhstan introduced the so-called holding system where the state creates the **state holdings** in the property are transferred state-owned shares and stakes in business entities. Following the global trends, the holding company managing state assets was also established in Kazakhstan in 2006, “Kazakhstan holding of state assets management “Samruk”. The idea of creating a state holding company, said President of

¹⁴⁸ In accordance with EITI Requirement 2.6 and 6.2 (see the Guiding manual 18: SE Participation in EITI reporting, https://eiti.org/files/GN/Guidance_note_18_SOEs_EN.pdf)

¹⁴⁹ <https://www.zakon.kz/203414-pravovojj-rezhim-gosudarstvennykh.html>

Kazakhstan N.Nazarbayev after a visit to Singapore in 2003, during which he got acquainted with the activities of the holding company “Temasek” that manages a portfolio of shares in major Singaporean companies, is clarified far beyond the borders of their country.

Thus, national companies, state holdings, JSC with state participation, state enterprises and other entities are so-called quasi-public sectors.

Figure 19. The quasi-public sector entities



See presentations - AG KIPR analytical group¹⁵⁰

Lets consider JSC “NWF “Samruk-Kazyna” a state holding and its subsidiaries.

Joint-stock company “National welfare fund “Samruk-Kazyna” was created in accordance with the decree of the President of the Republic of Kazakhstan dated October 13, 2008 № 669 “About some measures on competitiveness and sustainability of national economy” and the decree of the Government of the Republic of Kazakhstan dated October 17, 2008 № 962 “About measures for implementation of the Decree of the President of the Republic of Kazakhstan dated October 13, 2008 № 669” by merge of joint-stock companies “Sustainable development fund “Kazyna” and “Kazakhstan holding for state assets management “Samruk”¹⁵¹ (JSC “NWF “Samruk-Kazyna”). Its sole shareholder is the Government of the Republic of Kazakhstan. Activities are regulated by the Law “About national welfare fund” (with changes and additions from 04.12.2015).

The Fund is a business structure – investment holding company whose mission is to enhance the national welfare of the Republic of Kazakhstan and the support of the modernization of the national economy. JSC “NWF “Samruk-Kazyna” carries out its mission through effective management of portfolio companies to increase their long-term value and sustainable development and through the implementation of the catalytic investments in development of priority sectors of the national economy. In 2015, the updated development Strategy for 2012-2022, which defines the direction and purpose of the Fund and its role in relation to Portfolio companies.

Fund assets amounted to about 61,5 billion USD. Companies of the Fund Group implements quarter of all investments in Kazakhstan. The investment portfolio of the holding consists of more than hundred projects, worth about 100 million USD.

Net consolidated profit of JSC “NWF “Samruk-Kazyna” in 2015 amounted to 304,8 billion KZT, an increase of 30% in comparison in 2014. The group of companies JSC “NWF “Samruk-Kazyna” in 2015, paid taxes and fees in the amount of 663 billion KZT. In 2015 JSC “NWF “Samruk-Kazyna” paid dividends to the Sole shareholder in

¹⁵⁰From the presentation of Quasi-public sector, S.Aitenova on AG KIPR20.06.17

¹⁵¹<https://sk.kz/about-fund/about-the-fund/>

the amount of 34,7 billion KZT by results of activity for 2014. Other distribution to the Sole shareholder during the reporting period amounted to 32,2 billion KZT.

In 2016, the Fund was transferred to the new operating model and will continue to invest in the development of new and growing companies in the amount of 98 billion KZT, in 2017 - in the amount of 63 billion KZT. By 2020 the total volume of investments of the Fund will amount to 215 billion KZT. The growth of assets of JSC “National welfare Fund “Samruk-Kazyna” at the end of 2016 by 8% to 22,5 trillion KZT by 2020, and by 13% to 23,7 trillion KZT.

The Group of companies JSC “NWF “Samruk-Kazyna” includes the enterprises of oil and gas and transport and logistics sectors, the chemical and nuclear industries, mining and metallurgical complex, energy, engineering and real estate - 545 companies (332 subsidiary).

Figure 20. Indicators of portfolio companies¹⁵²

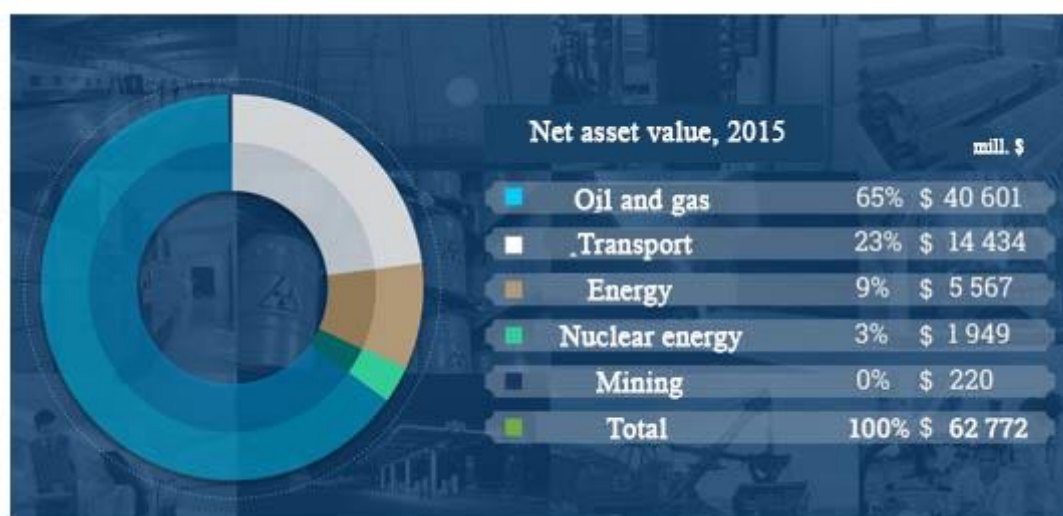
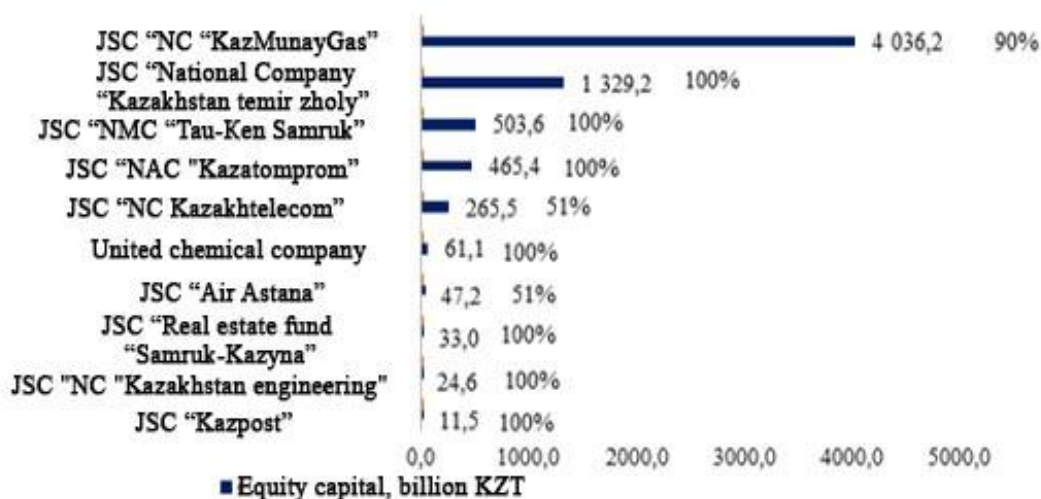


Figure 21. Top 10 subsidiaries of JSC “NWF “Samruk-Kazyna”



From the EITI Report 2015

¹⁵²<https://sk.kz/investors/portfolio-companies/>

*From Additional EITI Report in 2015 - National companies in the extractive sector*¹⁵³:

- **JSC “NK KazMunayGaz”** - exploration, production, refining and transportation of hydrocarbons, representing the state interests in Kazakhstan of oil and gas sector, 90% of shares of JSC “NC “KMG” belong to the JSC “NWF “Samruk-Kazyna” and 10 percent of the shares of JSC “NC “KMG” owned by the National Bank of the Republic of Kazakhstan.
http://www.kmg.kz/group_companies/structure/ .
- **JSC “NC “Tau-Ken Samruk”** - the mining sector, 100% of shares belong to JSC “National Welfare Fund “Samruk-Kazyna” <http://www.tks.kz/subsidiaries;>
- **JSC “NAC “Kazatomprom”** - the nuclear sector, 100% of shares belong to JSC “National Welfare Fund “Samruk-Kazyna”
<http://www.kazatomprom.kz/ru/structure-company;>

National company in the field of exploration:

- **JSC “NEC “Kazgeology”**(the state share is 100%, the Committee of state property and privatization of Kazakhstan MF) - exploration sector
<http://www.kazgeology.kz/ru/about/common;>

National company for the transport sector:

- **JSC “KazTransOil”** (the state share is 100%) - oil transportation, export and import of oil and oil products [http://www.kaztransoil.kz/ru/o_kompanii/;](http://www.kaztransoil.kz/ru/o_kompanii/)
- **LLP “NMSC “Kazmortransflot”**- the sole participant is JSC “NC “KMG”. The main objective of JSC “National Maritime Shipping Company (NMSC) “Kazmortransflot” is the development of national merchant marine fleet of the Republic of Kazakhstan and organization of international shipping of domestic freights by own forces. JSC “NMSC “Kazmortransflot” has four subsidiary companies: “Kazmortransflot” Ltd., “Kazmortransflot UK” Ltd, “Altai Shipping” Ltd and “Alatau Shipping” Ltd. [http://www.kmtf.kz/obshchaj-informatii/;](http://www.kmtf.kz/obshchaj-informatii/)
- **JSC “KazTransGas”** (the sole shareholder of JSC “KazTransGas” is JSC “NC “KMG”). The company manages a centralized infrastructure for transportation of commercial gas by trunk pipelines and distribution networks, provides international transit and sells gas on the domestic and foreign markets, develops, finances, builds and operates pipelines and storage facilities. In accordance with the Government Decree No. 914 dated 5 July 2012 JSC “KazTransGas” is defined by the National operator in the sphere of gas supply
[http://www.kaztransgas.kz/index.php/ru/;](http://www.kaztransgas.kz/index.php/ru/)
- **JSC “Kazakhstan Temir Zholy”**- has a holding structure based on the provision of functional integrity and manageability of the railway industry in transportation process. The sole Shareholder of JSC “NC “KTZ” is the JSC “NWF “Samruk-Kazyna” [http://www.railways.kz/.](http://www.railways.kz/)

It should be noted that a large Kazakh national company follow the principles of openness and transparency:

¹⁵³EITI requirements 2.6.and 6.2.

Figure 22. The rating of transparency of large national companies

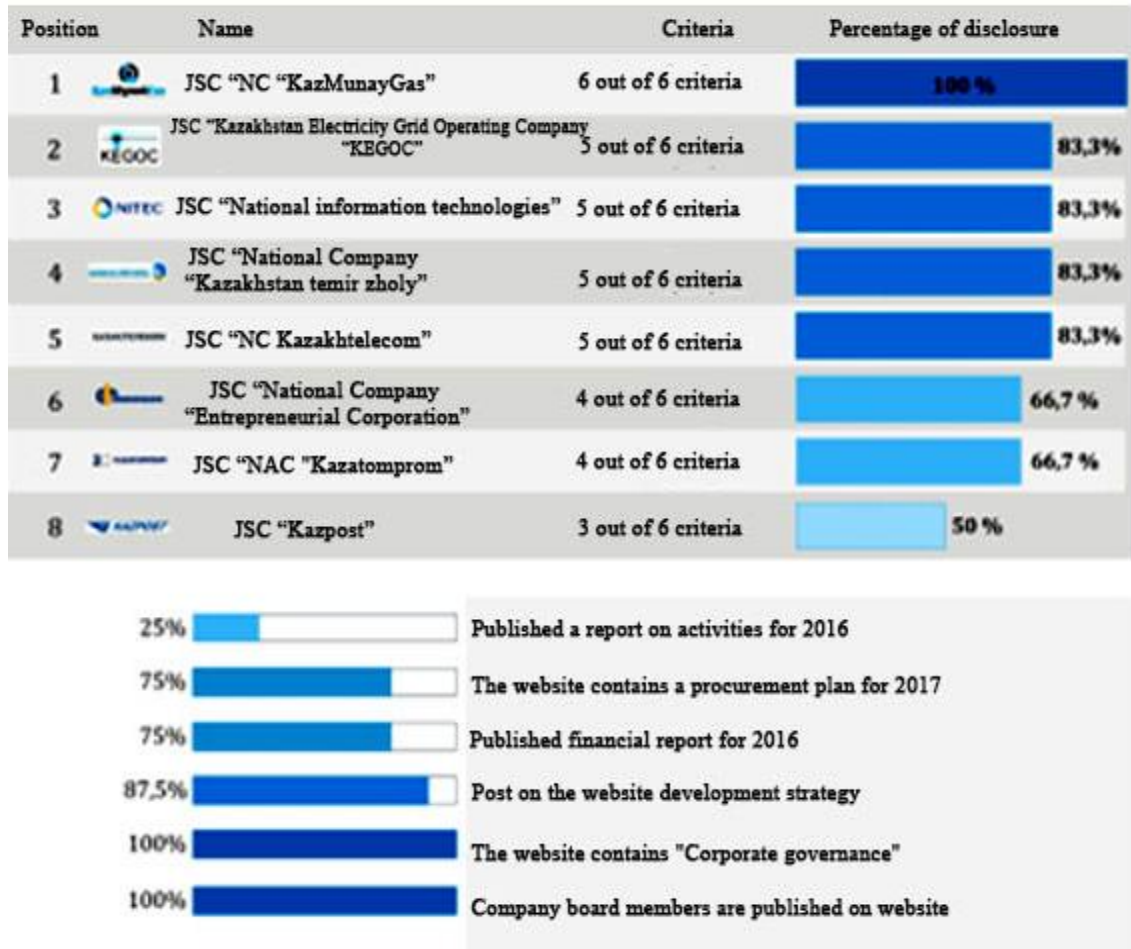
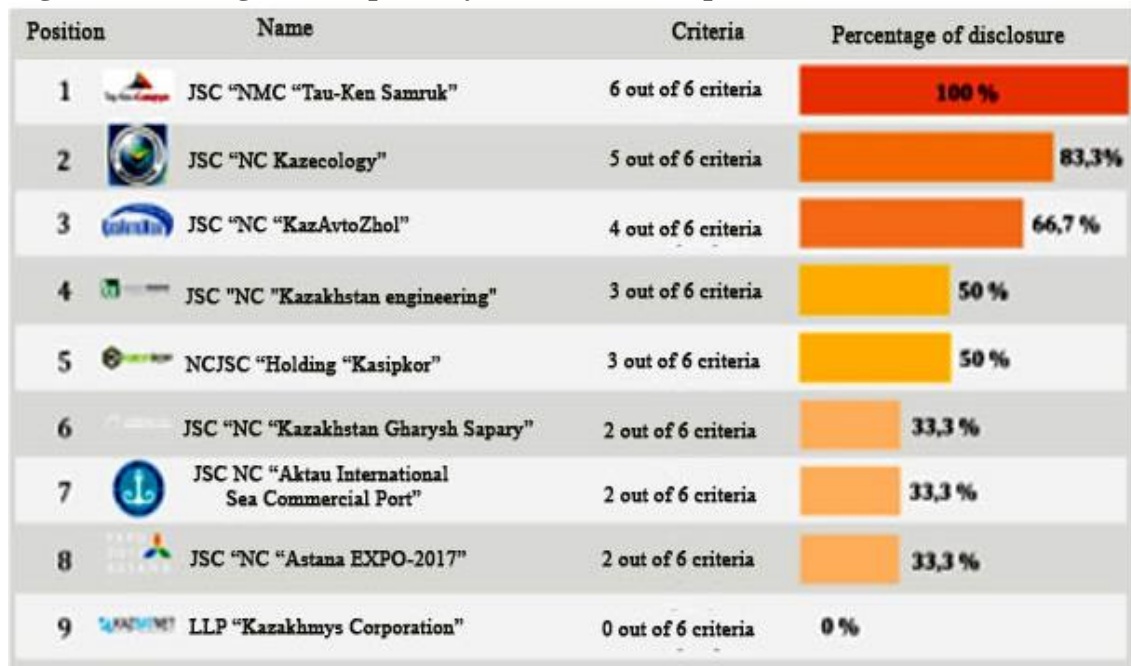


Figure 23. Rating of transparency of national companies





See presentations - AG KIPR analytical group¹⁵⁴

The resolution of the Government of the Republic of Kazakhstan of April 3, 2015 No. 189 the activities of the national companies in the sphere of subsoil use were delineated as follows¹⁵⁵:

Table 14. The distinction between activities of national companies in the sphere of subsoil use

№	The name of the national company	Type of activity
1	2	3
1	Joint stock company "National company "KazMunayGas"	exploration and production of oil and gas resources, underground waters for water extraction process
2	Joint stock company "National mining company "Tau-Ken Samruk"	exploration and mining of solid minerals, except for uranium and its compounds, the exploration and production of gas coal basins, underground waters for water extraction process
3	Joint stock company "National atomic company "Kazatomprom"	exploration and mining of uranium, its compounds, rare metals, underground waters for water extraction process
4	Joint stock company "National exploration Company "Kazgeology"	geological survey, including the search for and evaluation of mineral deposits, exploration for solid minerals and underground waters, with the exception of oil and gas, uranium and its compounds, gas coal basins
5	Joint stock company "National company "Social-entrepreneurial Corporation "Baikonur (Baikonur)", Joint stock company "Social-entrepreneurial Corporation "Astana", Joint stock company "National company "Social-entrepreneurial Corporation "Aktobe", Joint stock company "National company "Social-entrepreneurial Corporation "Saryarka", Joint stock company "National company "Social-entrepreneurial Corporation "Ertis", Joint stock company "Social-entrepreneurial Corporation "Tobol", Joint stock company "National company "Social-entrepreneurial Corporation "Kaspi", Joint stock company "National company "Social-	exploration and production of common mineral resources, underground waters and therapeutic mud

¹⁵⁴ From the presentation of Quasi-public sector, S.Aitenova on AG KIPR20.06.17

¹⁵⁵ <http://adilet.zan.kz/rus/docs/P1500000189>

№	The name of the national company	Type of activity
	entrepreneurial Corporation “Soltustik”, Joint stock company “National company “Social- entrepreneurial Corporation “Oral”, Joint stock company “National company “Social- entrepreneurial Corporation “Zhetisu”, Joint stock company “National company “Social- entrepreneurial Corporation “Almaty”, Joint stock company “National company “Social- entrepreneurial Corporation “Yesil”, Joint stock company “National company “Social- entrepreneurial corporation “Atyrau”, Joint stock company “National company “Social- entrepreneurial Corporation “Taraz”, Joint stock company “National company “Social- entrepreneurial Corporation “Pavlodar”, Joint stock company “National company “Social- entrepreneurial corporation “Shymkent”	

Note: this separation of activities of the national companies in the sphere of subsoil used in the implementation of priority rights of the state, representation of state interests in contracts providing for shared participation of the national company, definition of national company, entitled to the right of subsoil use without competition on the basis of direct negotiations and acceptance in trust management of the contract area in case of an early termination by the competent authority of the contract.

So the state is involved in the extractive industries as a regulator – through the above ministries, and as a member of subsoil use by state holdings (JSC “NWF “Samruk – Kazyna”), consisting of national companies. In addition to the NWF, the shareholders of national companies is the national Bank of Kazakhstan (10% in JSC “NC “KMG”) and the Committee of state property and privatization of the MF RK (Kazgeology)¹⁵⁶.

It should be noted that the Committee contains a complete **Registry of state property (the state register)**, the register of objects of privatization, etc. According to the register of state property, on January 25, 2016 number of state enterprises and institutions, legal entities with state participation in the authorized capital was 29 173 and 19179 of these, (or 66%) of public institution, 6 422 state-owned enterprises (22%), 723 JSC and LLP with state participation (2%) and 885 SEC and national holdings (3%). At the same time, the state register contains an incomplete list of the subsidiaries and affiliates of state-owned companies. For example, the state included holding company Samruk-Kazyna to level 5 available in their organizational structure up to 9 levels.

The structure of state ownership is quite complex and branched, as national companies in turn own shares in their subsidiaries for example¹⁵⁷:

¹⁵⁶ <https://www.gosreestr.kz/ru/>

¹⁵⁷ http://www.kmg.kz/rus/kompaniya/dochernie_organizacii/struktura_kompanii/

Figure 24. The structure of JSC “NC “KMG” subsidiaries ownership

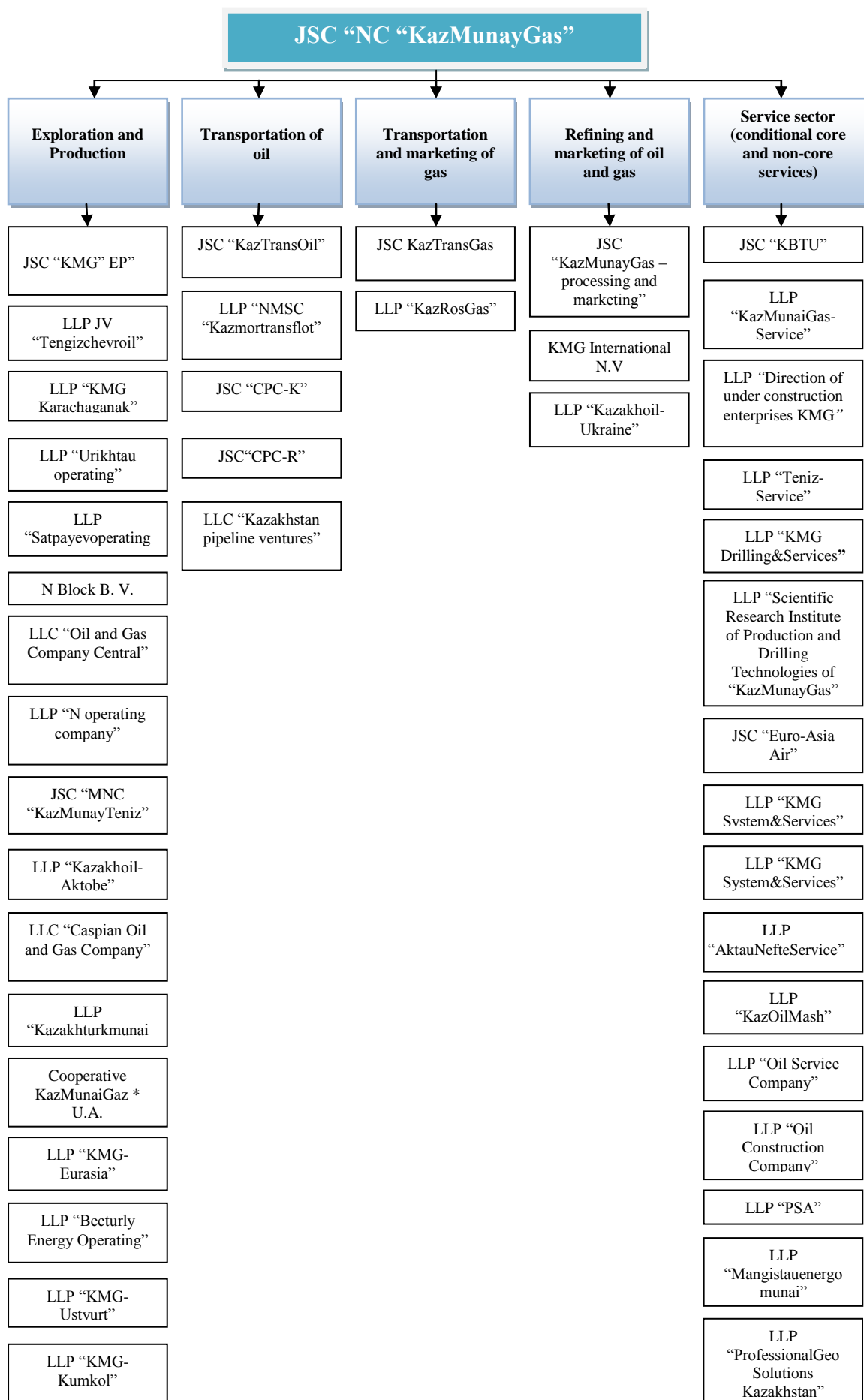
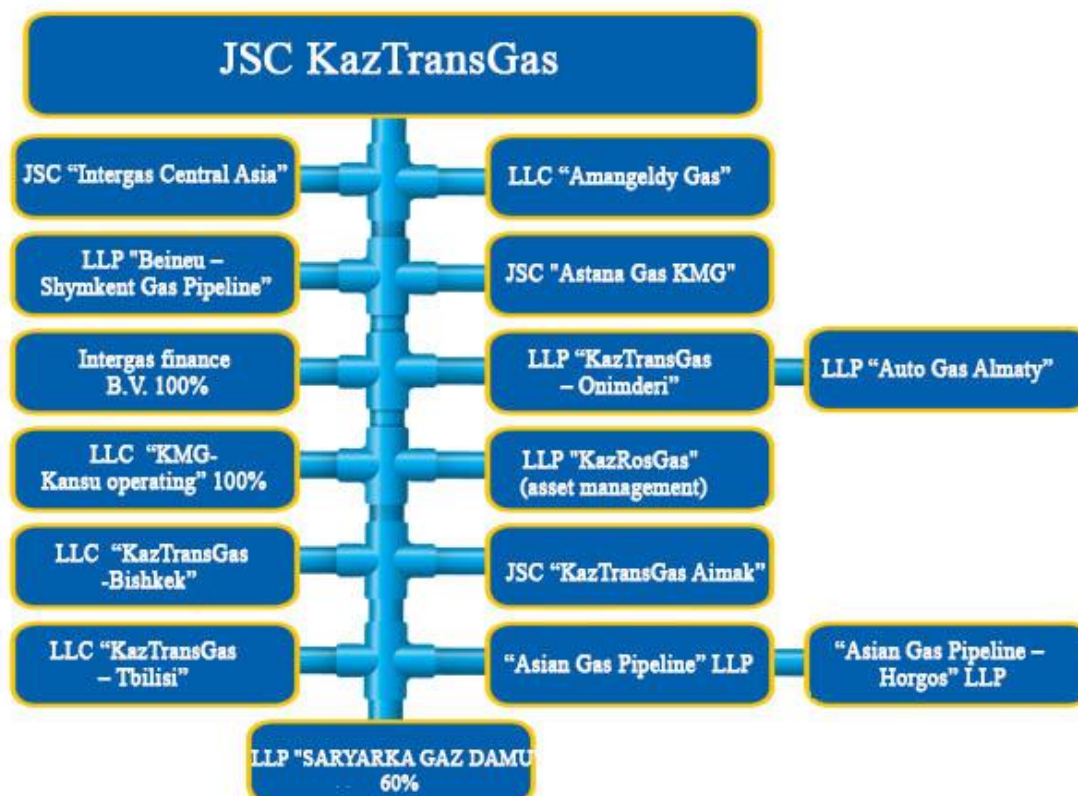


Figure 25. The structure of JSC “KazTransGas” subsidiaries ownership



In the process of discussion of subsoil code project, the question was also raised of the need to prioritize the rights of state companies in the field of mining solid minerals. As stated on this occasion Executive Director of AGMP Nikolay Radostovets: “We are against special status!” and “White & Case” company lawyer Timur Adilov agrees with him, stating that any privileged position prevents the natural development of competition. In this regard, it was proposed to adopt the approach of not special status for national companies, taking into account the best international practices. The only exception can be made for “Kazatomprom”, the national company in the field of uranium mining, because it is a strategic sector, and uranium is a specific, non commodity good, so the issue of preserving of special provisions (AGMP¹⁵⁸) is researched.

Transformation. JSC “NWF “Samruk-Kazyna” is currently in the process of transformation. Set the target of doubling the value and increasing productivity. The transformation program launched in the fall of 2014, and according to the developers this process should facilitate the entry of the Republic in the 30 most developed countries by 2050¹⁵⁹. Reform was given by President Nursultan Nazarbayev, who said that “Samruk-Kazyna” has all the necessary conditions for the implementation of projects which allowed similar foreign holdings to be engines of its economies. He explained that confronts JSC “NWF “Samruk-Kazyna” several important tasks: increase productivity up to 40%, development of own scientific-technical potential, the continuation of the program “National IPO”, the development of public-private partnerships, as well as the task to support small and medium business.

According to the Chairman of the Board of JSC “NWF “Samruk-Kazyna” U. Shukeev, JSC “Holding “Samruk-Kazyna” plays a vital role in achieving this goal, as the owner of the largest strategic national companies worth more than 16 trillion KZT or about 100

¹⁵⁸<http://www.matritca.kz/news/35244-nedra-pervyy-prishel-pervyy-poluchil.html>

¹⁵⁹<http://www.nomad.su/?a=4-201501290027>

billion USD, the Fund directly adds 2,5 trillion KZT to the country GDP. About a quarter of all investment in Kazakhstan is carried out by subsidiaries of the Fund. We employ more than 350 thousand people. It becomes clear that without modernization of “Samruk-Kazyna” the modernization of the country is impossible.

For the purposes of transformation it is expected the improvement of investment approaches, optimization of business processes and portfolio structure, as well as large-scale reorganization and “de-bureaucratization” of the Fund. “Implementation of these initiatives will enable us to reach positive values of the indicators of economic value added (EVA) by 2020, which will bring the economy of Kazakhstan additional 2 trillion KZT or 11 billion USD, - said the Chairman of the Board. Earlier Shukeyev also voiced the following plans displayed in the transformation program: “a new approach to investment activity of companies of “Samruk-Kazyna”, we aim transition “Samruk-Kazyna” as a Fund, from the status of a passive shareholder to an active investor”. The transformation process will be linked to the toughening of requirements to the staff of the Fund. “Overall, the programme we aim in the next three years to reduce the number of Fund companies two times from 600 to 300, the number of hierarchy levels of management from nine to four. All the subsidiaries will be installed lower limit of the internal rate of return, a requirement to attract private companies as partners, as well as the mandatory condition of the transfer of new technologies”. To achieve this goal it is necessary to carry out a total audit of the assets; to determine the optimal portfolio structure through restructuring, privatization, mergers and acquisitions; get rid of inefficient assets in traditional industries and create new enterprises in energy, metallurgy, chemical industries, tourism, green industry”.

The experts also noted that with active holding company on the securities market, JSC “NWF “Samruk-Kazyna” will become more transparent, shows openness of its work. In addition, the reforms will give the Fund greater efficiency, the transformation program will remove unnecessary links. “Address “Samruk-Kazyna” there was a lot of criticism, a lot of accusations that the structure is cumbersome and inefficient, therefore the transformation of the holding company, developed a program, look serious statement about the change of philosophy of the national welfare Fund in the direction of openness, efficiency and innovation”.

From the Annual report of JSC “NWF “Samruk – Kazyna” for 2015¹⁶⁰:

- in accordance with large-scale transformation Program of the Fund and the Portfolio companies has started work on the transformation of operational holding in the business model of strategic holding / active investor on the example of the experience of sovereign wealth funds in the world.
- transformation includes, in addition to the Fund, 7 Portfolio companies (in 2014, according to NWF Report for this year, transformation was launched to the Fund in pilot regime, JSC “NC “KMG”, JSC “KTZ” and JSC “Kazpost”, and in 2015 - JSC “NAC “Kazatomprom”, JSC “KEGOC” and JSC “Samruk - Energo”).
- strategic key performance indicators (KPI) of the Fund and the 6 largest Portfolio companies were approved and development strategy of the Fund and the 5 largest Portfolio companies were updated:
 - JSC “National Welfare Fund “Samruk-Kazyna”, JSC “Kazpost” and Kazakhstan Temir Zholy approved target operating model and moved on to the implementation phase;

¹⁶⁰<https://sk.kz/about-fund/otchet-y-i-plan-y/?temp=full&iblock=14&id=103&year=2015>

- JSC “NC “KMG”, JSC “NAC “Kazatomprom”, JSC “Samruk-Energo” and JSC “KEGOC” complete stage design and began the planning phase in 2016.

- The work on reduce the number of management levels in continued. As a result of optimization of the legal structure of ownership in Portfolio companies, the number of companies in the Fund portfolio decreased to 545.

Opening Town Hall Meeting in May 2017¹⁶¹ Chairman of the Board of JSC “NWF “Samruk-Kazyna” Umirzak Shukeyev has announced that the corporate center of the Fund successfully completed the task of transformation in the commercial strategic investment holding company. The challenge now is already in front of portfolio companies, which are waiting for a more dynamic promotion of transformation with specific practical achievements and “the introduction of common standards, the so-called reference models, the transition to a new model of procurement, commercial operation of the integrated planning system - a total of 130 projects and initiatives in the Fund and the six national companies”.

According to the model of a strategic investor, Fund JSC “NWF “Samruk-Kazyna” in 2016, plans to increase investments in new and growing companies of up to 100 billion KZT¹⁶². “Investments expected to amount to 98 billion KZT in 2016 and 63 billion KZT in 2017. For 2016-2020 total investment in new and growing companies will reach approximately 215 billion KZT”, - said the managing Director of the Fund. It is also planned to invest in the development of the chemical and mining industries. It will improve the portfolio in terms of return of net income and efficiency.

At the same time, a number of experts critical of the processes of transformation. During the discussion of the efficiency of quasi-public sector and its reform, the experts of the Analytical group of Cyprus expressed the opinion about the ineffectiveness of the processes of transformation:

Transformation program JSC “NWF “Samruk-Kazyna” of 25.08.2014	Current situation
The number of companies in the portfolio in 2017 300 companies	The number of companies in the portfolio ~ 450-500 companies
The dividend yield for the shareholders in 2019 190 bln. KZT / 20% of net profit	The dividend yield for the shareholders in 2016 11 billion KZT / 2% of net profit
First results of the transformation in 2015-2016: <ul style="list-style-type: none"> • Implementation of personnel changes in the Board (50% independent CEOs) • IPO in relation to fixed assets 	<ul style="list-style-type: none"> • The body of CEO Board is composed of 3 independent CEOs of 8 Bodies • IPO core assets is planned for 2018

Sources: JSC “NWF “Samruk-Kazyna”; The register of privatization objects <http://upgs.gosreestr.kz/p/ru/Upgssearch/ObjectsSearch>

See presentations - AG KIPR analytical group¹⁶³

¹⁶¹<https://sk.kz/press-centre/media/19167/>

¹⁶²<https://primeminister.kz/ru/news/finansii/ao-%C2%ABsamruk-kazyna%C2%BB-v-2016-godu-investiruuet-okolo-100-mlrd-KZT-v-rost-kompanij-bgrjuaal->

¹⁶³Presentations of the Efficiency of quasi-public sector: issues and proposals, the CAR TALAP on AG KIPR 20.06.17

In the framework of transformation of JSC “NWF “Samruk-Kazyna” set contradictory goals to increase the value of assets to 1 trillion KZT (8-12%) annually and optimization of the group of companies of the holding.

According to the economist Z. Rakhzhanov, “Reform in “Samruk-Kazana” fund are only verbally¹⁶⁴. In March 2016, some members of the Board of JSC “NWF “Samruk-Kazyna” held in Almaty an informal press lunch with the editors of a number of business media, as well as experts, writing on financial and economic issues and made certain statements, in particular: “The fund will be investment programs, which represent an important interest for the state and mainly financed by additional resources, including from means of the pension Fund and the National Fund. That is, the state will continue to pull the project, the economic feasibility of which is not obvious. Here, apparently, we are talking about industrial projects to date was a pattern of inefficient use of public money”.

In addition, if the government decides that the JSC “NWF “Samruk-Kazyna” is necessary to implement a project that has social value and “destroys the value of state-owned companies” (the words of the representative of the Fund), the Fund will still be compelled to execute such project, even if the government will not fund it. It is the practice to hide from the Parliament, public spending will continue.

To become the flagship of structural reforms in the country, NWF has to carry out a real transformation. At the same time, PwC commended the strategic indicators of JSC “NWF “Samruk-Kazyna”¹⁶⁵. Representatives of the consulting company PwC noted that the dynamics of the key performance indicators of JSC “NWF “Samruk-Kazyna” comparable to the top sovereign funds in the world. We are talking about such indicators as the value of the net assets and net portfolio value of assets.

“In particular, the net asset value of the Fund, which was at 3,1-3,5 trillion KZT in the period from 2008 to 2011 reached more than 6 trillion KZT in the period from 2011 to 2016. Thus, this indicator increased by 1,7 times. For example, the indicators of net asset value and the net realizable value of assets from Khazanah (Malaysia) grew by 1,45 times and 1,3 times for the period of 2010 respectively, while the net value of the portfolio of assets from Temasek (Singapore) increased 1,25 times for the period from 2011”, said managing partner of PwC in Eurasia Mark Henny, at the round table in Mazhilis of Parliament on the activities of JSC “NWF “Samruk-Kazyna”.

He explained that in the case of “Samruk-Kazyna” fund, the strategic indicator of the value of net assets excludes any capital contributions after 2008, including from the Republican budget, revenues from concessional financing, as well as income from exchange rate differences due to the devaluation of 2015. The net asset value and the net value of the sale assets are the most important indicators of performance evaluation in accordance with best international practice. At the same time, the Fund at assessing its effectiveness pays special attention to the rate of return on capital.

At the end of the crisis of 2015, the rate of return on capital to Khazanah, Temasek and Mubadala equal to 2,9%, 4,9% and 0,7% respectively. The “NWF “Samruk-Kazyna” was 3,3%, while the Fund aims to increase return on capital and to bring to the level of Temasek - said the head of the Fund Umirzak Shukejev during the round table.

Privatization. In February 2014, the President instructed - until 2020, the share of state ownership should be brought to the level of OECD countries - **15% of GDP**. According to the calculations of MA to accomplish this task it is necessary to reduce the share of

¹⁶⁴https://forbes.kz/process/expertise/kak_prevratit_samruk-kazyinu_v_katalizator_strukturnyih_reform/

¹⁶⁵<https://lsm.kz/pwc-pozitivno-ocenil-strategicheskie-pokazateli-samruk-azyny>

state capital in JSC “NWF “Samruk-Kazyna” at least three times. In addition, the instructions of the President, his official decree (about the International financial centre in Astana) had determined that the IPO should be issued shares in the amount of **not less than 25%** of the most attractive in the investment plan of state-owned companies¹⁶⁶.

The government of Kazakhstan by its decree No. 1141, dated 30 Dec 2015 “About certain issues of privatization for 2016 – 2020” approved a **Comprehensive privatization plan and target indicators of its implementation.**

A comprehensive privatization plan and target indicators of its implementation.

According to the document, it shall be transferred to the competitive environment as a priority of the state and subsidiary organizations, affiliates of the national managing holdings and other legal entities that are affiliated with it, the book cost of which is over 2 500000 times the monthly calculation index established by the law on Republican budget and effective on 1 January of the relevant financial year.

In this connection it is entrusted to approve the list of large organizations Republican property subject to privatization as a priority; local Executive bodies approve the list of largest organizations of municipal property subject to privatization as a priority; to recommend to the national managing holdings, national holdings, national companies to approve the list of major subsidiary and dependent organizations of the national managing holdings and other legal entities that are affiliated with it, to be transferred to the competitive environment as a priority.

JSC “NWF “Samruk-Kazyna” is recommended:

- 1) to approve the list of subsidiaries, associated companies proposed for transfer to the competitive environment;
- 2) if necessary, in order to attract strategic investors to implement the splitting of shares/participation share of legal entities;
- 3) if necessary, in view of economic expediency reorganize or liquidate without bidding legal entity.

Organizations of Republican property subject of privatization, and organizations of communal ownership, subsidiary, affiliated organizations of the national managing holdings, national holdings, national companies and other legal entities that are affiliated with them to be transferred to the competitive environment:

- to approve the list of organizations Republican property subject to privatization;
- local Executive bodies approve the list of organizations of communal property to be transferred to the competitive environment;
- to recommend to national managing holdings, national holdings, national companies, except for national welfare Fund JSC “NWF “Samruk-Kazyna”, to approve the list of subsidiary, dependent organizations of the national managing holdings, national holdings, national companies and other legal entities that are affiliated with them to be transferred to competitive environment.

In addition, states that the local Executive authorities can implement the objects, in the form of public-private partnership, in the case of incorporating the objects in the list of projects of public-private partnership in accordance with the Rules of forming the list of projects of public-private partnership planned for implementation approved by the Central authorized body on state planning.

¹⁶⁶https://forbes.kz/process/expertise/kak_prevraitit_samruk-kazyinu_v_katalizator_strukturnyih_reform/

Central and local Executive bodies, national managing holdings, national holdings, national companies, as well as interested organizations responsible for the execution of the Comprehensive plan it is necessary to take measures to implement the Comprehensive plan.

Every year at the end of the half year (by July 10 and January 10) to submit to the Ministry of national economy of Kazakhstan information on the implementation of the Comprehensive plan.

In turn, the MNE of the RK annually on the basis of semester and year (by 25 January and 25 July) to provide a submission to the Government of Kazakhstan summary information on the implementation of the Comprehensive plan.

Control the execution of the decree is entrusted to first Deputy Prime Minister of Kazakhstan B. Sagintayev.

The regulation was put into effect on January 1, 2016.

In the list of companies that have to go in the first place, included such major companies as “Air Astana” Airline, JSC, “Kazpost”, JSC “NC “Kazakhstan Temir Zholy”, JSC “NC “KMG”, JSC “Kazakhtelecom”. Some of them will be implemented through the IPO.

Also, in the list of companies hit organization administered by state authorities, JSC “Railway hospitals emergency medicine”, LLP “SK-pharmacy”, JSC “KazMedTekh”, JSC “National Scientific Medical Center”; JSC “National Company “Kazakhstan Gharysh Sapary”, JSC “NGK “Kazgeology”, Republican state enterprise “Kazavtodor”.

Also the subject to privatization are JSC “International Centre of Boundary Cooperation “Khorgos”, JSC “Astana International airport”, JSC “Park of nuclear technologies”, JSC “Almaty” Sanatorium”, JSC “Astana konak uyi” and a number of other objects.

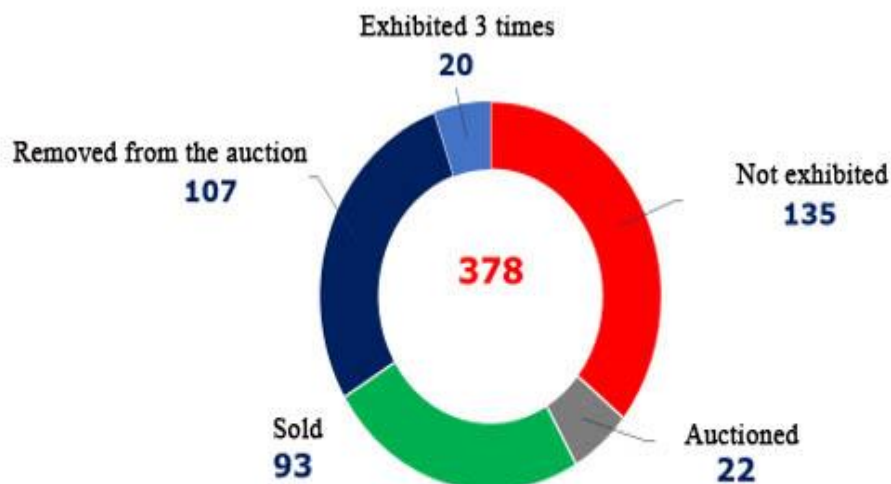
Jan 6, 2016¹⁶⁷

According to the annual Report of JSC “NWF Samruk-Kazyna” for 2015: in accordance with the Comprehensive plan of privatization for 2014-2016, JSC “NWF “Samruk-Kazyna” was put up for auction 76 assets. Of this number, ultimately created 36 companies. The proceeds from its sale amounted to 49 billion KZT, which is 5.6% higher than the total estimated value of the assets sold. At the end of the reporting year was adopted the updated Comprehensive privatization plan for 2016-2020, where the JSC “NWF “Samruk-Kazyna” will bring in the competitive environment of 217 assets.

Experts note the insufficient pace of privatisation:

¹⁶⁷<https://www.zakon.kz/4767110-pravitelstvo-rk-utverdilo-kompleksnyjj.html>

Figure 26. The statistics for the privatization of national holdings assets and national companies within the framework of a Comprehensive plan for 20.06.2017.



Source: Register of objects of privatization <https://uogs.govsreestr.kz/p/ru/UogsSearch/ObjectsSearch>

• From 378 of national holdings and national companies only 93 objects were sold, or just 25%

See presentations - AG KIPR analytical group¹⁶⁸

According to the above Government Resolutions on privatization of JSC “NC “KMG” was included in the list of “priority” enterprises – let us consider how the privatization.

JSC “NC “KMG” entered the transformation Program in 2015¹⁶⁹. The programme aims to increase the business efficiency of the group of companies of JSC “NC “KMG” and thereby increase the value of the company. Transformation is a complex system of measures, initiatives and processes that permeate the entire vertically integrated holding covering the processes from production to retail sale. Emphasis is placed on improving the efficiency of business processes, its simplification, increased speed of decision-making, adaptation to challenging market conditions.

The scope of transformation included the following subsidiaries and affiliates: JSC “NC “KMG”, JSC “KMG” EP”, JSC “KazTransOil”, JSC “KazTransGas”, JSC “KazMunayGas-Processing and Marketing”, LLP “NMSC “Kazmortransflot”, LLP “AktauNefteService”, LLP “Scientific-Research Institute of production & drilling technology of “KazMunayGas” and others. Practical implementation of transformation entrusted to the company “KMG Global Solutions” (<http://kmggs.kz>).

¹⁶⁸From the presentations of the efficiency of quasi-public sector: issues and suggestions, CAR “TALAP” on AG KIPR 20.06.17

¹⁶⁹http://www.kmg.kz/rus/deyatelnost/programma_transformacii/

Table 15. List of major subsidiaries and affiliates of JSC “NC “KMG” proposed for transfer to the competitive environment as a priority¹⁷⁰

№	Name
1	KMGInternationalN.V.
2	JSC “Euro-Asia Air”
3	LLP“Atyrau refinery”(which includes: LLP“Park of storage of liquefied petroleum gas” LLP “RTI ANPZ”)
4	JSC “Kazakh British Technical University” (which includes: LLP “Institute of Petroleum Engineering and Information Technology” JSC“Institute of Fuel, Catalysis and Electrochemistry named after D.V. Sokolsky” JSC“Institute of Chemical Sciences named after A.B. Bekturov”
5	LLP “NMSC “Kazmortransflot” (which includes: “AlatauShippingLtd.” “Altai Shipping Ltd.” “Kazmortransflot Ltd.” “Kazmortransflot UK Ltd.”
6	LLP “Pavlodar petrochemical plant”
7	PKOP LLP “PetroKazakhstan Oil Products”
8	LLP “Teniz-Service” (which includes: LLP “KazM-F”)
9	LLP “Urikhtau operating”

At the moment on the website of JSC “NC “KMG” on the implementation exposed: the recreation Center “Ar – Maral” on Issyk – Kul lake, JSC “Airline “Euro-Asia air” and LLP “KazOilMash”.

In General, according to the National chamber of Entrepreneurs (NCE), the privatization plan 2014-2020 involves the reduction of 1040 sites, and the alignment of the target indicators of the Plan of privatization on patterns of ownership it turns out that the second wave of privatization will reduce quantitatively the state-owned company is only 6,4%. It is also worth noting that such a “quantitative” approach does not give a clear idea of the extent to which really reduced the share of state-owned companies and their impact on the economy. Despite the sale of 400 items under the second wave of privatization over the past 2 years, the number of public sector entities (excluding state institutions) in this period increased by 0,3% or by 25 state-owned companies became more.

The estimated number of civil servants in Kazakhstan in recent years has increased by 4% in the total share of the employed population, from 19,2 to 23,2%. In real terms – the number of civil servants increased from 1,56 to 1,96 million¹⁷¹.

¹⁷⁰ <http://www.kmg.kz/rus/deyatelnost/privatization/>

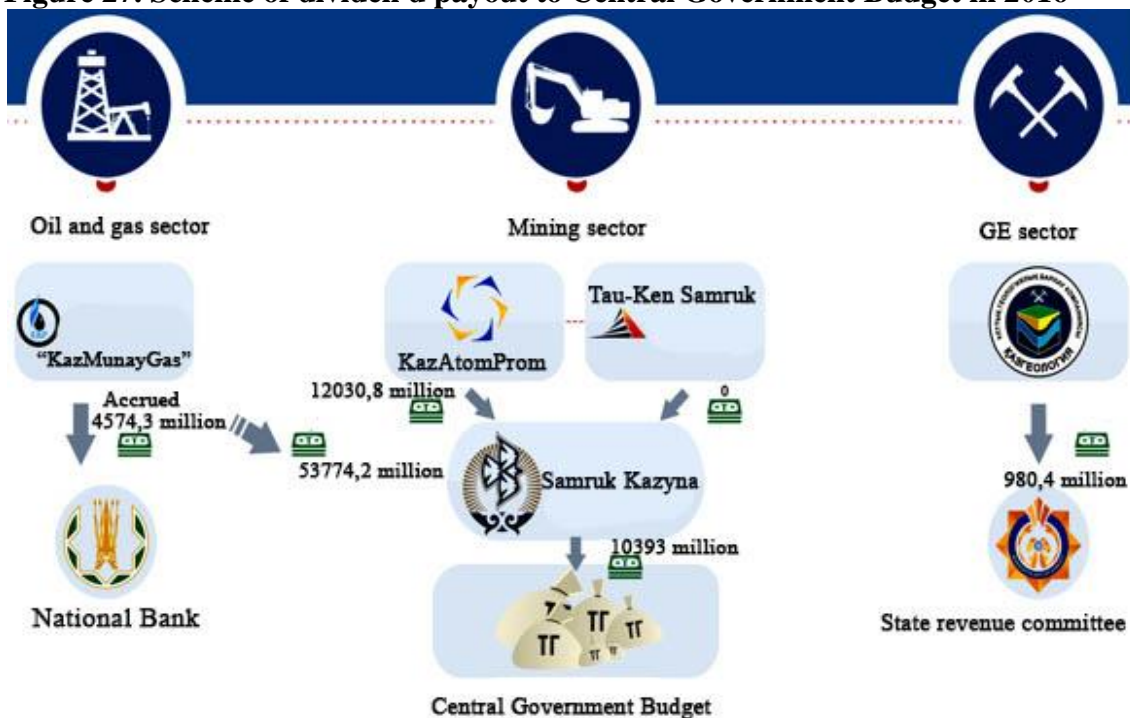
¹⁷¹ From the presentation, the Share of quasi-public sector in the economy of Kazakhstan, Daniyar Kuangaliev, Director of intelligence GreenPoint to KIPR, 20.06.17

Dividends

Dividend policy of JSC “National Welfare Fund “Samruk-Kazyna” is described on the website of Fund - <https://sk.kz/about-fund/otchety-i-plany/?id=105>

Subsidiaries pay dividends to the national companies which are both recipients and payers of dividends (in consolidated form that is from all the subsidiaries and the organizations, including mining companies) in JSC “National Welfare Fund “Samruk-Kazyna”.

Figure 27. Scheme of dividend payout to Central Government Budget in 2016



According to the consolidated reports of subsidiaries on dividends paid by JSC “National Welfare Fund “Samruk-Kazyna”(Attachment 2-2):

- JSC “NC “KazMunayGas” <http://www.kmg.kz> (state share - 90%) – 53 774 203 (27 993 998 in 2015) thousand KZT.

In pursuance of article 23 of RK Law “About Joint-stock Companies” JSC “NC “KazMunayGas”¹⁷² reported that on August 11, 2016 Sole shareholder of JSC “NC “KazMunayGas” has made decision to pay dividends on ordinary shares of JSC “NC “KazMunayGas” by the results of activity in 2015. **The dividend amount for one ordinary share – 102,27 (one hundred) KZT and twenty seven ty.**

Due to the transfer of 10% of stocks plus one stock of JSC “NC “KazMunayGas” to *National bank* in 2015, JSC “NC “KazMunayGas” has transferred 4 547 320 (3 110 424 in 2015) thousand KZT to National Bank of RK.

JSC “NC “KazMunayGas” received dividends from following subsidiary companies (Attachment 2-2):

** LLP “KMG Karachaganak” (100%) – 16 460 782 thousand KZT (5 244 019 thousand KZT in 2015 and Payer had not received);

** TCO (20%) – 401 710 thousand USD;

** LLP “Kazakhoil-Aktobe” (50%) – 6 734 600 (27 655 000 in 2015) thousand KZT.

¹⁷²http://www.kmg.kz/rus/investoram/informaciya_ob_akciyax_i_divid/

- JSC “**Tau-Ken Samruk**” <http://www.tks.kz> - 0 (22 067 in 2015) thousand KZT.

*Company has developed Dividend policy of “NMC “Tau-Ken Samruk” concerning subsidiaries, amended by Management Board of the Company on April 3, 2017 (minute No.22-17).

*Dividends received from associated company – 13 795 549 thousand KZT in 2016\ 1 882401 thousand KZT in 2015.

*Dividends paid - (22 067) thousand KZT in 2015 (From Annual Report of 2016¹⁷³)

JSC “Tau-Ken Samruk” had not received from subsidiaries since they are newly formed and have no income.

- JSC “**NAC “Kazatomprom**” <http://www.kazatomprom.kz/ru> - 12 030 782 thousand KZT (2 323 320 thousand KZT in 2015)

According to the decision of Sole shareholder of JSC “NAC “Kazatomprom” dated May 25, 2017, JSC “NAC “Kazatomprom” accrued dividends for share unit of 2016¹⁷⁴.

Dividend rate for one ordinary share is 1 790,10 (one thousand seven hundred ninety) KZT, the total amount is 65 848 704 000 (sixty five billion eight hundred forty eight million seven hundred four thousand) KZT. Payment will be made by two tranches within 90 calendar days from start date of dividend payment – from August 31, 2017 by transferring of money to the bank account of Sole shareholder - JSC “National Welfare Fund “Samruk-Kazyna”.

JSC “NAC “Kazatomprom” received dividends from following subsidiary companies in 2016 (Attachment 2-2):

** LLP “JV “Inkai” (40%) – 11 152 337 thousand KZT,

** LLP “Karatau” (50%) – 11 861 373 (11 895 506 in 2015) thousand KZT,

** LLP “JV “Akbastau” (50%) – 13 372 751 thousand KZT,

** LLP “JV “KATKO” (49%) – accrued 10 833 900 (24 718 736 in 2015) thousand KZT,

** LLP “APPAK” (65%) – 163 721 thousand KZT,

** JSC “JV “Zarechnoye” (49,98%) – 465 928 thousand KZT,

** LLP “Semizbay-U” (51%) - 3 767 910 thousand KZT.

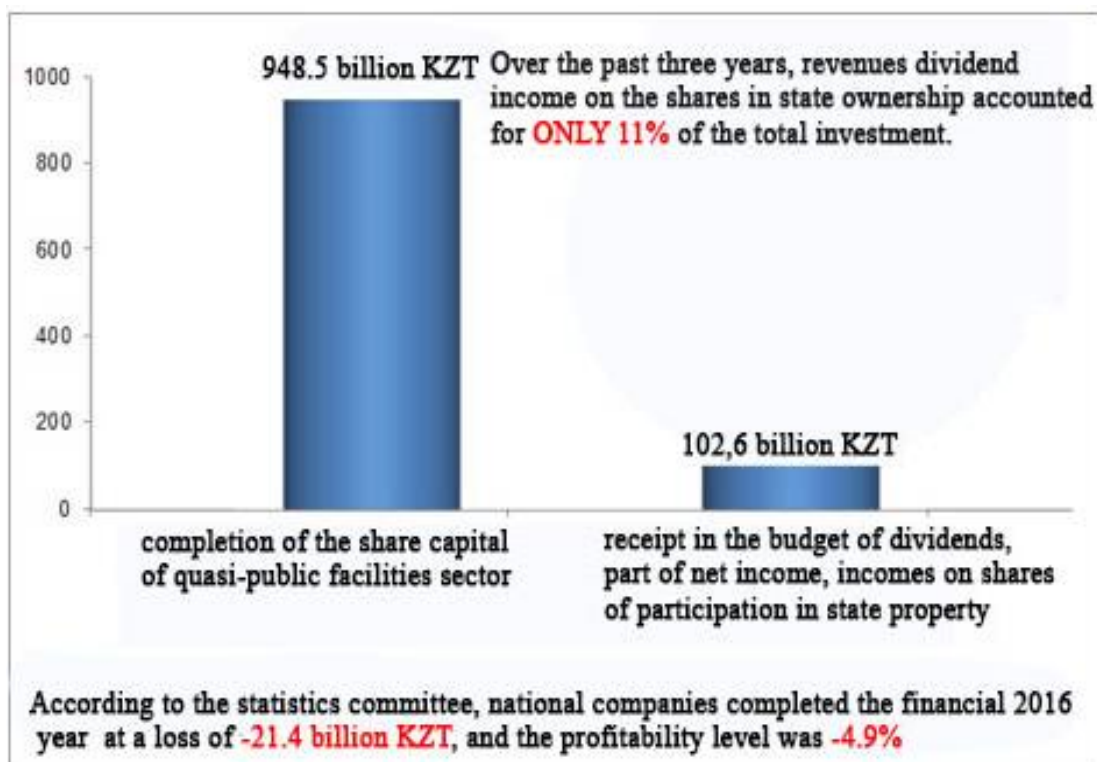
- JSC “NEC “Kazgeology” <http://www.kazgeology.kz> has paid 980 378 thousand KZT for BCC 201301 (dividends for the state share unit which are in ownership of state) to Yesil region State Revenues Department in Astana (102 097 thousand KZT in 2015).

Information on subsidiaries of the National companies in extractive industries included in the structure of JSC “National Welfare Fund “Samruk-Kazyna” with the indication of share of the state and paid / received dividends is given in the Attachment 2-2 to the Report.

¹⁷³ <http://tks.kz/storage/Of/Ofab22505465af3aea401854c90bd455.pdf>

¹⁷⁴ <http://www.kazatomprom.kz/ru/shares/akcii-ao-nak-kazatomprom>

In general, experts estimate dividend policy nonearning for the state:



See presentation – Analytical group KIPR¹⁷⁵

3.3.5. Quasi-public sector (QPS): income and expenses (2.6).

Definition and efficiency

Public sources has not much analytics of the quasi-public sector (hereinafter as QPS), about its income and expenses. Actually, there is no accurate definition even.

- Budgetary code of RK (Article 3, paragraph 1, s.p. 31) governs “*subjects of the quasi-public sector is the state enterprises, limited liability partnerships, joint-stock companies, including national operating holdings, national holdings, national companies, which founder, participant or shareholder is the state and also subsidiary, dependent and other legal entities which are affiliated with them according to acts of the Republic of Kazakhstan*”.

So, first indication is state PROPERTY.

According to the register of state property herein, as of January 25, 2016 the number of the state enterprises and institutions, legal entities with participation of the state in authorized capital in Kazakhstan was 29 173, where 19 179 (or 66%) public institutions, 6 422 state enterprises (22%), 723 joint-stock companies and limited liability partnership with the state participation (2%) both 885 SEC and national holdings (3%). For example:

¹⁷⁵From presentation: Quasi-public sector, Sh.Aitenova on AG KIPR, June 20, 2017

Figure 28. Subjects of state sector

state enterprises	limited liability partnerships	joint-stock companies
<ul style="list-style-type: none"> • <i>REPUBLICAN STATE ENTERPRISE ON THE RIGHT OF ECONOMIC USE "KAZGIDROMET" MINISTRY OF ENERGY OF THE REPUBLIC OF KAZAKHSTAN</i> • <i>REPUBLICAN STATE ENTERPRISE ON THE RIGHT OF ECONOMIC USE "CENTER FOR ANALYSIS AND INFORMATION" OF THE MINISTRY OF INFORMATION AND COMMUNICATION OF THE REPUBLIC OF KAZAKHSTAN.</i> • <i>REPUBLICAN STATE ENTERPRISE ON THE RIGHT OF ECONOMIC USE "RESERVE" OF THE COMMITTEE ON STATE MATERIAL RESERVES OF THE MINISTRY OF DEFENSE AND AEROSPACE INDUSTRY OF THE REPUBLIC OF KAZAKHSTAN</i> • <i>REPUBLICAN STATE ENTERPRISE ON THE RIGHT OF ECONOMIC USE "REPUBLICAN SCIENTIFIC AND PRACTICAL CENTER OF MENTAL HEALTH" OF THE MINISTRY OF HEALTH OF THE REPUBLIC OF KAZAKHSTAN</i> 	<ul style="list-style-type: none"> • <i>LLP "ALMATY TUSKIIZ"</i> • <i>LLP "SHYGYS-SAMGAU"</i> • <i>LLP "INTERNATIONAL AIRPORT SEMEY"</i> • <i>LLP "STATE-PRIVATE PARTNERSHIP DEVELOPMENT CENTER IN ASTANA"</i> 	<ul style="list-style-type: none"> • <i>JOINT-STOCK COMPANY "AYSIR TURIZM VE INSAAT"</i> • <i>NON-COMMERCIAL JOINT-STOCK COMPANY "FUND OF SOCIAL HEALTH INSURANCE"</i> • <i>JOINT-STOCK COMPANY «BORJOMI LIKANI INTERNATIONAL»</i> • <i>NON-COMMERCIAL JOINT-STOCK COMPANY "PUBLIC CORPORATION "GOVERNMENT FOR CITIZENS"</i> • <i>NON-COMMERCIAL JOINT-STOCK COMPANY "CENTER FOR SUPPORT OF CIVIL INITIATIVES"</i>

See presentation – Analytical group KIPR¹⁷⁶

There were 8 030 subjects of QPS in 2016 by deducing state enterprises.

In the report of OECD mentioned in 1 part, it was noted that “share of the state enterprises and budgetary structures is still from 30% to 40% of GDP (*15% in the countries of OECD - comment of the author*). In 2013 assets of about a half of GDP are controlled by JSC “SWF “Samruk-Kazyna” founded for increase in competitiveness and ensuring stability of national economy. Concentration of economic influence in hands of state and small group of private players constrains inflow of investments and dynamics of economic development”.

Also according to Kazakhstan experts, the share of QPS in national economy is growing – in 2008 assets of national holdings made 47% of GDP (7,5 trillion KZT), and now these amounts make 59,7% of GDP (27,5 trillion KZT)¹⁷⁷.

At the time of formation in 2008, state holding “Samruk — Kazyna” has collected 95% of all state assets of the country¹⁷⁸ and remains the largest player of QPS (assets cost - 61,5 billion USD). It is necessary to note that 65% of net assets are from oil and gas, and another 3% from nuclear power in JSC “NWF “Samruk-Kazyna”. JSC “NC “KazMunayGas” owning the greatest assets (4 036 billion KZT) is in the list of top 10 companies of JSC “NWF “Samruk-Kazyna” as well as JSC “NMC “Tau-Ken Samruk” (503,6 billion) and JSC “NAC “Kazatomprom” (465,4 billion). Therefore, the role of mining sector in QPS is also predictably big.

¹⁷⁶From presentation: Quasi-public sector, Sh.Aitenova on AG KIPR, June 20, 2017

¹⁷⁷From presentation: Share of quasi-public sector in Kazakhstan economy, of Kuanshaliyev Daniyar – Director of GreenPoint Analytical department on KIPR, June 20, 2017

¹⁷⁸<http://www.kazakhstanlive.ru/economy/state-holdings/>

Let's consider **income and outcome flow of QPS.**

Having considered approaches of IMF, Kazakhstan experts, determinations within EITI, open sources and acts, we offer several approaches to define quasi-fiscal sector (QFS), its incomes and outcomes in Kazakhstan.

1) Quasi-fiscal incomes and outcomes of state.



Whereas government spends capital from budget and non-budgetary sources (funds) for support of quasi-public subjects by replenishment of their authorized capital, subsidies, crediting, bill redemption, etc.

We will consider ways of state support concerning QFS enterprises:

A) *Budget financing* is non-refundable provision of funds from budget.

* *State subsidies*¹⁷⁹ (Latin *subsidium* - help, support) – the payments to consumers provided at the expense of the state or local budget and also payment of special funds for legal entities and individuals, local authorities, other states. Main properties of subsidy:

- ♦ non-refundable provision of funds (refund is possible);
- ♦ purposive character;
- ♦ joint financing (on the terms of equity funding);

Direct subsidies are used for financing of basic scientific research and developmental works (grants), implementation of new equipment and retraining of personnel. On the one hand, subsidies can encourage development of perspective branches, on the other hand – support unprofitable, but strategically important enterprises (with all consequences of intervention of the state in market economy). Indirect subsidizing is carried out by means tax and monetary policy. The state applies the preferential taxation of corporations' profit, practices return of direct taxes and customs duties, the state guaranteeing and insurance of deposits, export credits, grants loans on favorable terms to private associations.

B) *Non-budgetary funds* is one of methods to reallocate state income in favor of certain social groups of the population. Non-budgetary funds solve two important problems: providing economy with additional resources of priority spheres and expansion of social services to the population. The main place among them was taken by social funds. Specifics of non-budgetary social funds are accurate fixing profitable sources to them

¹⁷⁹ <https://ru.wikipedia.org/wiki/%D0%A1%D1%83%D0%B1%D1%81%D0%B8%D0%B4%D0%B8%D1%8F>

and, as a rule, strict target use of their means. RK JV includes in number of state non-budgetary funds of RK:

- ✓ Republican state budget-supported enterprise “Republican Pension Payment Center”;
- ✓ JSC “Unified Accumulative Pension Fund” (UAPF)
- ✓ JSC “SocialInsuranceStateFund”;
- ✓ ObligatoryHealthInsuranceFund (created).

In general, taking into account non-budgetary state financing, the state has financed from 2007 to 2016¹⁸⁰:

- JSC “NWF Samruk-Kazyna” to the amount of 2,9 trillion KZT;
- JSC “NMH “Baiterek” to the amount of 1 trillion KZT;
- JSC “KazAgro” to the amount of 552 billion KZT;
- JSC “Fund of problem loans” to the amount of 380 billion KZT.

Unorthodox measures of non-budgetary financing is purchase of 10% share unit of JSC “NC “KazMunayGas” for 750 billion KZT in 2015 by JSC “NBRK”.

Recapitalization of JSC “Fund of problem loans” for 130 billion KZT and compensation on deposits of individuals for the sum of 78 billion KZT also referred to unorthodox measures.

For the last 10 years over 34 billion USD have been allocated to quasi-public sector from budget funds and NF (see the presentations – Analytical group KIPR¹⁸¹).

C) *Bill redemption* of national companies by the state is also financing of QPS. Example of JSC “UAPF” bill redemption is given above.

D) *Budgetary loan granting* is returnable granting money from the budget. According to RK Budget Code dated 2008¹⁸² (Unit 36, Art. 171) *the budgetary loans aren't granted on the purposes of participation in authorized capitals of legal entities, covering of losses of borrowers economic activity, fee to attorneys (agents).*

¹⁸⁰ <https://yvision.kz/post/763585>

¹⁸¹ <http://agkipr.kz/archives/1264>, TALAP, R.Oshakbayev

¹⁸² <http://www.pavlodar.com/zakon/?dok=00014&all=02011>

Table 16. Budgetary loan granting and operations with fiscal assets in general terms (billion KZT)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
III. Net budgetary loan granting	8	42	27	22	69	29	26	43	86	134
Budgetary loans, particularly	16	47	32	111	141	135	93	92	153	207
✓ JSC “NWF “Samruk-Kazyna”			27	19	49	15			9	
✓ JSC NMH “KazAgro”				80	78	80	60			60
✓ JSC “Kazakhstan Development Bank”		10								
Other	16	37	5	12	14	40	33	92	144	147
Repayment of budgetary loans	8	5	4	89	72	107	67	49	68	73
IV. Net balance on financial assets operations	417	931	224	347	447	406	205	573	239	164
Purchase of financial assets, particularly	419	932	225	348	449	407	214	575	247	167
✓ JSC “NWF “Samruk-Kazyna” authorized capital increase	209	739	67	140	145	12	39	104	137	26
✓ JSC “NMH “KazAgro” authorized capital increase	27	31	6	35	51	8	14	20		
✓ JSC “NMH “Bayterek” authorized capital increase	19	7			57		45	59	5	10
✓ JSC “SAF” authorized capital increase		52								
✓ JSC “FPL” authorized capital increase								250		
Other	164	103	152	173	196	387	116	142	105	131
Income from sale of financial assets of the state	3	1	1	1	2	1	10	2	8	3

Source RK FM¹⁸³

In 2016 JSC “NWF “Samruk-Kazyna” didn't obtain the budgetary credits (in 2015 - 9 billion KZT), but has invested 26 billion KZT in authorized capital (137 - in 2015).

*D) The state spends essential funds for **replenishment of authorized capital** and the **budgetary crediting** of the state joint-stock companies. More than 30% of funds for purchase of financial assets from means of the republican budget in 2017 are the share of JSC “NWF “Samruk-Kazyna”. As it was mentioned above, the efficiency of such investments is doubtful.*

¹⁸³<https://yvision.kz/post/763585>

From 162 billion KZT planned for purchase of financial assets in the republican budget in 2017

92% **149 billion KZT**

will be spent on replenishment of authorized capitals of various state joint-stock companies

JSC NWF "Samruk-Kazyna" – 57,7 billion KZT
JSC NMH "Bayterek" – 23,9 billion KZT
JSC "NC "Kazakhstan Gharysh Sapary"
JSC "Kaztechnology" – 11 billion KZT
JSC "KazAgro" – 14,9 billion KZT

Quasi-public sector will receive additional financing from the state through the budgetary loan granting

From 184 billion KZT of the budgetary loans for joint-stock companies with participation of the state planned in the republican budget for 2017.

63% **116 billion KZT** will be received by JSC NMH "Bayterek"

See presentations – Analytical group KIPR¹⁸⁴

Thus, 92% will be spent on replenishment of authorized capitals of various state joint-stock companies. Quasi-public sector will receive additional financing from the state through budgetary crediting.

As for income from QPS, as it was noted above, the chairman of Calculating committee on control of the republican budget Nurmukhambet Abdibekov has said "ineffective work of subjects of quasi-public sector doesn't allow to provide the due level of dividends revenues in the budget"¹⁸⁵. "The number of profitable subjects of the quasi-public sector for the last three years decreases that is confirmed by a large number of the remunerative state enterprises, their low productivity. *Process of efficiency assessment of functioning of legal entities with participation of the state becomes complicated by lack of summary statistical data on development of this sector and also summary data on their financial results.* Ineffective work of subjects of the quasi-public sector doesn't allow to provide the due level of dividends revenues in the budget", - said N. Abdibekov, submitting the report of Calculating committee - the conclusion on Government report regarding execution of the republican budget for 2016 in Mazhilis of Parliament. According to him, the considerable amount of funds of the republican budget which is annually directed to replenishment of authorized capitals of subjects of public sector has not been disbursed in due time and is stored on control accounts of cash.

"At the same time practice of allocation of means from the republican budget and National fund to subjects of the quasi-public sector remains. This generates welfare mentality, doesn't promote transparency of expenditure and also complicates return of the saved means after implementation of investment projects. As a result the due level of economic and social return of the budgetary funds made in their capital isn't provided", - emphasized the head of Calculating committee.

According to the Ministry of Finance, balance on accounts of the quasi-public sector in 2016 have made 14,5 billion KZT. The external debt of the quasi-public sector has made 16,2 billion USD that is less for 2,6 billion USD, or 13,8% than the results of

¹⁸⁴From presentation of Quasi-public sector, Sh. Aytenov on AG KIPR, June 20, 2017

¹⁸⁵Interfax-Kazakhstan <https://kapital.kz/economic/59898/schetnyj-komitet-nedovolen-effektivnostyu-kvazigosudarstvennogo-sektora.html>

2015. Experts consider¹⁸⁶ that “after drop in oil prices the largest state companies weren't able to pay an external debt and have asked the state for the aid. For example, JSC “NC “KMG” has received 4 billion USD from National Fund, KTZ Company - 50 billion KZT from UAPF. Thus, the external debt of the state companies is in fact “an invisible public debt”.

2) Quasi-fiscal incomes and outcomes of company.



There is no uniform approach to define what shall be considered quasi-fiscal expenses of mining companies. The following options are possible:

- 1) **By the property right.** All expenses of the company with 100% of state participation (or with % proportional to % of state participation) are considered quasi-fiscal.
- 2) **By source of means (state).** If the mining company has received means from the state (not through shares as a property share, and in other way, for example, subsidizing), then the expense of this sum is considered quasi-fiscal expense.
- 3) **By source of means - but through non-budgetary channels.** Most the concept of quasi-fiscal revenue (CQFR) was widely adopted in works of the IMF. “Operations which could be carried out by means of concrete budgetary measures in the form of obvious subsidies, taxes or other direct costs” can refer to it in wide definition. The guide of IMF to ensuring transparency in the budgetary and tax sphere formulates CQFR as operation which result is net transfer of public funds through non-budgetary channels¹⁸⁷.
- 4) **By functions.** Actually, “quasi” means supposed that it is kind of public sector. And it is possible to distinguish by carried-out functions. When business carries out functions which the state has to carry out in fact.

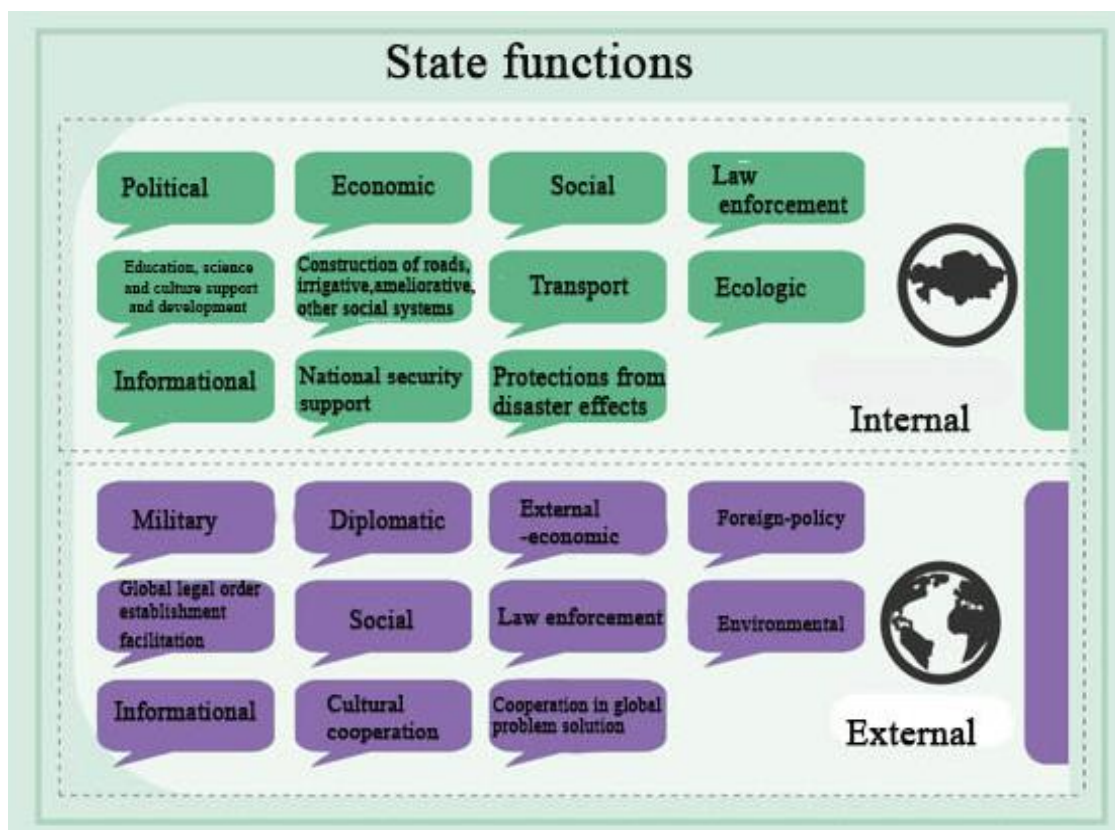
Legal experts¹⁸⁸ distinguish internal and external functions of the state.

¹⁸⁶ <http://agkipr.kz/archives/1264>, Director of National Bureau of Economic Researches K. Kapparov

¹⁸⁷ <https://www.get-belarus.de/download/Beraterpapiere/2007/pp2007r08.pdf>

¹⁸⁸ <http://isfic.info/aprav/uris03.htm>

Figure 29. State functions



Internal functions are the main activities of the state on management of internal life of the country. We, in this context, are interested in economic function. “It is development and coordination of strategy and tactics of economic development by the state in order to develop national economy in the most optimum mode. If to speak more specifically, economic activity of the state is shown in establishment of taxes, granting of loans, investments, definition of privileges for some subjects of economic life, development of programs of economic development, etc.

The state has to create legal bases of the market, i.e. to develop “rules of the game” for economic entities, to take measures for fight against monopolism, to stimulate business activity, to protect the rights of consumers, etc.

Besides, the state can exercise direct control of certain enterprises, some especially important branches of the national economy (power, communication, atomic, defensive industry, astronautics, informatics, etc.). It acts as the owner of means of production, producer of material benefits”.

As it was mentioned above, the state acts both as the regulator, and as the participant of the market. According to the dictionary of business terms, functions of business is “Implementation of activities for production and exchange transactions between the businessman and other elements of the economic sphere of the market (consumers) and management of process of exchange between the enterprise and its contractor. Following functions are also referred to these functions: business support - distribution of the enterprise ideas, an initiative and experience of management that is management function; research and project works – activities for development and realization of new technological processes and new production; public relations – implementation and management of the relations between the enterprise and the public or mass media
(*The dictionary of business terms. Academic.ru. 2001*).

Thus, one of the offered approaches to definition of quasi-fiscal expenses is by functions. If any company with state participation, except its direct business functions, carries out functions uncharacteristic for it which must be carried out by the state and expenses is covered by the state, then it is quasi-public expenses. Even if this company has no state participation. For example, if within the CIP the company has constructed the road (not for business needs) – it will be considered as its quasi-fiscal expenses.

This approach, in my opinion, has something in common also with approach within EITI: 6.2. *Quasi-fiscal expenses include measures by means of which SE carry out the public social expenditures, such as payment of social services, state infrastructure, employment, fuel subsidies, service of public debt, etc. beyond the scope of the state budgetary process.*

Thus, EITI suggests to consider **only the enterprises with state participation and only uncharacteristic expenses (not belonging to their business activity)** as quasi-fiscal.

- 5) One more possible approach is that the companies can carry out functions uncharacteristic to them, but within their own corporate social responsibility. However these expenses will be considered as QFE if they have been transferred to **fixed assets of state agencies or quasi-fiscal companies**. QFE is understood as the expenses of any companies which aren't connected with their business and which results are transferred to fixed assets of state agencies or subjects of QFS. In this case all CIPs within which transfer on balance of the state is carried out are considered QFE.

So, NCS shall consider and accept one of the allocated approaches to quasi-fiscal expenses (QFE) of mining companies for the reporting of EITI, or develop new.

It is important to allocate and count all income and expenses of the quasi-fiscal sector as higher share of the state in GDP, slower growth of economy. Besides, it is important to estimate efficiency of these investments of the state. According to experts, there are no approaches in assessment of efficiency of subjects of KGF depending on purpose of company activity (but not a legal form), volumes of the budgetary financing aren't tied to financial results and overall performance of subjects of the sector; there is no accurate differentiation between possession and management of state ownership; there is no annual overview of KGF (*See the presentations - AG KIPR¹⁸⁹. Perhaps, here EITI could play a certain role*).

¹⁸⁹ From presentation: Quasi-public sector, Sh, Aytanova on AG KIPR, June 20, 2017

3.3.6. Revenue distribution and management from mining sectors¹⁹⁰ (5.1, 5.3)

1) Establishment and audit of budget of the Republic of Kazakhstan.

Republican budget¹⁹¹ - analysis of NBNK (National Budget Network of Kazakhstan).

According to rules of Budgetary code, the republican budget is centralized monetary fund which is formed by means of corresponding revenues. Expenses of the republican budget intend for realization of the all-republican directions of state policy and also financial security of tasks and functions of the central public authorities, public institutions subordinated to them (for example, the Government of RK and Ministry, Parliament, the Supreme Court, bodies which are directly subordinated to the President of Kazakhstan, etc.). Adoption of the republican budget is followed by the adoption of the Law.

Review of key parameters of the republican budget for 2013 - 2018.

Key parameters of the republican budget show growth for 2013-2016. So, income of the republican budget has grown from 5,18 trillion KZT (2013) to 6,14 trillion KZT (2015). In 2016 the revenues of the budget are approved for the amount of 7,27 trillion KZT.

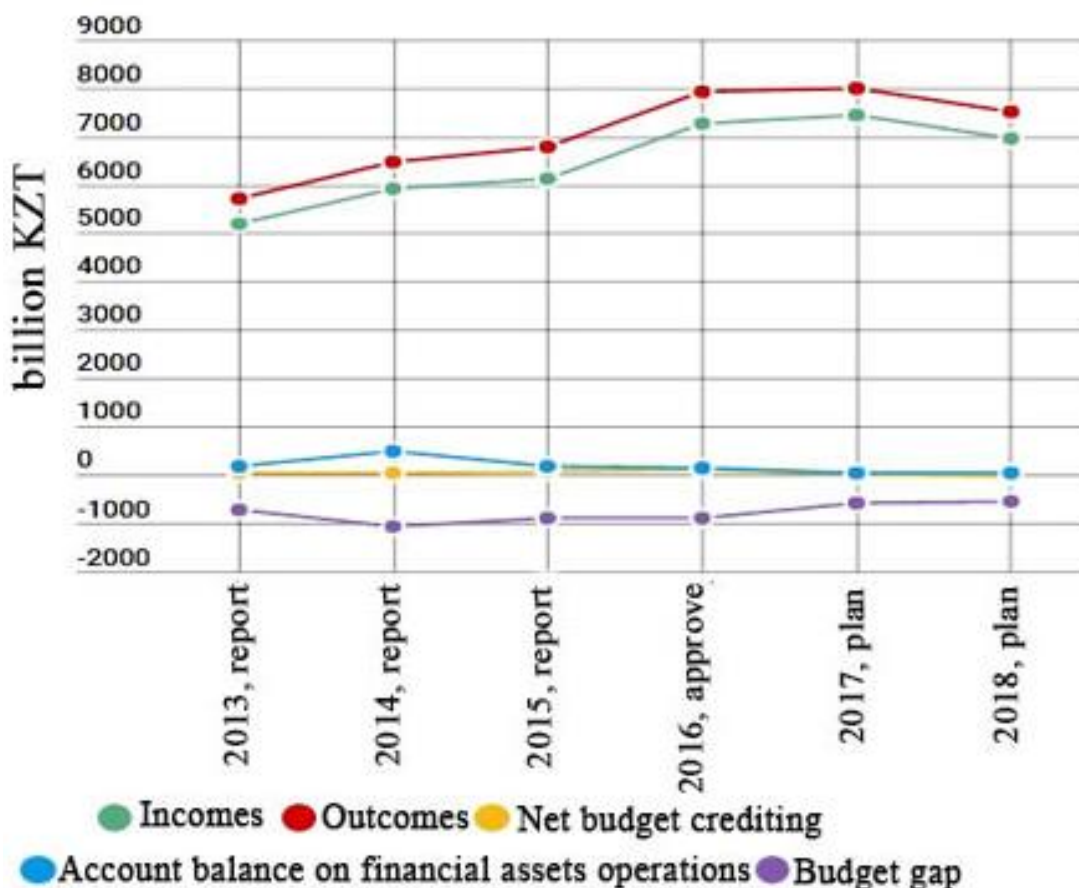
Expenses of the republican budget for the same period have grown from 5,7 trillion KZT (2013) to 7,92 trillion KZT in 2016 that makes growth in percentage at the level of more than 70%.

¹⁹⁰ Information on distribution of income from resources industry according to the Requirement of EITI 5.1 (income from resources industry, whether it be in the form of cash and/or in a natural form, is registered in the state budget. If income isn't registered in the state budget, the explanation of use of this income, with references to the corresponding financial statements has to be offered (for example, for funds of national welfare / development, local authorities, the state companies and other non-budgetary purposes)

Any additional information requested by MSG on management of income and expenses according to the Requirement of EITI 5.3 (a) the Description of any income from resources industry intended for specific programs or geographical regions. b) Description of processes of drawing up and audit of the budget of the country and representation of communication lines to information on budget planning, expenses and to reports of the audit inspection, open for the public. c) Timely information from the government which will help the public to understand and hold the debate concerning questions of stability of income and dependence on resources, including forecasts for production volume, the prices of goods and income from resources industry, as well as the flowing and predicted income and fiscal balance from resources industry.)

¹⁹¹<http://budget.kz/respublikanckiy-byudzhet/>

Figure 30. Central Government budget size, 2013-2018, billion KZT



For the considered period, peak of the budgetary credits issued from the republican budget falls on 2016 - 205,2 billion KZT whereas in 2013 the sum was - 122,1 billion KZT.

The largest sum has been spent for acquisition of financial assets in 2014 (480 billion KZT), in 2016 this sum is approved for the amount of 140,8 billion KZT.

REPUBLICAN BUDGET REVENUES

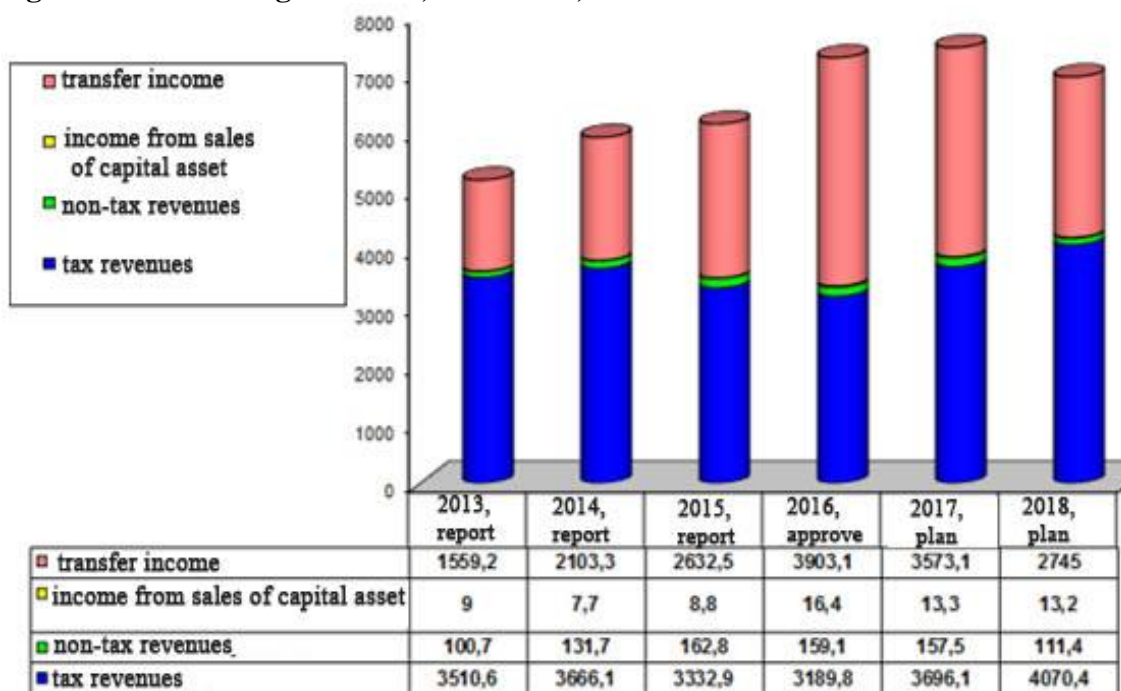
Republican budget revenues are formed from revenues in the form of tax and non-tax revenues, revenues from sale of fixed capital and revenues of transfers.

The main part of income was made - tax revenues till 2016:

- 2013 - 3,5 trillion KZT - 67,8%;
- 2014 - 3,66 trillion KZT - 62%;
- 2015. - 3,32 trillion KZT - 54,3% of all revenues of republican budget (share of tax revenues in central budgets of developed countries has made 80-90%).

In 2016 the share ratio of tax revenues has decreased and began to make – 43,9%.

Figure 31. State budget income, 2013-2018, billion KZT

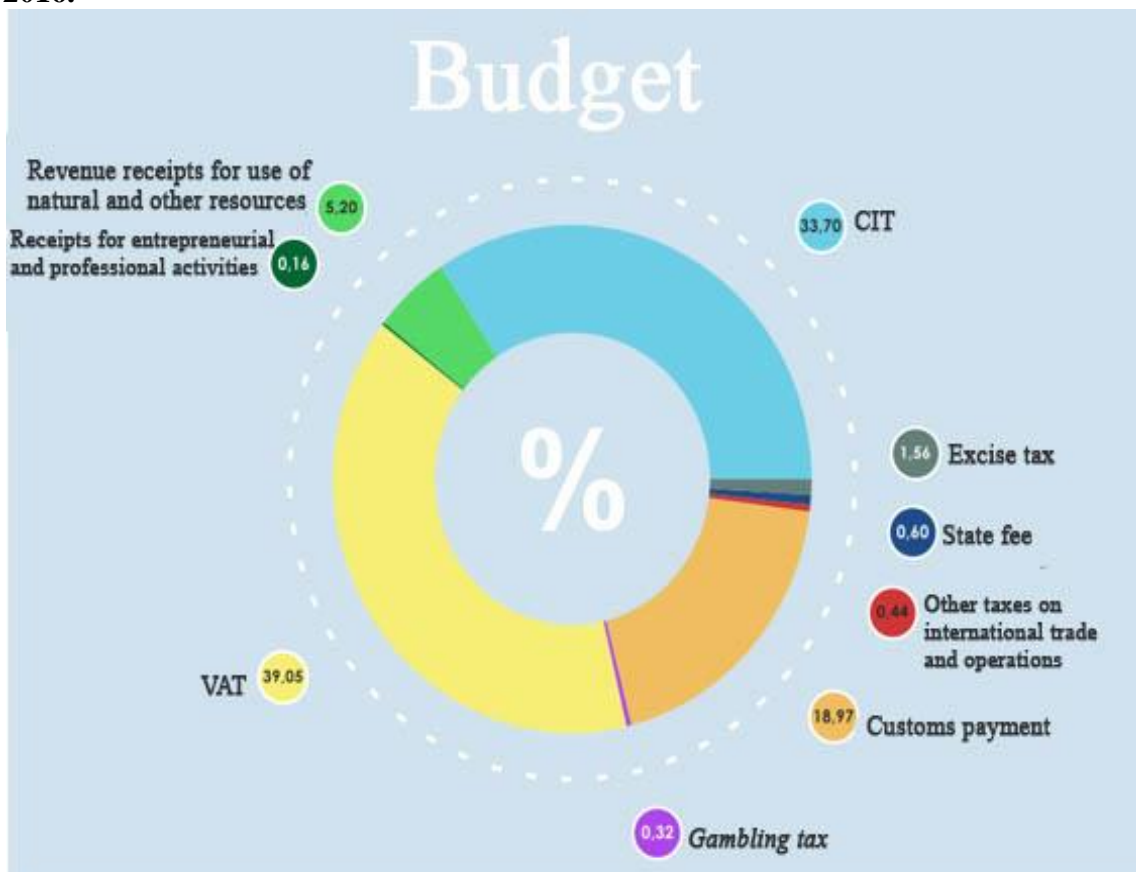


These changes are connected with both: the amount of tax revenues has decreased not only in share, but also in absolute value (the amount of approved tax revenues in 2016 - 3,19 trillion KZT), and growth of transfer revenues which share ratio was made: in 2013 - 30,1%, 2014 - 35,6%, 2015 - 42,9%, and in 2016 - 53,7% of all revenues of the republican budget.

Non-tax revenues make a little more than 2% of the total amount of republican budget revenues, and revenue from sale of fixed capital, as a rule, no more than 0,3%.

***Tax revenues** is all types of tax obligatory monetary payments in the budget made in certain sizes and is irrevocable and gratuitous. Other obligatory payments in the budget: payment, fees, duties established by Tax and Customs codes of RK also belong to tax revenues.*

Figure 32. Equity proportion of tax revenues of Central Government budget in 2016.



The main part of tax revenues of the republican budget is made by a value added tax and corporate income tax.

The value added tax (VAT) made in: 2013 - 37,8% (1,33 trillion KZT), 2014 - 32,7% (1,2 trillion KZT). In 2015, according to information of the Ministry of Finance of RK, the amount of the VAT has decreased to 944,4 billion KZT and in equity proportion to tax revenues, it was - 28,3% that has been connected with increase in the sums of VAT return from the budget. In 2016 the amount of VAT is approved in the amount of 1,25 trillion KZT, and in equity proportion - 39,05%.

Corporate Income Tax (CIT) made in: 2013 - 29,4% (1,03 trillion KZT), 2014 - 31,9% (1,17 trillion KZT). In 2015 CIT is executed with excess and according to the Ministry of Finance of RK, the sum of CIT was 1,22 trillion KZT (36,7%), in 2016 the sum of CIT is approved of 1,07 trillion KZT, and 33,7% in equity proportion.

The next on the volume of tax revenues are customs payments which in 2013 have made 863 billion KZT (24,6%), 2014 - 1,08 trillion KZT (28,3%), in 2015 - 793 billion KZT (26,3%) and in 2016 605 billion KZT (18,97%) are approved.

Revenues for use of natural and other resources in equity proportion make about 5% annually and are the fourth on volume among all tax revenues of the republican budget, in 2016 - 165,8 billion KZT (5,2%) are approved.

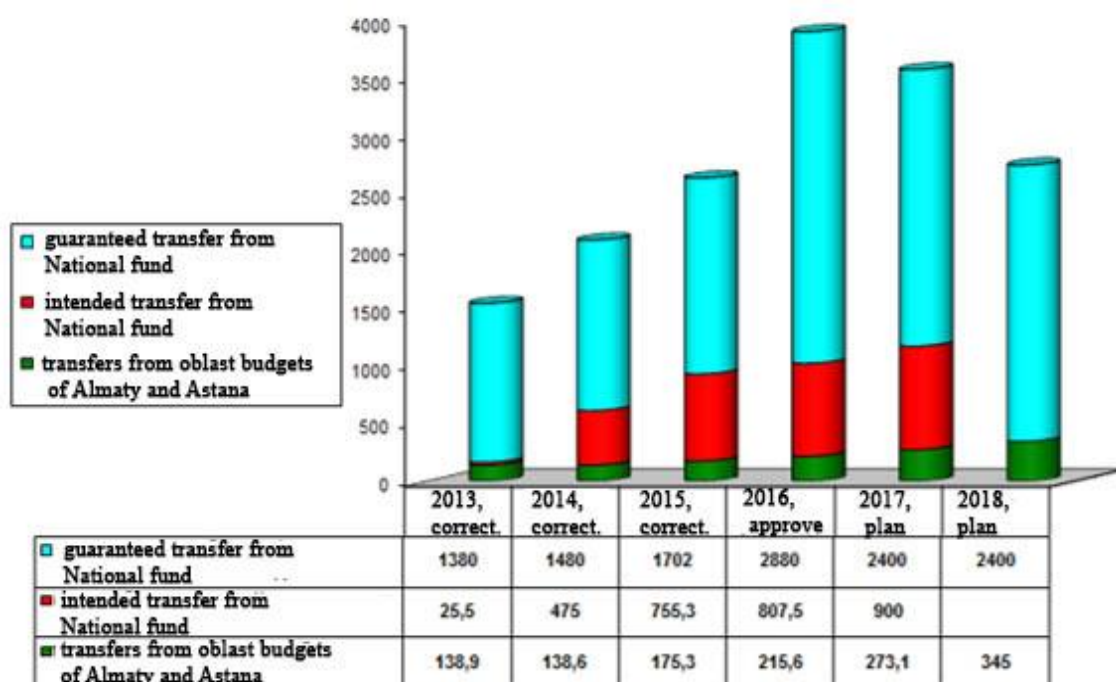
Excises in income of the republican budget make rather small part - from 1% to 2% of all amount of tax revenues, and in 2016 49,9 billion KZT are approved. It should be noted that excises on the goods imported on the territory of Kazakhstan go to the republican budget; on crude oil and gas condensate, and other types of excises on the

goods made in the territory of RK (on tobacco products, alcohol, gasoline, etc.) - goes to the local budget.

Other tax revenues of the republican budget (tax on gaming, charges for conducting business and professional activity, the state tax, other taxes on international trade and operations) make about 2% of all tax revenues. The social tax, individual income tax, property tax, land tax, tax on vehicles, etc. go to the local budget.

Revenues of transfers are revenues of transfers from one level of the budget to another, from NF of the Republic of Kazakhstan to the republican budget and then to local budgets and vice versa. Transfers between levels of budgets are subdivided into general transfers, target current transfers, target transfers for development.

Figure 33. Transfer income to Central Government budget, 2013-2018, billion KZT.



In the republican budget revenue of transfers are formed by: transfers from regional budgets, budgets of the cities: Almaty and Astana and also transfers from National fund to the republican budget. As it is stated above, equity proportion of revenues of transfers in income of the republican budget has grown in recent years and in 2016 it was 53,7% of all revenues of the republican budget, generally it is connected with increase in transfers from National fund which consist of the guaranteed and target transfers.

According to the figure 32, the main proportion in revenues of transfers is the share of the guaranteed transfer from NF which size is defined in the absolute fixed value and is approved by the law. Laws on the guaranteed transfer have approved the following sizes of the guaranteed transfer from NF:

- 2013 - 1,38 trillion KZT;
- 2014 - 1,48 trillion KZT;
- 2015 - 1,7 trillion KZT;
- in 2016 leap for 169% to 2,88 trillion KZT is observed and equaled to 40% of all republican budget revenue;

- 2,4 trillion KZT have been approved for 2017-2018, showing dynamics of decrease, but these sums can increase at the approval of the budget for these years.

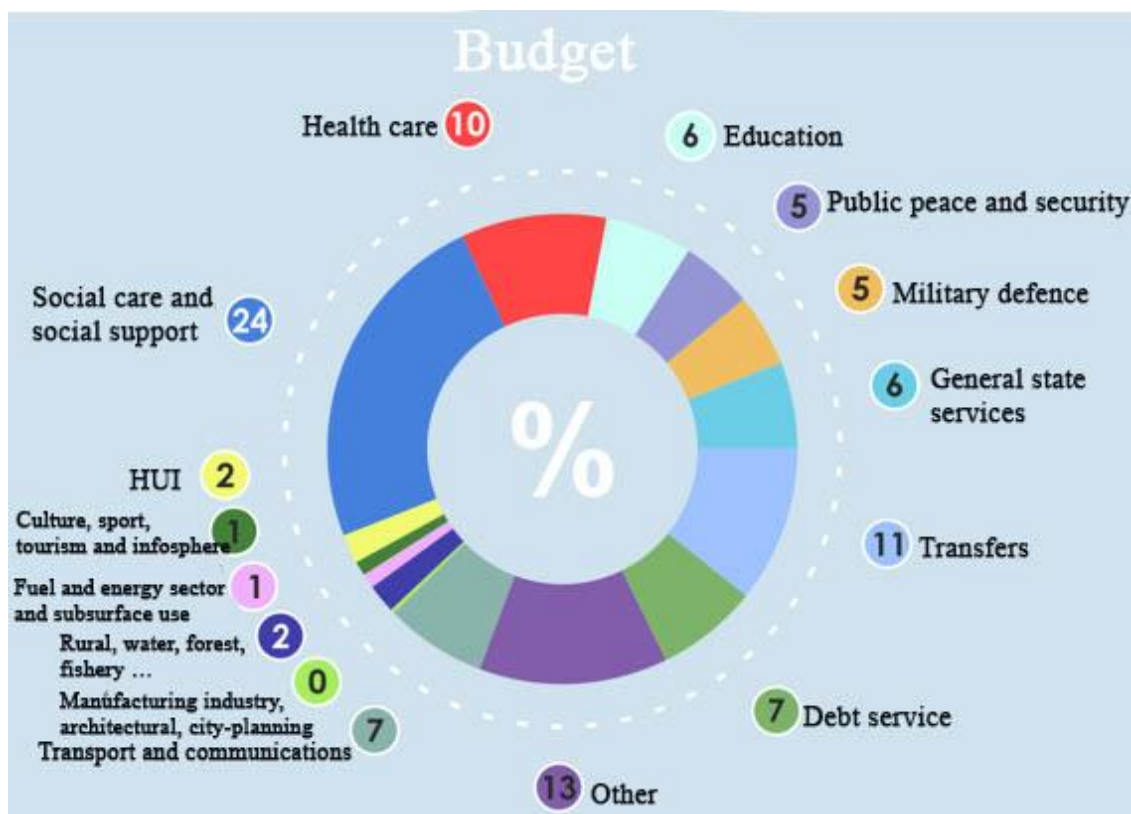
Target transfers are transferred to the republican budget for the purposes determined by the President. For example, for 2016 target transfers are allocated for increase in authorized capital of JSC “NWF “Samruk-Kazana”, JSC “NMH “Bayterek”, target transfer to JSC “NC “Astana EXPO-2017” on allocation of target transfers for development to budgets of the cities Astana and Almaty, construction and reconstruction of roads, etc. (detailed information about the directions financed by target transfers of NF for 2015-2016 is given in the Decree of the President of Kazakhstan).

Transfers from regional budgets, budgets of the cities Almaty and Astana there go to the republican budget also except transfers from NF. Detailed information is given in the section “Local Budget”. It must be noted that withdrawals in the republican budget are carried out only from 4 budgets: Mangystau oblast, Atyrau oblast, budgets of the cities Almaty and Astana which are donors, and subventions are transferred to all other 12 subsidized regions.

REPUBLICAN BUDGET EXPENSES

Expenses of the budget are expenses of budgetary funds which are directly connected with their development, performance of the functions and powers assigned by public authorities. The main sign defining category of expenses is allocation of budgetary funds on an irretrievable basis. Comparing expenses to other types of expenses, such as the budgetary crediting, acquisition of financial assets, repayment and service of loans which are returnable, i.e. they have to be returned in the corresponding budget under certain conditions.

Figure 34. Equity proportion of Central Government budget outcomes, 2016



It is possible to read the budgetary process on the website of RK Ministry of Finance following the link below

http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_budgeting/budgeting/process_fldr

Link to Civil budget of RK Ministry of Finance

http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_citizens/citizens/cbudget_and_infographics_fldr

Link to Law of the Republic of Kazakhstan dated November 30, 2015 No. 426-V Law of RK “On Republican Budget for 2016-2018” –

<http://adilet.zan.kz/rus/docs/Z1500000426>

Link to Resolution of RK Government dated December 8, 2015 No. 972 “About implementation of the Law of the Republic of Kazakhstan”, “About republican budget for 2016 – 2018”-

<http://adilet.zan.kz/rus/docs/P1500000972>

Audit

According to RK Law “On State Audit and Financial Control” (dated November 12, 2015, No. 392-V RK Law)¹⁹² p. 6) **the state audit** is the analysis, assessment and check of management efficiency and use of budgetary funds, assets of the state and subjects of the quasi-public sector, grants, the state and guaranteed loans by the state and also loans attracted under the guarantee of the state, including another, connected with budget implementation activity based on risk management system. **Objects** (p.7)

¹⁹²<http://adilet.zan.kz/rus/docs/Z1500000392>

of the state audit and financial control are public authorities, public institutions, subjects of quasi-public sector and also recipients of budgetary funds.

The state audit is subdivided into the following types (Art.3):

1) financial audit is assessment of reliability, validity of financial statements, accounting and financial condition of object of the state audit;

2) performance audit is assessment and analysis of activity of the state audit object regarding efficiency, profitability, productivity and effectiveness;

3) compliance audit is assessment, verification of compliance with standards of the legislation of the Republic of Kazakhstan and also acts of the subjects of the quasi-public sector adopted for their realization by object of the state audit.

The calculating committee is the supreme body of the state audit and financial control (Art. 10, p.1). It estimates influence of activity of quasi-public sector subjects on development of economy or specific field of economy, social and other spheres of state administration (Art 12. 5) and assets management in quasi-public sector (10).

2) Information on 2016. RK NF

Distribution of revenues in republican, local budgets and in National Fund is shown in the Table 1 “The List of Payments and Revenues which are Subject to verification”. Revenues are carried out according to the Order of Finance Minister of the Republic of Kazakhstan dated September 18, 2014 No. 404 “On approval of the Table on distribution of budget revenues between levels of budgets and the control cash account of National fund of the Republic of Kazakhstan” (amended and revised on December 4, 2015).

According to this table, all revenue in cash comes to the Republican Budget (RB), National Fund (NF) or to the Local Budgets (LB). As it was described in the Report of EITI 2015, the taxes from the companies of the oil and gas sector determined by the list approved annually by MF RK and ME RK, go to NF on the taxes and payments determined by the law. Other taxes and payments, also taxes from other companies of the mining sector, come to the republican budget and local budgets and aren't allocated from the taxes received from other sectors of economy. In Table 5 details of tax revenues are given to the republican or local budget and to NF.

National Fund of the Republic of Kazakhstan

Transparency and control of NF

NF PK is the sovereign (oil) fund of welfare integrated with the consolidated budget of the Government:

- 1. stabilization function on reduction of volatility from inflows of oil revenues;*
- 2. accumulative function on support of inter-generational justice in relation to oil revenues.*

Within the stabilization function Government annually allocates 8-15 billion USD, and the rest of annual budget deficit (which is obviously restricted to 3% of GDP till 2015) is compensated by internal and external loan.

Within accumulative function the most part of oil revenues (minus annual use in the form of transfers for the consolidated budget) is invested abroad and about 10% of assets of NF are invested within the country in bills released by four EQPS (The enterprises of a quasi-public sector) and institutes of development.

NBRK is responsible for implementation of the strategy of assets investment of NF PK.

NBRK engages the private companies on control of assets and pays them reward according to their performance indicator which depends on gained interest income.

Financial accounts of NF passes annual external audit. Monthly and annual reports of NF are published on the official web site of the Ministry of Finance and are uploaded in the legal electronic system of database.

The current characteristics of the fiscal regulations of Kazakhstan are based on the approach based on the assumption of constant income, defining the range of potential annuity payments. This regulation provides the fixed nominal transfer to NF in the budget adjusted for recurrence, target investment expenditure and non-budgetary expenditures and also character of monitoring of debt:

- *Fixed annual guaranteed transfer in the amount of 8 billion USD for the budget (since 2011);*
- *Counter-cyclical guarantee +/-15% of the amount of guaranteed transfer;*
- *Trigger balance of NF - 30% of GDP;*
- *Oil deficit - 2,8% by 2020;*
- *Banning of non-budgetary financing – that is denial of guarantees or loans for internal activity, including for JSC “NWF “Samruk-Kazyna”, JSC “KazAgro” and JSC “Bayterek”. Application of this condition is postponed annually;*
- *Characters of control of loan and level of debt:*
 - *annual expenses on debt service, regardless their designation, don't exceed 4,5% of the settlement fixed investment income of fund.*
 - *the average cost of service and repayment of government debt in 10 years doesn't exceed 15% of the general budgetary revenues, including transfers from font.*

Source: Personnel of the World Bank, on the basis of the publication of the World Bank “Oil regulations: policy options during recession of economy”, 2013.

NF revenue from the oil sector have made 1 137 billion KZT. Generally, NF PK accumulates direct taxes from oil and gas sector, share of the Republic of Kazakhstan under Production sharing agreements completely, rent tax on export, bonuses, revenue from users of nature in claims for indemnification of the oil sector by the organizations, tax on excess profit, the most part of TEMR – almost completely.

Table 17. Report on revenues and use of RK NF PK for 2016

No.	Title	amount, thousand KZT
<i>1</i>	<i>2</i>	<i>3</i>
1.	Resources of National Fund (hereinafter – Fund) at the beginning of reporting period (cash execution), total:	25 754 359 070
2.	Revenues, total:	985 647 524
	including:	
	- direct taxes from the organization of the oil sector (except for the taxes paid to local budgets)	1 130 056 792
	<i>including:</i> <i>corporate income tax</i>	<i>438 009 207</i>

No.	Title	amount, thousand KZT
	<i>excess profit tax</i>	35 559 846
	<i>bonuses</i>	136 604 198
	<i>oil and gas production tax</i>	278 596 788
	<i>rent export tax</i>	118 888 900
	<i>share of the Republic of Kazakhstan according to the section of production under the made contracts</i>	122 397 853
	<i>additional payment of the subsoil user who is carrying out activities under the contract on the section of production from the organization of the oil sector</i>	
	- other revenues from operations carried out by companies of the oil sector (except for revenues paid to local budgets)	7 867 789
	<i>including:</i>	
	<i>administrative penalties, penalty fee, sanctions, collectings imposed by the central public authorities, their territorial divisions on to companies of the oil sector</i>	650 104
	<i>the other penalties, penalty fee, sanctions, collectings imposed by the public institutions financed by republican budget on to companies of the oil sector</i>	445 794
	<i>the means received from users of nature in claims for indemnification by the organizations of the oil sector</i>	6 771 679
	<i>other non-tax revenues from the organization of the oil sector</i>	212
	- revenues from privatization of the state property which is in republican property and relating to the mining and processing sector	
	- revenue from sale of the land plots of agricultural purpose	834 978
	- investment revenue from management of Fund *	-155 070 646
	- return of the guaranteed transfer from the republican budget	
	- return of a target transfer from the republican budget	420 834
	- other revenues and incomes not prohibited by law of the Republic of Kazakhstan	1 537 777
3.	Used, total:	2 874 382 751
	<i>including:</i>	
	<i>- guaranteed transfers</i>	2 110 000 000
	<i>- intended transfers</i>	745 574 097
	<i>- covering of expenses connected with Fund management and annual external audit</i>	18 808 654
4.	Fund resources at the end of reporting period, total:	23 865 623 843

Note: * Taking into account an investment loss for 2016, according to the approved report of NBRK for 2016 on trust management of National fund.

(In the text above about QPS, it is mentioned that target transfer in 2016 on increase in authorized capital of JSC “NWF “Samruk-Kazyna”).

- In 2015 the Government has continued implementation of two programs of fiscal priming of economy started in 2014 for compensation, as it seemed that temporary reduction of oil prices. The two-year program of an economic support in the amount of 1 trillion KZT for 2014-2015 was the first program; the second was program of infrastructure development “Nurly Zhol” for 2015-2020. Both programs have been financed by resources of NF. The first program was financed only by resources of NF while the program “Nurly Zhol” was financed partially from NF (9 billion USD for 2015-2017) and partially multilateral partners of Kazakhstan in development (6,5 billion USD for 2015-2020).
- The amount of used resources of NF has increased from 11 billion USD in 2013 to 12,2 billion USD in 2014, and to more than 16 billion USD in 2015, having exceeded the amount of the annual guaranteed transfer of 8 billion USD. When it became clear that prices of oil will remain low in medium or long term, in March, 2015 the Government has started to make the budgetary corrections for the medium term, having cut down some low-priority capital expenses for 2015. Nevertheless, non-budgetary support of the national oil company which had difficulties (in 2015 JSC “NC “KMG” - national oil company has received 2,7 billion USD of public funds for refinancing of the external debt) has led to oil deficiency increase from 10,1% of GDP in 2014, up to 12,5% in 2015 though in 2016 its decrease is expected¹⁹³.
- The international reserves of the country in general, including assets of NF in foreign currency, for 2016 have decreased by 0,7% and have made 90,8 billion USD.
- Assets of NF for 2016 were reduced by 4% and as of the end of December, 2016 it made 61,0 billion USD that is 21% less than a peak state in August, 2014 (77,2 billion USD).
- By the results of 2016 revenues in NF were reduced by 86,8% in last year. Where direct taxes from the organization of the oil sector were reduced by 29,9%, investment income for 95,9%.
- In 2016 NF transferred in total – 2 855,6 billion KZT in the form of the guaranteed and target transfers into the republican budget. That is increased by 16,3% in comparison with last year, and nearly 2,5 times more than in 2010. The expenses connected with Fund management, in comparison with 2015, have increased more than by 1,5 times, to the level of 2010 more than 4,5 times (on the basis of information of NB RK, MF RK).

Income in kind is not paid in Kazakhstan. According to ME RK, contracts such as “Production sharing agreement” provides the payment “A share of production section of the Republic of Kazakhstan” in kind or monetary value. According to reports of LCT No. 2 form in 2015 payments in kind weren't made.

Regarding the barter transactions, there are no open sources of information. Since information on contracts is not yet available to the public, there has been no analysis of the materiality of such transactions according to the MID RK.

¹⁹³Report of the World Bank on economy of RK, No. 3, summer edition 2016

We would like to mention separately revenues in the budget of subsoil users payment for social and economic development of the region and development of its infrastructure.

These revenue go to the local budget. Resources are enlisted on BCC 206114, but still not all companies transfer funds there - a part of amount is enlisted to Akimats directly on the basis of Memorandums with Akimats, Contracts on cooperation, etc. Attachment 3-2 contains information on all areas (within the reporting subsoil users fill the Form on expenses for social development and local infrastructure within contractual obligations (LCT) except for the funds transferred on to BCC 206114) (The Attachment 3 for the Payer, TT); Akimats - the Form on expenses for social development and local infrastructure for 2016 (The Attachment 3-1 for oblast Akimats, TT).

Within performance of contractual obligations by subsoil users of oil and gas and mining sectors 12, 4 billion KZT have been directed for social and economic development of regions in 2016 (56,0 billion KZT in 2015 according to the Report of EITI 2015), where companies of the oil and gas sector have paid 4,65 billion (37,5%), the companies of the mining sector have directed 7,75 billion KZT (62,5%) to social development (Appendix 1-6). Recipients have reported for a large sum - 4,85 and 7,76 billion KZT respectively. The divergence for 205 448 000 is explained in the Appendix 13.

Last year, according to the Report of EITI 2015, the oil and gas sector has paid 43,7 billion KZT for SIR (78%), and mining sector - 12,3 billion (22%).

Income and outcome assumptions for 2018

- **Recently approved budget for 2016-2018 provides considerable reduction of the public expenditures**, including essential reduction of net acquisition of financial assets which in practice consist mainly of monetary transfers of EQPS. At the same time non-budgetary crediting of EQPS from NF will be stopped after 2016 when the last approved sum of 351,5 billion KZT is allocated to JSC “NMH “Bayterek” and JSC “NWF “Samruk-Kazyna” within the program “Nurly Zhol”. There are plans for the termination of the subsidized direct crediting of EQPS from NF in order to invest in assets of NF, in liquid financial instruments at the market rates, including in the bonds issued by EQPS in domestic market.

As a result it is expected that the oil deficiency will decrease from 12,5% of GDP in 2015 to about 12% in 2016 and to less than 9% in 2017. Moreover, it is expected that operating costs will increase due to 30% increase of nominal salary in the budgetary sector in 2016, then it gradually will decrease in relation to GDP, and capital expenses are normalized after end of the EXPO-2017 project.

The share of financing of “Nurly Zhol” program implementation will lead to increase in the size of debt, though favorable conditions for loan will soften impact on a debt profile. At the same time according to the forecast, net currency savings in NF will cease to grow as prices of oil will remain at the level much below than a profitability threshold for the budget making about 80 USD for barrel. It means that the Government will use oil revenues for financing of nonoil deficiency.

- **The total amount of revenues in the republican budget in 2018 will be about 8,6 trillion KZT.**

Such forecast was read by the Minister of Finance Bakhyt Sultanov¹⁹⁴

The bill “About the Republican Budget for 2018-2020” has been presented in Mazhilis of parliament.

“The total amount of revenues in the budget in 2018 will be 8,6 trillion KZT with reduction for 1,5 trillion KZT to previous year – by means of decrease in oil revenues for 1,9 trillion KZT and also growth of nonoil revenues for 852 billion KZT”. Minister has reminded that according to the new concept of resource use of NF the amount of guaranteed transfer will annually decrease – from 2,6 trillion KZT in 2018, to 2 trillion in 2020.

At the same time social expenses of the budget will grow in the next three years.

“Maintenance of all assumed obligations of the state in the social sphere has demanded carrying out optimization of expenses at a stage of formation of limits. In the spring of this year we led up them according to all current budgetary programs with reduction for 10%. During process of formation of the budget we have tried to keep in these parameters, except for the extraordinary fields where objective increase in expenses was required. Therefore, in budget structure we can see decrease in all groups of expenses, except two directions designated by us. In general we have to cut expenses in percentage of GDP in the next three years from 16,5% of GDP to 15,6% of GDP. Major factors, as I told, are decrease in target transfers and deduction of budget deficit at the safe one-percentage level”. According to the Ministry of Finance, social orientation of the budget is kept, expenses of this sector in the three-year period will make 13,4 trillion KZT, including for 2018 - 4,1 trillion KZT, these are 44,5% of the total amount of expenses. This indicator is planned to be raised to 47,4% by 2020. The main share of social expenses is the share of social security and rendering the social aid to citizens.

As Minister has reported, expenses of the republican budget for 2018 are planned for the amount of 9,2 trillion KZT, for 2019 – 9,7 trillion KZT, for 2020 – 10,2 trillion KZT.

IV. VERIFICATION OF ACCOUNTABLE PAYMENTS

4.1. Consolidated report on significant tax and non-tax Payments/Revenues

The recipient has provided the Reports on Payers received according to data of the information system of SRC of RK FM - the Designer of analytical reports. Control of contributions to the budget, including mining companies, are provided in the Program of external state financial control for annual Plans of control actions of Calculating Committee.

Verification of “Reports on essential tax and non-tax Payments / Revenues” was made according to the Technical specification of the purchased services, including:

- specification of the list;
- obtaining Reports from Payers from the IIS USMSS RK system;
- work with Payers on reports (clarifying data, correction of the technical mistakes connected with violation of an order of drawing up according to the Instruction for filling of the report);
- obtaining reports on Payers from the Recipient;

¹⁹⁴<https://www.lsm.kz/v-2018-godu-dohody-byudzheta-sostavyat-8-6-trln-KZT--prognoz>

- verification of Reports of Payers with Reports of the Recipient;
- in case of discrepancy we sent inquiries by e-mail to Payers for providing supporting documents (extracts of banks, payment orders, personal accounts, etc.) and to the Recipient;
- drawing up “Consolidated report on essential tax and non-tax Payments / Revenues”.

In the course of verification, we have established that 140 Payers had audit of financial statements in a year, which has ended on December 31, 2016, made according to International Financial Reporting Standards. So, information on payments provided in reports of Payers is checked and confirmed with the auditor report. Other Payers are passing the audit inspection; it will be finished by November 2017.

After holding the procedures for detailing discrepancy and identification of the reasons of discrepancy we have made “Consolidated report on essential tax and non-tax Payments / Revenues of Payers of oil and gas and mining sectors of the Republic of Kazakhstan for 2016” (Attachment 1-6). Information on payments in the budget by Payers is provided in Attachments 1-4 and 1-5.

In 2016 according to the Specification verification has included 159 companies, where 90 mining sector and 69 oil and gas sector. LLP “Avtotransservice” among other 90 companies of mining sector haven't provided the report.

JSC “NC “SEC “Saryarka” and LLP “Kramds-Quartzite” have submitted letters that they don't participate in verification for following reasons:

- JSC “NC “SEC “Saryarka” didn't carry out activities under the contract of subsurface use in 2016;
- LLP “Kramds-Quartzite” develops the Tekturmas field of quartzites and is engaged in extraction of abstractpoolentry minerals (AM).

The share of their total amount of taxes and payments has made – 1 198,2 million KZT (0,25% of the total amount of taxes on the mining sector for 2016).

Among 69 companies of the oil and gas sector, JSC “TransNafta Center” has not provided the report.

Companies: Branch “North Caspian Operating Companyani H. B.”, JSC “KazMunayGas” EP” and JSC “Oil Company“KOR”have provided letters that they don't participate in verification for the following reasons:

- “North Caspian Operating Company”branch isn't a subsoil user, and is the Operator appointed within the Production sharing agreement across the Northern Caspian Sea;
- JSC “KazMunayGas Exploration Production”has reorganized the production branches “Ozenmunaygaz” and “Embamunaygaz” into separate joint-stock companies. These joint-stock companies participate in verification as the independent companies - subsoil users;
- JSC “Oil company“KOR” has not provided the report on EITI in connection with confidentiality policy of the Company.

The share of their total amount of taxes and payments has made – 176 307,2 million KZT (9,10% of the total amount of taxes on the oil and gas sector for 2016).

Recipients of taxes and other obligatory payments in the budget (“Recipient”), were:

- State Revenues Committee of the Ministry of Finance of the Republic of Kazakhstan, – on tax, customs and other payments in the budget;
- Ministry of Energy and Mineral Resources of RK, - on the Payments made in kind.

In 2016 income has come to the budget from Payers of subsoil users (on whom verification was carried out) on taxes and other payments in the sum of 2 596 215 954 thousand KZT, including from Payers of the oil and gas sector in the sum of 2 114 539 661 thousand KZT (81,45% of the total amount of income), from Payers of the mining sector in the sum of 481 676 293 thousand KZT (18,55% of the total amount of income).

Discrepancy of these Payers and data of the Recipient for 2016 has made 27 362,46 billion KZT, (1,05% of the total amount of Payments) including on the oil and gas sector - 25 223,64 billion KZT, on the mining sector - 2 138,82 billion KZT. Discrepancy has generally occurred according to the section I-III "Taxes" and the section IV "Customs payments". Payments on found discrepancy are confirmed by personal accounts and payment orders.

The description of discrepancy of these Payers and data of the Recipient is reflected below. The general discrepancy between data of payers and recipients are calculated on the module for the purpose of their objective reflection in this connection, for the best understanding of discrepancy, users need to get acquainted with the disaggregated information also.

4.1.1. Tax revenues

<i>In thousand KZT</i>	2016
Report of Payers	957 495 748
Report of Recipient	970 442 098
Discrepancy	20 249 348

Including result of verification in terms of taxes:

1. Corporate income tax, BCC 101105-101110

The total amount of Corporate income tax includes the Payments which are actually paid in the reporting period by all types of corporate income tax taking into account a penalty fee and penalties, irrespective periods, when these sums paid and also the sum of repayment of tax debt at the expense of excessively paid sums of other taxes or payments in strict accordance with the specified BCC. Excessively paid amount of tax counted on account of payment of other tax or payment should be considered as reduction of the sum of payment.

<i>In thousand KZT</i>	2016
Report of Payers	917 319 303
Report of Recipient	914 903 706
Discrepancy	2 873 523

Discrepancy on "Corporate income tax" between data of Payers and data of the Recipient makes 2 873 523 thousand KZT.

Information on discrepancy is shown below:

No.	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclassified
1	LLP "Standard Cement"	-	9 786	9 786	-
2	JSC "NEC "Kazgeology"	351 161	351 167	6	-
3	LLP "Mining and metallurgy concern ALTYN MM"	-	30 705	30 705	-
4	JSC "CNPC AktobeMunayGas"	3 942 489	1 300 340	-	2 642 149
5	JSC "TransNafta Center"	-	188 465	-	188 465
6	Kazakhstan branch "Karachaganak Petroleum Operating B.V."	3 162 396	3 159 986	2 410	-
7	Insignificant discrepancy owing to roundoff	-	2	2	-
Total:		7 456 046	5 040 451	42 909	2 830 614

LLP "Standard Cement" ("the Payer") sent the letter ref.No. 4-6-918 dd 17.08.2017 that according to the Protocol of carrying out direct negotiations between the Ministry of the industry and new technologies of the Republic of Kazakhstan and Partnership on Taskomirsay field in Southern Kazakhstan oblast dated March 04, 2014, Partnership received the right to make relevant contract for subsurface use for coal mining on Taskomirsay field in the Southern Kazakhstan oblast.

On December 30, 2015 Partnership, after concluding having concluded Contract for implementation of coal mining on Taskomirsay field in Suzak region of the Southern Kazakhstan oblast under No. 4246-SCM-ME dd 30.12.2016 ("Contract") with the Ministry of Energy of the Republic of Kazakhstan, acquired the right of subsurface use. The partnership from the moment of registration and till now makes payments on taxes and other types of mandatory payments for primary activity, namely production of cement.

Today, according to the decision of Expert Commission on subsurface use of the Ministry of Energy of the Republic of Kazakhstan (the protocol No. 13/MREK dd 28.07.2016), the beginning of mining of Taskomirsay coal is postponed from 2016 to 2018. In this connection, in 2016 the partnership paid the contractual obligation regarding a subscription bonus in the amount of 5 000 thousand KZT.

The recipient provided data on revenues on the legal entity in general while the Payer in its reports selected only a contract part as separate account is maintained in Accounting office of Payer which caused discrepancy.

All discrepancy below occurred concerning production of cement. The payer provided supporting documents confirming revenues of recipient, but in the report it provided data on payments within contract activities.

In the report LLP "Standard Cement" does not specify payment, and Recipient specifies payment in the amount of 9 786 thousand KZT. Discrepancy is payment on primary activity - productions of cement.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclassified
101110	LLP "Standard Cement"	-	9 786	9 786	-
Total:		-	9 786	9 786	-

The payer has provided supporting documents in the form of payment orders:

No.	Company name	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP "Standard Cement"	3021	02.12.2016	699
2	LLP "Standard Cement"	1097	16.05.2016	1 284
3	LLP "Standard Cement"	0958	28.04.2016	4 122
4	LLP "Standard Cement"	73	04.04.2016	3 648
5	LLP "Standard Cement"	560	23.11.2016	33
Total:				9 786

On JSC "NEC "Kazgeology" Discrepancy for the sum of 6 thousand KZT was explained by the Payer in the letter ref. No. 06-2/580 dd 07.06.2017, it hasn't reflected payment in connection with loss of the document.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclassified
101110	JSC "NEC "Kazgeology"	351 161	351 167	6	-
Total:		351 161	351 167	6	-

LLP "Mining and metallurgy concern ALTYN MM" ("Payer") in the letter ref. No. 209-06/17 dd 12.06.2017, reported the following:

The company has two branches of production:

- Production of precious metals;
- Contract activity.

Primary activity is production of precious metals.

On May 27, 2016, the contract for investigation of gold-bearing ores on the site in Glubokovsky district in East Kazakhstan oblast of RK between Ministry for Investments and Development of RK and LLP "Mining and metallurgy concern ALTYN MM LLP" has been concluded.

In this connection, all main part of tax and non-tax payments are the share of a primary activity – production of precious metals since contract activity is in a development stage – investigations, and in connection with the small period after signing of the contract, expense in 2016 were insignificant.

The Recipient has provided data on revenues on legal entity in general while the Payer in its reports has allocated only a contract part as separate account is kept in accounting office of the Payer which caused discrepancy.

All discrepancy below have occurred on production of precious metals. The payer has provided supporting documents confirming revenues of the Recipient, but the report has provided data on payments within contract activity.

LLP "Mining and metallurgy concern ALTYN MM" doesn't specify payment in the report, and the Recipient specifies payment in the amount of 30 705 thousand KZT. Discrepancy is payment on activity of production of precious metals.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclassified
101110	LLP "Mining and metallurgy concern ALTYN MM"	-	30 705	30 705	-
Total:		-	30 705	30 705	-

The payer has sent an extract on absolute personal account as of December 31, 2016 as supporting documents.

No.	Company	Paid			Refunded from budget			Total
		tax	penalty fee	fine	tax	penalty fee	fine	
1	LLP "Mining and metallurgy concern ALTYN MM"	26 829	4 140	1 095	(1 359)	-	-	30 705
Total:		26 829	4 140	1 095	(1 359)	-	-	30 705

Unclarified discrepancy on JSC "CNPC - AktobeMunayGas" has occurred because the Payer has shown the sum in the report more, than the Recipient. Payer had not given explanations.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
101105	JSC "CNPC-AktobeMunayGas"	3 942 489	1 300 340	-	2 642 149
Total:		3 942 489	1 300 340	-	2 642 149

Unclarified discrepancy on JSC "TransNafta-Center" has occurred because the Payer hasn't provided the report. In the course of verification, the electronic message is received from the Payer that he can't write the letter officially as Partnership is liquidated, respectively, there is no press seal. According to this message JSC "TransNafta-Center" from July 5, 2016 has sold the contract of subsurface use, in this regard it is removed from the list of subsurface use MID RK.

We have additionally checked on the website of MSR RK: http://kgd.gov.kz/ru/services/taxpayer_search/legal_entity whether the Payer is removed from the register of taxpayers of RK and have obtained the following information:

Search results:

№	Name	Type	TRN	BIN	Registration date	Deregistration date	Reason of deregistration
1	JSC "TransNafta - Center"	Legal entity	620200231043	070140006282	24.10.2003		

Information on payment of taxes and other obligatory payments in the budget in competence of tax authorities (according to s.p. 1. p.1 Art. 557 Tax Code of RK, this information isn't a tax secret)

Tax type	Thousand KZT					
	2012	2013	2014	2015	2016	2017, as of first day of reporting period
Tax revenues	9 820,8	9 641,9	18 500,7	52 265,5	1 407 400,1	406 259,5

"Information is created according to personal accounts of taxpayers on the amounts of taxes and other obligatory payments which have actually arrived in the corresponding period (without customs taxes and payments) in the consolidated budget taking into account refunded amount".

By search results on the website it is seen that the Payer isn't removed from the register of taxpayers, in this regard we estimate its discrepancy in the sum of 188 465 thousand KZT not clarified.

BCC	Company	According to Payer	According to ofRecipient	Discrepancy	
				Clarified	Unclarified
101105	JSC "TransNafta Center"	-	188 465	-	188 465
Total:		-	188 465	-	188 465

On Kazakhstan branch of "Karachaganak Petroleum Operating" discrepancy in the amount of 2 410 thousand KZT occurred:

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
101105	KB "Karachaganak Petroleum Operating B.V."	3 162 396	3 159 986	2 410	-
Total:		3 162 396	3 159 986	2 410	-

Payer has taken into account amount refunded to RGA of State revenue department on Burlinsky region in the amount of 2 410 thousand KZT.

BCC	Company	Paid	Refunded	Paid from the beginning of the year excluding refunds
101105	KB Karachaganak Petroleum Operating B.V.	3 162 396	2 410	3 159 986
Total:		3 162 396	2 410	3 159 986

As confirmation it provided the payment order No. TNK 2703/16-0000049 dd 10/11/2016, absolute personal account on this BCC and the register for tax payment according to the Decision No. MKD-13-3/16184 dd 9/9/2016 of year. The payer has received compensation of CIT from the budget for the company - nonresident "T-Service" for earlier transferred of tax into the budget BY "KPO B.V." on the income of the nonresident "T-Service" received from sources in the Republic of Kazakhstan.

2. Individual income tax, BCC 101201-101202, 101204-101205

The total amount of individual income tax includes the payments which are actually paid in the reporting period by all types of individual income tax taking into account a penalty fee and penalties regardless periods of these sums made and also the sum of repayment of tax debt at the expense of excessively paid sums in strict compliance with specified BCC. Excessively paid amount of payment, reckoned on account of other payment, is reduced by the reckoned sum.

<i>In thousand KZT</i>	2016
Report of Payers	69 877 376
Report of Recipient	83 655 037
Discrepancy	13 777 661

Discrepancy on "Individual income tax" between data of the Payer and data of the Recipient makes the sum of 13 777 661 thousand KZT.

Information on discrepancy is shown below:

No.	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
1	JSC “NEC “Kazgeology”	47 971	47 989	18	-
2	LLP “Standard Cement”	-	36 549	36 549	-
3	LLP “AutoTransService”	-	331	-	331
4	LLP “Mining and metallurgy concern ALTYN MM”	-	38 436	38 436	-
5	JSC “CNPC-AktobeMunayGas”	996 187	1 005 182	-	8 995
6	LLP “Offshore Oil Company “KazMunayTeniz”	62 585	342 675	280 090	-
7	JSC “TransNafta Center”	-	13 254	-	13 254
8	LLP “Tengizchevroil”	5 289 838	18 689 827	13 399 988	-
Total:		6 396 581	20 174 244	13 755 081	22 580

On JSC “NEC “Kazgeology” Discrepancy for the sum of 18 thousand KZT was explained by the Payer in the letter ref. No. 06-2/580 dd 07.06.2017, it hasn't reflected payment in connection with loss of the document.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
101201, 101204	JSC “NEC “Kazgeology”	47 971	47 989	18	-
Total:		47 971	47 989	18	-

LLP “Standard Cement” (“the Payer”) sent the letter ref.No. 4-6-918 dd 17.08.2017 that according to the Protocol of carrying out direct negotiations between the Ministry of the industry and new technologies of the Republic of Kazakhstan and Partnership on Taskomirsay field in Southern Kazakhstan oblast dated March 04, 2014, Partnership received the right to make relevant contract for subsurface use for coal mining on Taskomirsay field in the Southern Kazakhstan oblast.

On December 30, 2015 Partnership, after concluding having concluded Contract for implementation of coal mining on Taskomirsay field in Suzak region of the Southern Kazakhstan oblast under No. 4246-SCM-ME dd 30.12.2016 (“Contract”) with the Ministry of Energy of the Republic of Kazakhstan, acquired the right of subsurface use. The partnership from the moment of registration and till now makes payments on taxes and other types of mandatory payments for primary activity, namely production of cement. Today, according to the Decision of Expert Commission on subsurface use of the Ministry of Energy of the Republic of Kazakhstan (the protocol No. 13/MREK dd 28.07.2016), the beginning of mining of Taskomirsay coal is postponed from 2016 to 2018. In this connection, in 2016 the partnership paid the contractual obligation regarding a subscription bonus in the amount of 5 000 thousand KZT.

The recipient provided data on revenues on the legal entity in general while the Payer in its reports selected only a contract part as separate account is maintained in Accounting office of Payer which caused discrepancy.

All discrepancy below occurred concerning production of cement. The payer provided supporting documents confirming revenues of recipient, but in the report it provided data on payments within contract activities.

In the report LLP “Standard Cement” does not specify payment, and Recipient specifies payment in the amount of 36 549 thousand KZT. Discrepancy is payment on primary activity - productions of cement.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
101201, 101204	LLP "Standard Cement"	-	36 549	36 549	-
Total:		-	36 549	36 549	-

The payer has provided supporting documents in the form of payment orders:

No.	Company	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP "Standard Cement"	0482	14.03.2016	36
2	LLP "Standard Cement"	0483	14.03.2016	4
3	LLP "Standard Cement"	0544	24.03.2016	19
4	LLP "Standard Cement"	0629	29.03.2016	2
5	LLP "Standard Cement"	0668	04.04.2016	2 789
6	LLP "Standard Cement"	0707	06.04.2016	1 161
7	LLP "Standard Cement"	0762	12.04.2016	3 594
8	LLP "Standard Cement"	0807	13.04.2016	3 896
9	LLP "Standard Cement"	0977	28.04.2016	134
10	LLP "Standard Cement"	1100	16.05.2016	15
11	LLP "Standard Cement"	1098	16,05.2016	1 427
12	LLP "Standard Cement"	1142	19.05.2016	33
13	LLP "Standard Cement"	2131	31.08.2016	14
14	LLP "Standard Cement"	2257	19.09.2016	52
15	LLP "Standard Cement"	0975	28.04.2016	13 980
16	LLP "Standard Cement"	74	04.04.2016	1 533
17	LLP "Standard Cement"	105	18.04.2016	214
18	LLP "Standard Cement"	107	18.04.2016	18
19	LLP "Standard Cement"	104	18.04.2016	7 628
Total:				36 549

Unclarified discrepancy on **LLP "AutoTransService"** occurred because Payer had not submitted Report. It had not given explanations.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
101201, 101204	LLP "AutoTransService"	-	331	-	331
Total:		-	331	-	331

LLP "Mining and metallurgy concern ALTYN MM" ("Payer") in the letter ref. No. 209-06/17 dd 12.06.2017, reported the following:

The company has two branches of production:

- Production of precious metals;
- Contract activity.

Primary activity is production of precious metals.

On May 27, 2016, the contract for investigation of gold-bearing ores on the site in Glubokovsky district in East Kazakhstan oblast of RK between Ministry for Investments and Development of RK and LLP "Mining and metallurgy concern ALTYN MM LLP" has been concluded.

In this connection, all main part of tax and non-tax payments are the share of a primary activity – production of precious metals since contract activity is in a development stage – investigations, and in connection with the small period after signing of the contract, expense in 2016 were insignificant.

The recipient has provided data on revenues on legal entity in general while the Payer in its reports has allocated only a contract part as separate account is kept in Accounting office of the Payer which caused discrepancy.

All discrepancy below have occurred on production of precious metals. The payer has provided supporting documents confirming revenues of the Recipient, but the report has provided data on payments within contract activity.

LLP "Mining and metallurgy concern ALTYN MM" does not specify payment in the report, and the Recipient specifies payment for 38 436 thousand KZT. Discrepancy is payment on activity of production of precious metals.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
101201, 101204	TOO "Mining and metallurgy concern ALTYN MM"	-	38 436	38 436	-
Total:		-	38 436	38 436	-

The payer has sent an extract on absolute personal account as of December 31, 2016 as supporting documents.

No.	Company	Paid			Returned from the budget			Total
		tax	penalty fee	fine	tax	penalty fee	fine	
1	LLP "Mining and metallurgy concern ALTYN MM"	35 471	304	4 286	(1 625)	-	-	38 436
Total:		35 471	304	4 286	(1 625)	-	-	38 436

Unclarified discrepancy on JSC "CNPC - AktobeMunaiGas" has occurred because the Payer has shown the sum in the report more, than the Recipient. Payer had not given explanations.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
101201, 101204	JSC "CNPC-AktobeMunaiGas"	996 187	1 005 182	-	8 995
Total:		996 187	1 005 182	-	8 995

Discrepancy on LLP "Offshore Oil Company "KazMunayTeniz" was formed in the sum of 280 090 thousand KZT on BCC 101201 on which the Payer has written the letter about discrepancy reasons (ref No. 201-09/779 dd June 16, 2017). Discrepancy has arisen in connection that KMT Branch performed activities on trust management of contract areas Tolkyn and Borankol according to contracts of trust management No. 1 – DU-UVS//198-26 and No. 2-DU-UVS//197-26 dated 7/21/2010, concluded between the Ministry of Energy of the Republic of Kazakhstan and JSC "NC "KazMunayGas". Payments of taxes and payments in the budget within activities for trust management are carried out from the special bank account of trust management with the permission of ME RK. Account of activities for trust management is kept separately, that is reflected in separate financial statements of KMT Branch and isn't consolidated in the financial statements of KMT confirmed by auditors of LLP "Ernst & Young".

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
101201, 101204	LLP "Offshore Oil Company "KazMunayTeniz"	62 585	342 675	280 090	-
Total:		62 585	342 675	280 090	-

Unclarified discrepancy on JSC "TransNafta Center" has occurred because the Payer hasn't provided the report. In the course of verification, the electronic message is received from the Payer that he can't write the letter officially as Partnership is liquidated, respectively, there is no press seal. According to this message JSC "TransNafta-Center" from July 5, 2016 has sold the contract of subsurface use, in this regard it is removed from the list of subsurface use MID RK.

We have additionally checked on the website of MSR RK:

http://kgd.gov.kz/ru/services/taxpayer_search/legal_entity whether the Payer is removed from the register of taxpayers of RK and have obtained the following information:

Search results:

№	Company	Type	TRN	BIN	Registration date	Deregistration date	Reason of deregistration
1	JCS "TransNafta Center"	LE	620200231043	070140006282	24.10.2003		

Information on payment of taxes and other obligatory payments in the budget in competence of tax authorities (according to s.p. 1. p.1 Art. 557 Tax Code of RK, this information isn't a tax secret)

Tax type	thousand KZT					
	2012	2013	2014	2015	2016	2017, as of first day of reporting period
Tax revenues	9 820,8	9 641,9	18 500,7	52 265,5	1 407 400,1	406 259,5

"Information is created according to personal accounts of taxpayers on the amounts of taxes and other obligatory payments which have actually arrived in the corresponding period (without customs taxes and payments) in the consolidated budget taking into account refunded amount".

By search results on the website it is seen that the Payer isn't removed from the register of taxpayers, in this regard we estimate its discrepancy in the sum of 13 254 thousand KZT not clarified.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
101201, 101204	JSC "TransNafta Center"	-	13 254	-	13 254
Total:		-	13 254	-	13 254

Discrepancy on LLP “Tengizchevroil” in the sum of 13 399 988 thousand KZT on BCC 101201 occurred. Payer explains this with the fact that the sum is payment of IIT for the affiliated staff of the Chevron company. The Chevron company directly pays IIT in the budget of RK. Transfer is made on personal accounts of LLP “Tengizchevroil” on BCC 101201, however the Payer hasn't provided documentary confirmation.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclassified
101201, 101204	LLP “Tengizchevroil”	5 289 839	18 689 827	13 399 988	-
Total:		5 289 839	18 689 827	13 399 988	-

3. Social tax, BCC 103101

The total amount includes the payments which are actually paid in the reporting period by all types of individual income tax taking into account a penalty fee and penalties regardless periods of these sums made and also the sum of repayment of tax debt at the expense of excessively paid sums in strict compliance with specified BCC. Excessively paid amount of payment, reckoned on account of other payment, is reduced by the reckoned sum.

In thousand KZT

2016

Report of Payers	79 397 268
Report of Recipient	79 748 244

Discrepancy **350 982**

Discrepancy on “Social tax” between data of Payers and data of Recipient makes 350 982 KZT.

Information about expenses described below:

No.	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclassified
1	LLP “Standard Cement”	-	27 400	27 400	-
2	LLP “AutoTransService”	-	365	-	365
3	JSC “CNPC-AktobeMunaiGas”	768 036	768 782	-	746
4	LLP “Offshore Oil Company “KazMunayTeniz”	63 524	358 148	294 624	-
5	JSC “TransNafta Center”	-	3 616	-	3 616
6	LLP “Mining and metallurgy concern ALTYN MM”	673	24 896	24 223	-
7	JSC “NEC “Kazgeology”	39 318	39 322	4	-
8	Insignificant discrepancy owing to roundoff	-	4	4	-
Total:		871 551	1 222 533	346 255	4 727

LLP “Standard Cement” (“the Payer”) sent the letter ref.No. 4-6-918 dd 17.08.2017, where it reports that its main activity is production of cements: M400-M700 and oil-well cement. According to the Protocol of carrying out direct

negotiations between the Ministry of the industry and new technologies of the Republic of Kazakhstan and Partnership on Taskomirsay field in Southern Kazakhstan oblast dated March 04, 2014, Partnership received the right to make relevant contract for subsurface use for coal mining on Taskomirsay field in the Southern Kazakhstan oblast. On December 30, 2015 Partnership, after concluding having concluded Contract for implementation of coal mining on Taskomirsay field in Suzak region of the Southern Kazakhstan oblast under No. 4246-SCM-ME dated 30.12.2016 (“Contract”) with the Ministry of Energy of the Republic of Kazakhstan, acquired the right of subsurface use. The partnership from the moment of registration and till now makes payments on taxes and other types of mandatory payments for primary activity, namely production of cement.

Today, according to the Decision of Expert Commission on subsurface use of the Ministry of Energy of the Republic of Kazakhstan (the protocol No. 13/MREK dd 28.07.2016), the beginning of mining of Taskomirsay coal is postponed from 2016 to 2018. In this connection, in 2016 the partnership paid the contractual obligation regarding a subscription bonus in the amount of 5 000 thousand KZT.

The recipient provided data on revenues on the legal entity in general while the Payer in its reports selected only a contract part as separate account is maintained in Accounting office of Payer which caused discrepancy.

All discrepancy below occurred concerning production of cement. The payer provided supporting documents confirming revenues of recipient, but in the report it provided data on payments within contract activities.

In the report LLP “Standard Cement” does not specify payment, and Recipient specifies payment in the amount of 27 400 thousand KZT. Discrepancy is payment on primary activity - productions of cement.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclearified
103101	LLP “Standard Cement”	-	27 400	27 400	-
Total:		-	27 400	27 400	

The payer has provided supporting documents in the form of payment orders:

No.	Company	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP “Standard Cement”	0545	24.03.2016	4
2	LLP “Standard Cement”	0672	04.04.2016	756
3	LLP “Standard Cement”	0669	04.04.2016	6 686
4	LLP “Standard Cement”	0808	13.04.2016	2 979
5	LLP “Standard Cement”	0877	18.04.2016	5 921
6	LLP “Standard Cement”	0978	28.04.2016	110
7	LLP “Standard Cement”	0976	28.04.2016	9 626
8	LLP “Standard Cement”	1099	16.05.2016	1 102
9	LLP “Standard Cement”	1102	16.05.2016	13
10	LLP “Standard Cement”	2722	26.10.2016	1
11	LLP “Standard Cement”	2258	13.09.2016	59
12	LLP “Standard Cement”	106	18.04.2016	115
13	LLP “Standard Cement”	2721	26.10.2016	28
Total:				27 400

Unclarified discrepancy on LLP “AutoTransService” occurred because Payer had not submitted Report. It had not given explanations.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
103101	LLP “AutoTransService”	-	365	-	365
Total:		-	365	-	365

Unclarified discrepancy on JSC “CNPC- AktobeMunaiGas” has occurred because the Payer has shown the sum in the report more, than the Recipient. Payer had not given explanations.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
103101	JSC “CNPC- AktobeMunaiGas”	768 036	768 782	-	746
Total:		768 036	768 782	-	746

Discrepancy on LLP “Offshore Oil Company “KazMunayTeniz” was formed in the sum of 294 624 thousand KZT on BCC 101201 on which the Payer has written the letter about discrepancy reasons (ref No. 201-09/779 dated June 16, 2017). Discrepancy has arisen in connection that KMT Branch performed activities on trust management of contract areas Tolkyn and Borankol according to contracts of trust management No. 1 – DU-UVS//198-26 and No. 2-DU-UVS//197-26 dated 7/21/2010, concluded between the Ministry of Energy of the Republic of Kazakhstan and JSC “NC “KazMunayGas”. Payments of taxes and payments in the budget within activities for trust management are carried out from the special bank account of trust management with the permission of ME RK. Account of activities for trust management is kept separately, that is reflected in separate financial statements of KMT Branch and isn't consolidated in the financial statements of KMT confirmed by auditors of LLP “Ernst & Young”.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
103101	LLP “Offshore Oil Company “KazMunayTeniz”	63 524	358 148	294 624	-
Total:		63 524	358 148	294 624	-

Unclarified discrepancy on JSC “TransNafta Center” has occurred because the Payer hasn't provided the report. In the course of verification, the electronic message is received from the Payer that he can't write the letter officially as Partnership is liquidated, respectively, there is no press seal. According to this message JSC “TransNaftaCenter” from July 5, 2016 has sold the contract of subsurface use, in this regard it is removed from the list of subsurface use MID RK.

We have additionally checked on the website of MSR RK: http://kgd.gov.kz/ru/services/taxpayer_search/legal_entity whether the Payer is removed from the register of taxpayers of RK and have obtained the following information:

Search results:

№	Name	Type	TRN	BIN	Registration date	Deregistration date	Reason of deregistration
1	JSC "Trans NaftaCenter"	LE	620200231043	070140006282	24.10.2003		

Information on payment of taxes and other obligatory payments in the budget in competence of tax authorities (according to s.p. 1. p.1 Art. 557 Tax Code of RK, this information isn't a tax secret)

Tax type	Thousand KZT					
	2012	2013	2014	2015	2016	2017, as of first day of reporting period
Tax revenues	9 820,8	9 641,9	18 500,7	52 265,5	1 407 400,1	406 259,5

"Information is created according to personal accounts of taxpayers on the amounts of taxes and other obligatory payments which have actually arrived in the corresponding period (without customs taxes and payments) in the consolidated budget taking into account refunded amount".

By search results on the website it is seen that the Payer isn't removed from the register of taxpayers, in this regard we estimate its discrepancy in the sum of 3 616 thousand KZT not clarified.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
103101	JSC "Trans Nafta Center"	-	3 616	-	3 616
Total:		-	3 616	-	3 616

LLP "Mining and metallurgy concern ALTYN MM" ("Payer") in the letter ref. No. 209-06/17 dd 12.06.2017, reported the following:

The company has two branches of production:

- Production of precious metals;
- Contract activity.

Primary activity is production of precious metals.

On May 27, 2016, the contract for investigation of gold-bearing ores on the site in Glubokovsky district in East Kazakhstan oblast of RK between Ministry for Investments and Development of RK and LLP "Mining and metallurgy concern ALTYN MM LLP" has been concluded.

In this connection, all main part of tax and non-tax payments are the share of a primary activity – production of precious metals since contract activity is in a development stage – investigations, and in connection with the small period after signing of the contract, expense in 2016 were insignificant.

The recipient has provided data on revenues on legal entity in general while the Payer in its reports has allocated only a contract part as separate account is kept in Accounting office of the Payer which caused discrepancy.

All discrepancy below have occurred on production of precious metals. The payer has provided supporting documents confirming revenues of the Recipient, but the report has provided data on payments within contract activity.

LLP “Mining and metallurgy concern ALTYN MM” specified payment for 673 thousand KZT in the report, and the Recipient specifies payment for 24 896 thousand KZT. Discrepancy is payment on activity of production of precious metals.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
103101	LLP “Mining and metallurgy concern ALTYN MM”	673	24 896	24 223	-
Total:		673	24 896	24 223	-

The payer has sent an extract on absolute personal account as of December 31, 2016 with the amount of Recipient as supporting documents.

No.	Company	Paid			Refunded from budget			Total
		Tax	penalty	fine	Tax	penalty	fine	
1	LLP “Mining and metallurgy concern ALTYN MM”	24 564	332	-	-	-	-	24 896
Total:		24 564	332	-	-	-	-	24 896

On JSC “NEC “Kazgeology” Discrepancy for the sum of 4 thousand KZT was explained by the Payer in the letter ref. No. 06-2/580 dd 07.06.2017, it hasn't reflected payment in connection with loss of the document.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
103101	JSC “NEC “Kazgeology”	39 318	39 322	4	-
Total:		39 318	39 322	4	-

4. Property tax, BCC 104101

<i>In thousand KZT</i>		2016
Report of Payers		63 963 534
Report of Recipient		63 661 583
Discrepancy		753 569

Discrepancy on “Property tax” between data of Payers and data of Recipients made 753 569 KZT.

Information on discrepancy below:

No.	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
1	JSC “CNPC-AktobeMunaiGas”	8 650 343	8 122 583	-	527 760
2	LLP “Standard Cement”	-	203932	203 932	-
3	LLP “Mining and metallurgy concern ALTYN MM”	-	21 800	21 800	-
4	LLP “Sayk-4 Project”	-	76	76	-
5	Insignificant discrepancy owing to roundoff	-	1	1	-
Total:		8 650 343	8 348 391	225 808	527 761

Unclarified discrepancy on JSC “CNPC - AktobeMunaiGas” has occurred because the Payer has shown the sum in the report more, than the Recipient. Payer had not given explanations.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
104101	JSC “CNPC-AktobeMunaiGas”	8 650 343	8 122 583	-	527 560
Total:		8 650 343	8 122 583	-	527 560

LLP “Standard Cement” (“the Payer”) sent the letter ref.No. 4-6-918 dd 17.08.2017, where it reports that its main activity is production of cements: M400-M700 and oil-well cement.

According to the Protocol of carrying out direct negotiations between the Ministry of the industry and new technologies of the Republic of Kazakhstan and Partnership on Taskomirsay field in Southern Kazakhstan oblast dated March 04, 2014, Partnership received the right to make relevant contract for subsurface use for coal mining on Taskomirsay field in the Southern Kazakhstan oblast.

On December 30, 2015 Partnership, after concluding having concluded Contract for implementation of coal mining on Taskomirsay field in Suzak region of the Southern Kazakhstan oblast under No. 4246-SCM-ME dd 30.12.2016 (“Contract”) with the Ministry of Energy of the Republic of Kazakhstan, acquired the right of subsurface use. The partnership from the moment of registration and till now makes payments on taxes and other types of mandatory payments for primary activity, namely production of cement.

Today, according to the Decision of Expert Commission on subsurface use of the Ministry of Energy of the Republic of Kazakhstan (the protocol No. 13/MREK dd 28.07.2016), the beginning of mining of Taskomirsay coal is postponed from 2016 to 2018. In this connection, in 2016 the partnership paid the contractual obligation regarding a subscription bonus for 5 000 thousand KZT.

The recipient provided data on revenues on the legal entity in general while the Payer in its reports selected only a contract part as separate account is maintained in Accounting office of Payer which caused discrepancy.

All discrepancy below occurred concerning production of cement. The payer provided supporting documents confirming revenues of recipient, but in the report it provided data on payments within contract activities.

In the report LLP “Standard Cement” does not specify payment, and Recipient specifies payment in the amount of 203 932 thousand KZT. Discrepancy is payment on primary activity - production of cement.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
104101	LLP “Standard Cement”	-	203 932	203 932	-
Total:		-	203 932	203 932	-

The payer has provided supporting documents in the form of payment orders:

No.	Company	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP “Standard Cement”	0809	16.04.2016	8 255
2	LLP “Standard Cement”	0959	28.04.2016	29 686
3	LLP “Standard Cement”	1027	16.05.2016	8 110
4	LLP “Standard Cement”	1026	16.05.2016	1 029

No.	Company	Payment order No.	Payment order date	Amount in thousand KZT
5	LLP "Standard Cement"	1173	23.05.2016	390
6	LLP "Standard Cement"	1170	23.05.2016	17 846
7	LLP "Standard Cement"	1247	30.05.2016	13 500
8	LLP "Standard Cement"	1342	06.06.2016	100
9	LLP "Standard Cement"	1341	06.06.2016	18 475
10	LLP "Standard Cement"	2237	09.09.2016	199
11	LLP "Standard Cement"	2228	08.09.2016	39 248
12	LLP "Standard Cement"	563	23.11.2016	39 406
13	LLP "Standard Cement"	34	23.02.2016	27 688
Total:				203 932

LLP "Mining and metallurgy concern ALTYN MM" (hereinafter – the Payer) by letter ref. No.209-06/17 of 12.06.2017 informs that the Company has two production branches:

- Precious metals production;
- Contract activity.

The main activity is production of precious metals.

On May 27, 2016, a contract for gold-bearing ores exploration at the Glubokovskiy district site of the EKO RK was concluded between the Ministry of Investment and Development of RK and LLP "Mining and metallurgy concern ALTYN MM".

In this connection, the main part of tax and non-tax payments falls on the main type of activity - production of precious metals, because the contract activity is in development stage - exploration, and in connection with a short period since the Contract conclusion, costs in 2016 were not significant.

The Recipient provided data on receipts for the legal entity as a whole, while the Payer in his reports indicated only contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in connection with precious metals production. The Payer provided documents, confirming the beneficiary's receipt, but in the report he provided data on payments within the contract activity.

The LLP "Mining and metallurgy concern ALTYN MM" in the report does not specify a payment, and the Recipient indicates a payment of 21 800 thousand KZT. Discrepancy are payments for precious metals production.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclassified
104101	LLP "Mining and metallurgy concern ALTYN MM"	-	21 800	21 800	-
Total:		-	21 800	21 800	-

The Payer sent the absolute personal account statement as of 31.12.2016 as a confirming document.

Ref.No	Company	Paid			Received from budgeted			Total
		tax	fee	penalty	tax	fee	penalty	
1	LLP "Mining and metallurgy concern ALTYN MM"	21 218	166	436	(20)	-	-	21 800
Total:		21 218	166	346	(20)	-	-	21 800

LLP “Sayk-4 Project” (hereinafter - the Payer) by letter ref. No.46 dated 26.07.2017 informs that they provided a zero EITI report for 2016, because according to the Code of RK “On Taxes and Other Mandatory Payments to the Budget”, Article 111 “costs actually incurred by a subsoil user prior to production are capitalized”.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
104101	LLP “Sayk-4 Project”	-	76	76	-
Total:		-	76	76	-

The Payer confirms the Beneficiary's amount by the payment order.

Ref.No	Company name	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP “Sayk-4 Project”	4	25.08.2016	76
Total:				76

5. Land tax, BCC 104303-104308

<i>In thousand KZT</i>		2016
Report of Payers		3 086 212
Report of Receptient		3 100 528
Discrepancy		14 318

Discrepancy in the “Land tax” between the Payer's data and the Recipient's data constitute an amount of 14 318 thousand KZT.

Discrepancy information is shown below:

Ref. No	Company	Totals		Discrepancy	
		Payer's	Recipient's	Clarified	Unclarified
1	LLP “Offshore Oil Company “KazMunayTeniz”	-	6 039	6 039	-
2	LLP “Standard Cement”	-	8 169	8 169	-
3	LLP “Mining and metallurgy concern ALTYN MM”	-	109	109	-
4	Minor discrepancy due to rounding	-	1	1	-
Total:		-	14 318	14 318	-

A discrepancy in amount of 6 039 thousand KZT on BCC 104309 arose with **Limited Liability Partnership “Offshore Oil Company “KazMunayTeniz”**, the Payer sent a letter about Discrepancy reasons, ref. No.201-09/779 of June 16, 2017. Discrepancy arose in connection with implementation by the KMT Branch of the Tolkynd and Borankol contract territories trust management in accordance with trust management agreements No.1-DU-UVS//198-26 and No.2-DU-UVS//197-26 dated 21.07.2010, concluded between the Ministry of Energy of the Republic of Kazakhstan and the JSC “National Company “KazMunayGas”. Payments of taxes and payments to the budget within the framework of trust management activities are performed from a special bank account of trust management with the permission of the ME RK. Accounting for trust management activities is carried out separately, is reflected in a

separate financial statement of the KMT Branch and is not consolidated into KMT financial statements confirmed by the LLP “Ernst&Young” auditors.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
104309	JSC “MNC “KazMunayTeniz”	-	6 039	6 039	-
Total:		-	6 039	6 039	-

LLP “Standard Cement” (hereinafter - the Payer) by letter ref. No.4-6-918 dated 17.08.2017 informs, that according to the Minutes of direct negotiations between the Ministry of Industry and New Technologies of the Republic of Kazakhstan and the Partnership for the Taskomirsay deposit in the SKO dated March 4, 2014, the Partnership was granted the right to conclude an appropriate contract for subsoil use for coal mining at the Tuskomyrsay deposit in the South Kazakhstan oblast.

On 30.12.2015 the Partnership, having concluded a contract with the Ministry of Energy of the Republic of Kazakhstan for coal mining at the Tuskomyrsay deposit in the Suzak region of the South Kazakhstan oblast No.4246-SCM-ME dated 30.12.2016 (hereinafter - the Contract), was granted subsoil use right.

The Partnership, from the moment of registration until present day makes payments for taxes and other compulsory payments for core activities, namely, for the cement production.

To date, in accordance with the Decision of the Expert Commission on Subsoil Use Issues of the Ministry of Energy of the Republic of Kazakhstan (Minutes No.13/MERK of 28.07.2016), the beginning of the Tuskomyrsay coal deposit development has been postponed from 2016 to 2018. In this connection, for 2016 the Partnership paid for obligation under the Contract in part of subscription bonus in amount of 5 000 thousand KZT.

The Recipient provided data on receipts for the legal entity as a whole, while the Payer in his reports indicated only contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in the production of cement. The Payer provided documents confirming the beneficiary's receipt, but the report provided data on payments within the contract activity.

LLP “Standard Cement” does not reflect the payment in its report, and the Recipient indicates payment in amount of 8 169 thousand KZT. Discrepancy is a payment for cement production activity.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
104309	LLP “Standard Cement”	-	8 169	8 169	-
Total:		-	8 169	8 169	-

The Payer provided supporting documents in form of payment orders as confirmation:

Ref.No	Company name	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP “Standard Cement”	1171	23.05.2016	543
2	LLP “Standard Cement”	0811	13.04.2016	13
3	LLP “Standard Cement”	2226	08.09.2016	2 036
4	LLP “Standard Cement”	2238	09.09.2016	10
5	LLP “Standard Cement”	1174	23.05.2016	1

Ref.No	Company name	Payment order No.	Payment order date	Amount in thousand KZT
6	LLP "Standard Cement"	33	23.02.2016	2 030
7	LLP "Standard Cement"	554	23.11.2016	2 036
8	LLP "Standard Cement"	171	23.05.2016	1 500
Total:				8 169

LLP "Mining and metallurgy concern ALTYN MM" (hereinafter - the Payer) by letter ref. No.209-06/17 dated 12.06.2017, informs, that the Company has two production branches:

- Precious metals production;
- Contract activity.

The main activity is the production of precious metals.

On May 27, 2016, a contract for gold-bearing ores exploration at a site in the Glubokovskiy district of the EKO RK was concluded between the Ministry of Investment and Development of the RK and the LLP "Mining and metallurgy concern ALTYN MM".

In this connection, the main part of tax and non-tax payments falls on the main activity type - production of precious metals, since the contract activity is in the development stage - exploration, and due to a short period since the Contract conclusion, the costs in 2016 were not significant.

The Recipient provided data on receipts for the legal entity as a whole, while the Payer in his reports indicated only contractual part, since the Payer's accounting department keeps separate records which caused discrepancy.

All the following discrepancy occurred in connection of precious metals production. The Payer provided supporting documents confirming the beneficiary's receipt, but the report provided data on payments within the contract activity.

LLP "Mining and metallurgy concern ALTYN MM" does not specify a payment in the report, and the Recipient indicates a payment of 109 thousand KZT. Discrepancy arepayments on the precious metals production.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclearified
104309	LLP "Mining and metallurgy concern ALTYN MM"	-	109	109	-
Total:		-	109	109	-

The Payer sent the absolute personal account statement as of December 31, 2016 as confirming documents.

No.	Company	Paid			Received from budgeted			Total
		tax	fee	penalty	tax	fee	penalty	
1	LLP "Mining and metallurgy concern ALTYN MM"	108	-	1	-	-	-	109
Total:		108	-	1	-	-	-	109

6. Tax on vehicles, BCC 104401

In thousand KZT **2016**

Payer's report	517 827
Recipient's report	521 534

Discrepancy **3 711**

Discrepancy in the "Vehicle tax" between the Payer's data and the Recipient's data is 3 711 thousand KZT.

Discrepancy information is shown below:

Ref. No.	Company	Totals		Discrepancy	
		Payer's	Recipient's	Clarified	Unclarified
1	JSC "CNPC-AktobeMunaiGas"	551	1 072	-	521
2	JSC "Trans Nafta Center"	-	267	-	267
3	LLP "Standard Cement"	-	2 458	2 458	-
4	LLP "Mining and metallurgy concern ALTYN MM"	-	461	461	-
5	Minor discrepancy due to rounding	-	4	4	-
Total:		551	4 262	2 923	788

Unclarified difference of the JSC "CNPC-AktobeMunaiGas" arose due to the fact that the Payer indicated an amount in the report less than the Recipient. No explanations have been received from the Payer.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
104401	JSC "CNPC-AktobeMunaiGas"	551	1 072	-	521
Total:		551	1 072	-	521

Unclarified difference of JSC "TransNafta Center" arose due to the fact that the Payer did not provide a report. During reconciliation process, an e-mail was received from the Payer informing that he cannot write the letter formally, because the Company is liquidated, accordingly, there is no seal. According to this report, the JSC "TransNafta Center" has sold subsoil use contract since July 5, 2016, in connection with this it is excluded from the list of subsoil use of the MID RK.

We additionally checked the website of the MSR RK, http://kgd.gov.kz/ru/services/taxpayer_search/legal_entity to see whether the Payer was excluded from the register of taxpayers of the RK and received the following information:

Search results:

No.	Name	Type	TRN	BIN	Registration date	Withdrawal date	De-registration date
1	JSC "Trans NaftaCenter"	LE	520200231043070140006282		24.10.2003		

Information on payment of taxes and other obligatory payments in the budget in competence of tax authorities (according to s.p. 1. p.1 Art. 557 Tax Code of RK, this information isn't a tax secret)

thousand KZT

Tax type	2012	2013	2014	2015	2016	2017, as of first day of reporting period
Tax revenues	9 820,8	9 641,9	18 500,7	52 265,5	1 407 400,1	406 259,5

“The information was generated from the taxpayer's personal accounts data for the amounts of taxes and other mandatory payments actually received in the relevant period (excluding customs taxes and payments) to the consolidated budget, including the return amounts”.

As a search result on the site we can see that the Payer is not excluded from the taxpayer's register due to liquidation, in connection with this we estimate this discrepancy in the amount of 267 thousand KZT not clarified.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
104401	JSC “TransNafta Center”	-	267	-	267
Total:		-	267	-	267

LLP “Standard Cement” (hereinafter referred to as the Payer) by letter ref. No. 4-6-918 dated 17.08.2017, states that “The main activity of the Partnership is production of cement M400-M700 grades and well cement”.

According to the Protocol of direct negotiations between the Ministry of Industry and New Technologies of the Republic of Kazakhstan and the Partnership for the Taskomirsay deposit in the SKO dated March 4, 2014, the Partnership was granted right to conclude an appropriate subsoil use contract for coal mining at the Taskomirsay deposit in the South Kazakhstan oblast.

On 30.12.2015 the Partnership, having concluded a contract for the coal mining implementation at the Taskomirsay deposit in the Suzak region of the South Kazakhstan oblast No. 4246-SCM-ME dated December 30, 2016 with the Ministry of Energy of the Republic of Kazakhstan (hereinafter referred to as the “Contract”), was granted the subsoil use right.

From the moment of registration until present day the Partnership makes payments for taxes and other types of compulsory payments for core activities, namely, for the cement production.

To date, in accordance with the decision of the Expert Commission on Subsoil Use Issues of the Ministry of Energy of the Republic of Kazakhstan (Minutes No. 13/MERK dated 28.07.2016), the start of the Tuskomyrsay coal deposit development has been postponed from 2016 to 2018. In this regard, for 2016 the Partnership paid for the obligation under the Contract in part of subscription bonus an amount of 5 000 thousand KZT”.

The Recipient provided data on receipts for the legal entity as a whole, while the Payer in his reports indicated only contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy. All the following discrepancy occurred in connection with cement production. The Payer provided documents confirming the beneficiary's receipt, but the report provided data on payments within the contract activity.

LLP “Standard Cement” does not reflect payment in the report, and the Recipient specifies a payment in amount of 2 458 thousand KZT. Discrepancy is a payment for cement production.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
104401	LLP “Standard Cement”	-	2 458	2 458	-
Total:		-	2 458	2 458	-

The Payer provided supporting documents in form of payment orders as confirmation:

No.	Company name	Payment order No.	Payment order No.	Amount in thousand KZT
1	LLP “Standard Cement”	1573	07.07.2016	10
2	LLP “Standard Cement”	2240	09.09.2016	20
3	LLP “Standard Cement”	2241	09.09.2016	369
4	LLP “Standard Cement”	1522	27.06.2016	788
5	LLP “Standard Cement”	1523	27.06.2016	335
6	LLP “Standard Cement”	1521	27.06.2016	936
Total:				2 458

LLP “Mining and metallurgy concern ALTYN MM” (hereinafter - the Payer) by letter ref. No.209-06/17 of 12.06.2017 informs that the Company has two production branches:

- Precious metals production;
- Contract activity.

The main activity is the precious metals production.

On May 27, 2016, a contract for the gold-bearing ores exploration at a site in the Glubokovskyi district of the EKO RK between the Ministry of Investment and Development of RK and the LLP “Mining and metallurgy concern ALTYN MM” was concluded.

In this regard the main part of tax and non-tax payments falls on the main activity - production of precious metals, since the contract activity is in development stage - exploration, and in connection with a short period the Contract conclusion, costs in 2016 were not significant.

The Recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports indicated only contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in part of precious metals production. The Payer provided supporting documents confirming the beneficiary's receipt, but the report provided data on payments within the contract activity.

LLP “Mining and metallurgy concern ALTYN MM” does not specify payment in the report, and the Recipient indicates a payment of 461 thousand KZT. Discrepancy are payments on the production of precious metals.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
104401	LLP “Mining and metallurgy concern ALTYN MM”	-	461	461	-
Total:		-	461	461	-

The Payer sent an extract on the absolute personal account as of December 31, 2016 as confirming document.

Ref. No	Company	Paid			Received from budgeted			Total
		tax	fee	penalty	tax	fee	penalty	
1	LLP "Mining and metallurgy concern ALTYN MM"	459	-	2	-	-	-	461
Total:		459	-	2	-	-	-	461

7. Value added tax on manufactured goods, works performed, services rendered in the territory of the Republic of Kazakhstan, BCC 105101-105115

In thousand KZT

2016

Payers' report	(179 677 300)
Recipient's report	(175 161 299)

Discrepancy **2 473 839**

Discrepancy in the "Value Added Tax on manufactured goods, work performed, services rendered in the territory of the Republic of Kazakhstan" between the Payer's data and the Recipient's data amount to 2 473 839 thousand KZT.

Discrepancy information is shown below:

Ref. No.	Company	Totals		Discrepancy	
		Payer's	Recipient's	Clarified	Unclarified
1	Kazakhstan branch of "Nelson Petroleum Buzachi BV."	(21 243)	(21 198)	45	-
2	JSC "TransNafta Center" "Agip Karachaganak B.V."	-	1 201 791	-	1 201 791
3	(the Netherlands) LLP "Offshore Oil Company	108 206	108 137	69	-
4	"KazMunayTeniz" LLP "KAZMinerals	8 178	8 178	1 630	-
5	Bozshakol"	1 322 236	1 325 912	3 676	-
6	JSC "NEC "Kazgeology"	25 975	25 978	3	-
7	LLP "Bast"	4 739	4 579	160	-
8	LLP "Standard Cement"	-	722 425	722 425	-
9	LLP "Avtotransservis"	-	1 695	-	1 695
10	LLP "Mining and metallurgy concern ALTYN MM"	-	(413 405)	542 342	-
11	Minor discrepancy due to rounding	-	3	3	-
Total:		1 448 091	2 964 095	1 270 353	1 203 486

Discrepancy in amount of 45 thousand KZT on BCC 105102 arose by **Kazakhstan branch of “Nelson Petroleum Buzachi B.V.”**, under which the Payer provided the Absolute personal account, where a payment in amount of 45 thousand KZT was reflected.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclassified
105102	Kazakhstan branch of “Nelson Petroleum Buzachi BV.”	94 984	95 029	45	-
Total:		94 984	95 029	45	-

This document shows, that the Payer's amount is indicated incorrectly.

Ref.No	Company	Paid			Received from budget			Total
		tax	fee	penalty	tax	fee	penalty	
1	Kazakhstan branch of “Nelson Petroleum Buzachi BV.”	45	-	-	-	-	-	-
Total:		45	-	-	-	-	-	-

Unclassified difference in the **JSC “TransNafta Center”** arose because the Payer's has not provided the report. In term of reconciliation an e-mail was received from the Payer informing that he cannot write a formal letter, because the Company is liquidated, accordingly, there is no seal. According to this report, the JSC “TransNafta Center” has sold the subsoil use contract since July 5, 2016, in connection with this it is excluded from the list of subsoil use of the MID RK.

We additionally checked the MID RK website, http://kgd.gov.kz/ru/services/taxpayer_search/legal_entity to see whether the Payer was excluded from the RK taxpayers register and received the following information.

Search results:

No.	Name	Type	TRN	BIN	Registration date	Withdrawal date	De-registration date
1	JSC “Trans NaftaCenter”	LE	520200231043070140006282		24.10.2003		

Information on payment of taxes and other obligatory payments in the budget in competence of tax authorities (according to s.p. 1. p.1 Art. 557 Tax Code of RK, this information isn't a tax secret)

Tax type	thousand KZT					
	2012	2013	2014	2015	2016	2017, as of first day of reporting period
Tax revenues	9 820,8	9 641,9	18 500,7	52 265,5	1 407 400,1	406 259,5

“The information was generated from the taxpayer's personal accounts data for the amounts of taxes and other mandatory payments actually received in the relevant period (excluding customs taxes and payments) to the consolidated budget, including return amounts”.

As a search result on the site we can see that the Payer is not excluded from the taxpayer's register due to liquidation, in connection with this we estimate this discrepancy in the amount of 1 201 791 thousand KZT not clarified.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
105101	JSC "TransNafta Center"	-	1 195 520	-	1 195 520
105104	JSC "TransNafta Center"	-	6 271	-	6 271
Total:		-	1 201 791	-	1 201 791

The **Limited Liability Partnership "Agip Karachaganak B.V." Branch** sent payment orders No.1124 from 13.07.2016 for the amount of 69 thousand KZT and No.704 from 04.05.2016 for the amount of 13 thousand KZT as confirming documents, showing that the import duty on imported goods was paid by the LLP "EAT":

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
105102	Limited Liability Partnership "Agip Karachaganak B.V" Branch	82	13	69	-
Total:		82	13	69	-

Discrepancy by the **LLP "Offshore Oil Company "KazMunayTeniz"** in amount of 1 630 thousand KZT arose on BCC 105113 and 105115, the Payer submitted a letter about Discrepancy reasons ref. No.201-09/779 of June 16, 2017. Discrepancy arose in connection with implementation of trust management activities by the KMT Branch of the Tolkyn and Borankol contract territories in accordance with trust management agreements No.1-DU-UVS/198-26 and No.2-DU-UVS//197-26 dated 21.07.2010, concluded between the Ministry of Energy of the Republic of Kazakhstan and the JSC "National Company" KazMunayGas". Payments of taxes and payments to the budget within the framework of trust management activities are made from a special bank account of trust management with the ME RK permission. Accounting of trust management activities is carried out separately, is reflected in separate financial statements of the KMT Branch and is not consolidated into KMT's financial statements confirmed by auditors of LLP "Ernst & Young".

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
105113	JSC "Offshore Oil Company "KazMunayTeniz"	815	-	815	-
105115	JSC "Offshore Oil Company "KazMunayTeniz"	-	815	815	-
Total:		815	815	1 630	-

Discrepancy for an amount of 3 676 thousand KZT between the **LLP "KAZMinerals Bozshakol"** (hereinafter - the Payer) and the Recipient arose because the Recipient indicated a payment on BCC 105101.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
105102-105115	LLP "KAZMinerals Bozshakol"	1 322 236	1322 236	-	-
105101	LLP "KAZMinerals Bozshakol"	-	3 676	3 676	-
Total:		1 322 236	1 325 912	3 676	-

The Payer provided an extract on the absolute personal account on BCC 105101 as of December 31, 2016 as confirming documents, confirming, that payments of this tax were not made.

Ref.No	Company	Paid			Received from budgeted			Total
		tax	fee	penalty	tax	fee	penalty	
1	LLP "KAZMinerals Bozshakol"	-	-	-	-	-	-	-
Total:		-	-	-	-	-	-	-

Discrepancy for the amount of 3 thousand KZT arose by the JSC "NEC "Kazgeology", for which the Payer provides an explanation in letter, ref. No. 06-2/580 of 07.06.2017, where he explains that he did not reflect the payment in connection with loss of document.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
105101	JSC "NEC "Kazgeology"	25 975	25 978	3	-
Total:		25 975	25 978	3	-

Discrepancy for the amount of 160 thousand KZT between the LLP "Bast" (hereinafter referred to as the Payer) and the Recipient arose due to the fact that the Payer indicated incorrect IIC (individual identification code) when making the payment. The recipient confirmed that he did not receive this payment due to an incorrect IIC.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
105102	JSC "Bast"	4 739	4 579	160	-
Total:		4 739	4 579	160	-

The Payer provided supporting documents in form of a payment order as confirmation

Ref. No.	Company name	Payment order No.	Payment order date	Amount in thousand KZT
1	JSC "Bast"	00001610	15.11.2016	160
Total:				160

LLP "Standard Cement" (hereinafter – the Payer) by letter ref. No. 4-6-918 dated 17.08.2017, states that "The main activity of the Partnership is the production of cement M400-M700 grades and well cement". According to the Protocol of direct negotiations between the Ministry of Industry and New Technologies of the Republic of Kazakhstan and the Partnership for the Taskomirsay deposit in the SKO development from March 4, 2014, the Partnership was granted the right to conclude an appropriate subsoil use contract for coal mining at the Taskomirsay deposit in the South Kazakhstan Oblast. On 30.12.2015 the Partnership, having concluded a contract for implementation of coal mining at the Tuskomyrsay deposit in the Suzak region of the South Kazakhstan Oblast No.4246-TPI-ME dated 30.12.2016 with the Ministry of Energy of the Republic of Kazakhstan (hereinafter referred to as the Contract), was granted the subsoil use right.

From the moment of registration and throughout the day, the Partnership makes payments on taxes and other types of compulsory payments for main activities, namely, for the production of cement. To date, in accordance with the Decision of the Expert Commission on Subsoil Use Issues of the Ministry of Energy of the Republic of

Kazakhstan (Minutes No. 13/MERK of 28.07.2016), the beginning of the Tuskomyrsay coal deposit development has been postponed from 2016 to 2018. In this connection, the Partnership paid for the obligation under the Contract in part of the subscription bonus of 5 000 thousand KZT for 2016. The Recipient provided data on receipts for the legal entity as a whole, while the Payer in his reports indicated only the contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy. All the following discrepancy occurred in the production of cement. The Payer provided documents confirming the beneficiary's receipt, but the report provided data on payments within the contract activity. In the report of the LLP "Standard Cement" a payment is not specified, and the Recipient indicates a payment for amount of 722 425 thousand KZT. Discrepancy is a payment for the cement production activity.

BCC	Company	Totals		Discrepancy	
		Payer's	Recipient's	Clarified	Unclassified
105101	LLP "Standard Cement"	-	276 952	276 952	-
105102	LLP "Standard Cement"	-	147 225	147 225	-
105104	LLP "Standard Cement"	-	2 282	2 282	-
105115	LLP "Standard Cement"	-	295 966	295 966	-
Total:		-	722 425	722 425	-

The Payer provided supporting documents on the BCC 105 101 in form of payment orders as a confirmation:

Ref.No	Company name	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP "Standard Cement"	0030	11.01.2016	447
2	LLP "Standard Cement"	1025	16.05.2016	10 063
3	LLP "Standard Cement"	2261	13.09.2016	1 850
4	LLP "Standard Cement"	2259	13.09.2016	89
5	LLP "Standard Cement"	2253	13.09.2016	21 381
6	LLP "Standard Cement"	2254	13.09.2016	250
7	LLP "Standard Cement"	2647	19.10.2016	30 000
8	LLP "Standard Cement"	2540	06.10.2016	30 000
9	LLP "Standard Cement"	2499	04.10.2016	50 000
10	LLP "Standard Cement"	2720	26.10.2016	45
11	LLP "Standard Cement"	3225	27.12.2016	18 000
12	LLP "Standard Cement"	2906	17.11.2016	1 997
13	LLP "Standard Cement"	2260	13.09.2016	20 830
14	LLP "Standard Cement"	625	13.09.2016	62 000
15	LLP "Standard Cement"	472	07.10.2016	10 000
16	LLP "Standard Cement"	627	27.12.2016	15 700
17	LLP "Standard Cement"	628	27.12.2016	4 300
Total:				276 952

The Payer provided supporting documents on the BCC 105 102 in form of payment orders as a confirmation:

Ref.No	Company name	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP "Standard Cement"	0081	14.01.2016	300
2	LLP "Standard Cement"	0125	20.01.2016	700
3	LLP "Standard Cement"	0314	22.02.2016	1 700
4	LLP "Standard Cement"	0239	09.02.2016	3 100
5	LLP "Standard Cement"	0124	20.01.2016	2 450

Ref.No	Company name	Payment order No.	Payment order date	Amount in thousand KZT
6	LLP "Standard Cement"	0055	13.01.2016	4 000
7	LLP "Standard Cement"	0099	18.01.2016	5 000
8	LLP "Standard Cement"	1094	12.05.2016	10 703
9	LLP "Standard Cement"	1623	07.07.2016	6 000
10	LLP "Standard Cement"	2188	05.09.2016	15 441
11	LLP "Standard Cement"	1712	19.07.2016	1 850
12	LLP "Standard Cement"	2524	05.10.2016	20 697
13	LLP "Standard Cement"	2518	04.10.2016	36 700
14	LLP "Standard Cement"	3070	06.12.2016	250
15	LLP "Standard Cement"	1518	27.06.2016	1 797
16	LLP "Standard Cement"	0197	29.01.2016	3 500
17	LLP "Standard Cement"	57	11.03.2016	3 817
18	LLP "Standard Cement"	79	07.04.2016	11 000
19	LLP "Standard Cement"	12	18.02.2016	18 220
Total:				147 225

The Payer provided supporting documents on the BCC 105 104 in form of payment orders as a confirmation:

Ref.No	Company name	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP "Standard Cement"	0812	13.04.2016	579
2	LLP "Standard Cement"	0822	13.04.2016	396
3	LLP "Standard Cement"	0837	15.04.2016	1 300
4	LLP "Standard Cement"	0838	15.04.2016	7
Total:				2 282

On the BCC 105 115 (105109, 105110)the Payer provided supporting documents in form of payment orders as a confirmation:

Ref.No	Company name	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP "Standard Cement"	1678	14.07.2016	660
2	LLP "Standard Cement"	2591	12.10.2016	30 000
3	LLP "Standard Cement"	2620	17.10.2016	49 335
4	LLP "Standard Cement"	2328	19.09.2016	26 603
5	LLP "Standard Cement"	1872	02.08.2016	1 137
6	LLP "Standard Cement"	2329	19.09.2016	102
7	LLP "Standard Cement"	1113	17.05.2016	253
8	LLP "Standard Cement"	1679	14.07.2016	888
9	LLP "Standard Cement"	1012	29.04.2016	7 444
10	LLP "Standard Cement"	0290	17.02.2016	548
11	LLP "Standard Cement"	2827	08.11.2016	26 000
12	LLP "Standard Cement"	115	22.04.2016	26 274
13	LLP "Standard Cement"	117	22.04.2016	14 856
14	LLP "Standard Cement"	112	22.04.2016	26 694
15	LLP "Standard Cement"	116	22.04.2016	15 999
16	LLP "Standard Cement"	113	22.04.2016	32 122
17	LLP "Standard Cement"	114	22.04.2016	23 887

Ref.No	Company name	Payment order No.	Payment order date	Amount in thousand KZT
18	LLP "Standard Cement"	2837	08.11.2016	13 164
Total:				295 966

Unclarified discrepancy on the **LLP "Autotransservice"** arose because the Payer did not indicate tax payments in the report, and the Recipient indicated payments. No explanations have been received from the Payer.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
105115	LLP "Avtotransservis"	-	1 695	-	1 695
Total:		-	1 695	-	1 695

LLP "Mining and metallurgy concern ALTYN MM" (hereinafter - the Payer) by letter ref. No. 209-06/17 of 12.06.2017 informs that the Company has two branches of production:

Precious metals production; Contract activity. But the main activity is the production of precious metals. On May 27, 2016, a contract for gold-bearing ores exploration at a site in the Glubokovskiy district of the EKO RK was concluded between the Ministry of Investment and Development of the Republic of Kazakhstan and the LLP "Mining and metallurgy concern ALTYN MM". In this connection, the main part of tax and non-tax payments falls on the main activity - the production of precious metals, since the contract activity is in the development stage - exploration, and due to a short period from the time the Contract conclusion, costs in 2016 were not significant.

The Recipient provided data on receipts on the legal entity as a whole, while the Payer in his reports indicated only contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in the precious metals production. The Payer provided supporting documents confirming the beneficiary's receipt, but the report provided data on payments within the contract activity.

In the report of the LLP "Mining and metallurgy concern ALTYN MM" a payment is not indicated, and the Recipient indicates a payment in amount of (413 406) thousand KZT. Discrepancy for the amount of 542 42 thousand KZT are payments on the precious metals production activity.

BCC	Company	Totals		Discrepancy	
		Payer's	Recipient's	Clarified	Unclarified
105101	LLP "Mining and metallurgy concern ALTYN MM"	-	(477 874)	477 874	-
105102	LLP "Mining and metallurgy concern ALTYN MM"	-	5 011	5 011	-
105115	LLP "Mining and metallurgy concern ALTYN MM"	-	7 097	7 097	-
105114	LLP "Mining and metallurgy concern ALTYN MM"	-	52 360	52 360	-
Total:			(413 406)	542 342	

The Payer sent absolute personal accounts statements as of 31.12.2016 as confirming documents.

BCC	Company	Paid			Received from budget			Total
		tax	fee	penalty	tax	fee	penalty	
105101	LLP "Mining and metallurgy concern ALTYN MM"	-	-	-	(477 874)	-	-	(477 874)
105115	LLP "Mining and metallurgy concern ALTYN MM"	7 097	-	-	-	-	-	7 097
105114	LLP "Mining and metallurgy concern ALTYN MM"	40 951	11 409	-	-	-	-	52 360
Total:		48 048	11 409	-	(477 874)	-	-	(418 417)

The Payer confirms discrepancy for the amount of 5 011 thousand KZT with payment orders:

Ref. No	Company name	Payment order No.	Payment order date	Amount in thousand KZT
1	LLP "Mining and metallurgy concern ALTYN MM"	2655	25.11.2016.	940
2	LLP "Mining and metallurgy concern ALTYN MM"	n/u	29.08.2016	508
3	LLP "Mining and metallurgy concern ALTYN MM"	002	15.06.2016	142
4	LLP "Mining and metallurgy concern ALTYN MM"	n/u	09.06.2016	63
5	LLP "Mining and metallurgy concern ALTYN MM"	001	30.03.2016	91
6	LLP "Mining and metallurgy concern ALTYN MM"	Receipt	30.03.2016	1510
7	LLP "Mining and metallurgy concern ALTYN MM"	007	05.02.2016	137
8	LLP "Mining and metallurgy concern ALTYN MM"	001	19.04.2016	584
9	LLP "Mining and metallurgy concern ALTYN MM"	004	30.03.2016	513
10	LLP "Mining and metallurgy concern ALTYN MM"	003	30.03.2016	39
11	LLP "Mining and metallurgy concern ALTYN MM"	526	23.06.2016	69
12	LLP "Mining and metallurgy concern ALTYN MM"	2558	18.11.2016	410
Total:				5 006

Discrepancy between the Payer's data on payment orders and the Recipient's data of 5 thousand KZT is explained by letter No.273-08/17 dated 08.08.2017, that the amount of 5 thousand KZT was paid in cash by the Company's employee, but this payment cannot be confirmed, since the document (fiscal receipt) is lost.

8. Excises, BCC 105229, 105278

<i>In thousand KZT</i>	2016
Payers' report	-
Recipient's report	-
Discrepancy	-

There are no discrepancy on the “Excise” between the Payer's data and the Recipient's data.

9. Other tax revenues, BCC 107109, 107110

<i>In thousands of KZT</i>		2016
Payers' report		11 528
Recipient's report		12 765
Discrepancy		1 745

Discrepancy in the “other tax revenues” between Payers' data and the Recipient's data amount to 1 745 thousand KZT.

Discrepancy information is shown below:

No.	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclarified
1	LLP “Tengizchevroil”	152	-	152	-
2	LLP “MMC ALTYN MM”	-	11	11	-
3	LLP “AutoTransService”	-	1 480	-	1480
4	JSC “Varvarinskoye”	102	-	102	-
Total:		254	1 491	265	1 480

Discrepancy for the amount of 152 thousand KZT between **LLP “Tengizchevroil”** (hereinafter the Payer) and the Recipient was formed due to the fact that the Payer incorrectly indicated the IIC (individual identification code) when making the payment. The Recipient confirmed that he did not receive this payment due to an incorrect BCC.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclarified
107110	LLP “Tengizchevroil”	152	-	152	-
Total:		152	-	152	-

As confirmation Payer provided supporting documents in the form of payment orders:

No.	Company name	Payment order No.	Payment date	Amount in thousands of KZT
1	LLP “Tengizchevroil”	2229505PT	11.01.2016	12
2	LLP “Tengizchevroil”	2238331PT	23.02.2016	13
3	LLP “Tengizchevroil”	2324700PT	17.03.2016	12
4	LLP “Tengizchevroil”	2332300PT	07.04.2016	13
5	LLP “Tengizchevroil”	2357066PT	18.05.2016	12
6	LLP “Tengizchevroil”	2364672PT	16.06.2016	13
7	LLP “Tengizchevroil”	2370127PT	18.07.2016	12
8	LLP “Tengizchevroil”	2373859PT	17.08.2016	13
9	LLP “Tengizchevroil”	2382387PT	19.09.2016	13
10	LLP “Tengizchevroil”	2402601PT	19.10.2016	13
11	LLP “Tengizchevroil”	2407217PT	21.11.2016	13
12	LLP “Tengizchevroil”	2413466PT	20.12.2016	13
Total:				152

LLP “Mining and metallurgy concern ALTYN MM” (hereinafter the Payer) by letter, ref. No. 209-06/17 of 12 June 2017 informs that the Company has two branches of production:

- Production of precious metals;
- Contract activities.

But the main activity is the production of precious metals.

On May 27, 2016, a contract was signed for the exploration of gold-bearing ores at a site in the Glubokoe district of the EKO RK between the Ministry of Investment and Development of the RK and LLP “Mining and metallurgy concern ALTYN MM”.

In this connection, the main part of tax and non-tax payments falls on the main activity i.e. the production of precious metals, as the contract activity is in the development stage: exploration, and in connection with a short period from the moment of concluding the Contract, costs in 2016 were not significant.

The Recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in the production of precious metals. The Payer provided documents that confirm the receipt of the beneficiary, but in the report provided data on payments within the contract activity.

In the report, LLP “Mining and metallurgy concern ALTYN MM” does not specify a payment, and the Recipient indicates a payment in the amount of 11,000 KZT. Discrepancy resulted from the fact that the Payer incorrectly indicated the beneficiary's BIN and the payment code.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclassified
107109	LLP “MMC ALTYN MM”	-	11	11	-
Total:		-	11	11	-

The payer has provided payment order No.2945 of December 22, 2016, in which the budget classification code is indicated as 204106.

Unclassified discrepancy in LLP “AutoTransService” was due to the fact that the Payer did not record tax payments in the report. No explanations have been received from the Payer.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclassified
107109	LLP “AutoTransService”	-	1 480	-	1 480
Total:		-	1 480	-	1 480

Discrepancy for the amount of 102 thousand KZT between JSC “Varvarinskoye” (the Payer) and the Receiver was formed due to the fact that the recipient has not received payment from Payer, since the beneficiary is “SI Akim apparatus of Taranovo rural district.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclassified
107110	JSC “Varvarinskoye”	102	-	102	-
Total:		102	-	102	-

The Payer provided supporting documents for the amount of 102 thousand KZT:

No.	Company name	Payment order No.	Payment date	Amount in thousands of KZT
1	JSC "Varvarinskoye"	2937	20.09.2016	25,4
2	JSC "Varvarinskoye"	3338	21.10.2016	25,4
3	JSC "Varvarinskoye"	3703	22.11.2015	25,4
4	JSC "Varvarinskoye"	156	23.01.2015	25,4
Total:				102

4.1.2. Income for the use of natural and other resources

<i>In thousands of KZT</i>		2016
Payers report		777 117 432
Recipient report		778 582 803
Discrepancy		1 591 538

Including the result of reconciliation in the context of special payments for subsoil use:

1. Excess profit tax, excluding receipts from the oil sector enterprises of the BCC 105302

<i>In thousands of KZT</i>		2016
Payers' report		7 348 964
Recipient's report		7 348 964
Discrepancy		-

No discrepancy were found in "Excess profit tax" between the Payers' data and the Recipient's data.

2. Excess profit tax from oil sector organizations BCC 105322

<i>In thousands of KZT</i>		2016
Payers' report		37 631 951
Recipient's report		38 467 698
Discrepancy		835 747

Discrepancy in "Excess profits tax" between the Payer and the Recipient data is the sum of 835 747 thousand KZT.

Discrepancy information is shown below:

No.	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclassified
1	JSC "CNPC-AktobeMunaiGas"	1 225 576	2 061 323	-	835 747
Total:		1 225 576	2 061 323	-	835 747

Unexplained discrepancy on JSC “CNPC AktobeMunaiGas” has occurred because in his report the Payer indicated the amount is less than the Recipient. No explanations have been received from the Payer.

BCC	Company	Payer’s data	Recipient’s data	Discrepancy	
				Clarified	Unclarified
105322	JSC “CNPC-AktobeMunaiGas”	1 225 576	2 061 323	-	835 747
Total:		1 225 576	2 061 323	-	835 747

3. Bonuses, excluding the receipts from organizations of the oil sector of the BCC 105305

In thousands of KZT **2016**

Payers’ report	3 807 652
Recipient’s report	3 965 654

Discrepancy **158 002**

Discrepancy on the “Bonus” between the Payers’ data and Recipient's data amounts to 158 002 thousand KZT.

Discrepancy information is shown below:

No.	Company	Summary data		Discrepancy	
		Payer’s	Recipient’s	Clarified	Unclarified
1	LLP “Standard Cement“	5 000	5 500	500	-
2	LLP “AutoTransService“	-	157 501	-	157 501
3	Minor discrepancy in other companies due to rounding	-	1	1	
Total:		5 000	163 002	501	157 501

LLP “Standard Cement” (the Payer) in the letter, ref. No. 4-6-918 dated August 17, 2017, states the following:

According to the Protocol of direct negotiations between the Ministry of Industry and New Technologies of the Republic of Kazakhstan and the Partnership Taskomirsaydeposit in SKO dated March 4, 2014, the Partnership was granted the right to enter into a relevant subsoil use contract for coal mining at the Taskomirsay deposit in the South Kazakhstan oblast.

On December 30, 2015 the Partnership, entering a contract with the Ministry of Energy of the Republic of Kazakhstan for coal production at the Taskomirsay deposit in the Suzak region of the South Kazakhstan oblast No. 4246-SCM-ME dated December 30, 2016 (hereinafter referred to as the “Contract”), received the subsoil use right.

The Partnership, from the moment of registration and throughout the day, makes payments for taxes and other types of compulsory payments for core activities, namely, for the production of cement.

To date, in accordance with the Decision of the Expert Commission on Subsoil Use Issues of the Ministry of Energy of the Republic of Kazakhstan (protocol No.13/MERK dated July 28, 2016), the beginning of the development of the Taskomirsay coal deposit has been postponed from 2016 to 2018. In this connection, for 2016 the Partnership paid for the obligation under the Contract in part of the subscription bonus of 5,000 thousand KZT.

The Recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in the production of cement. The Payer provided supporting documents that confirm the receipt of the beneficiary, but in the report provided data on payments within the contract activity.

In the report LLP "Standard Cement" does not specify a payment, and the Recipient specifies a payment in the amount of 5 500 thousand KZT. Discrepancy for the amount of 500 thousand KZT is a payment for the activity of cement production.

BCC	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclassified
105305	LLP "Standard Cement"	5 000	5 500	500	-
Total:		5 000	5 500	500	-

As confirmation the Payer provided supporting documents in the form of payment orders:

No.	Company name	Payment orderNo.	Payment date	Amount in thousands of KZT
1	LLP "Standard Cement"	2098	29.08.2016	250
2	LLP "Standard Cement"	2099	29.08.2016	250
Total:				500

Unclassified discrepancy in LLP "AutoTransService" was due to the fact that the Payer did not record the tax payments in the report. No explanations have been received from the Payer.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclassified
105305	LLP "AutoTransService"	-	157 501	-	157 501
Total:		-	157 501	-	157 501

4. Bonuses from organizations of the oil sector of the BCC 105325

In thousands of KZT **2016**

Payers' report	6 197 454
Recipient's report	6 197 454

Discrepancy **-**

No discrepancy were found between the Payers' data and the Recipient's data.

5. Mineral extraction tax, excluding receipts from oil sector organizations, BCC 105306

In thousands of KZT **2016**

Payers' report	146 379 060
Recipient's report	146 388 271

Discrepancy **9 211**

Discrepancy in the “Mineral Extraction Tax” between the Payer's data and the Recipient's data amounts to 9 211 thousand KZT.

Discrepancy information is shown below:

No. n/п	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclassified
1	LLP “Standard Cement” Minor discrepancy in other companies due to	-	9 210	9 210	-
2	rounding	-	1	1	-
Total:		-	9 211	9 211	-

LLP “Standard Cement” (the Payer) in the letter, ref. No. 4-6-918 dated August 17, 2017, informs the following:

According to the Protocol of direct negotiations between the Ministry of Industry and New Technologies of the Republic of Kazakhstan and the Partnership Taskomirsaydeposit in SKO dated March 4, 2014, the Partnership was granted the right to enter into a relevant subsoil use contract for coal mining at the Taskomirsay deposit in the South Kazakhstan region. On December 30, 2015 the Partnership, entering a contract with the Ministry of Energy of the Republic of Kazakhstan for coal production at the Taskomirsay deposit in the Suzak region of the South Kazakhstan oblast No. 4246-SCM-ME dated December 30, 2016 (hereinafter referred to as the "Contract"), received the subsoil use right.

The Partnership, from the moment of registration and throughout the day, makes payments for taxes and other types of compulsory payments for core activities, namely, for the production of cement.

To date, in accordance with the Decision of the Expert Commission on Subsoil Use Issues of the Ministry of Energy of the Republic of Kazakhstan (protocol No.13/MERK dated July 28, 2016), the beginning of the development of the Taskomirsay coal deposit has been postponed from 2016 to 2018. In this connection, for 2016 the Partnership paid for the obligation under the Contract in part of the subscription bonus of 5,000 thousand KZT.

The Recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in the production of cement. The Payer provided supporting documents that confirm the receipt of the beneficiary, but in the report provided data on payments within the contract activity.

In the report LLP “Standard Cement” does not specify a payment, and the Recipient specifies a payment in the amount of 9 210 thousand KZT. Discrepancy is a payment for the activity of cement production.

BCC	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclassified
105306	LLP “Standard Cement”	-	9 210	9 210	-
Total:		-	9 211	9 211	-

As confirmation Payer provided supporting documents in the form of payment orders:

No.	Company Name	Payment orderNo.	Payment date	Amount in thousands of KZT
1	LLP "Standard Cement"	2256	13.09.2016	13
2	LLP "Standard Cement"	2230	08.09.2016	2 631
3	LLP "Standard Cement"	1179	23.05.2016	494
4	LLP "Standard Cement"	0645	31.03.2016	400
5	LLP "Standard Cement"	29	23.02.2016	2 752
6	LLP "Standard Cement"	550	23.11.2016	1 062
7	LLP "Standard Cement"	549	23.11.2016	1858
Total:				9 210

6. Mineral extraction tax from oil sector organizations, BCC 105326

In thousands of KZT **2016**

Payers' report	274 878 421
Recipient's report	274 875 221

Discrepancy **3 200**

Discrepancy in the "Mineral Extraction Tax" between the Payer's data and the Recipient's data amounts to 3 200 thousand KZT.

Discrepancy information is shown below:

No.	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclarified
1	JSC "CNPC-AktobeMunaiGas"	21 909 532	21 906 332	-	3 200
Total:		21 909 532	21 906 332	-	3 200

Unclarified discrepancy in JSC "CNPC AktobeMunaiGas" have occurred because in his report the Payer in indicated the amount more than the Recipient. No explanations have been received from the Payer.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclarified
105326	JSC "CNPC-AktobeMunaiGas"	21 909 532	21 906 332	-	3 200
Total:		21 909 532	21 906 332	-	3 200

7. Rent tax on exports, BCC 105307, 105327

In thousands of KZT **2016**

Payers' report	116 588 708
Recipient's report	116 588 707

Discrepancy **1**

Discrepancy in "Rent tax on exports" between the Payer's data and the Recipient's data amount to 1 thousand KZT and are insignificant due to rounding.

8. Share of the Republic of Kazakhstan in the division of products, BCC 105308, 105328

In thousands of KZT **2016**

Payers' report	122 397 854
Recipient's report	122 397 854

Discrepancy **-**

No discrepancy were found in the "Share of the Republic of Kazakhstan in the division of products" between the Payers' data and the Recipient's data.

9. Fee for the use of specially protected natural areas of national importance, BCC 105313

In thousands of KZT **2016**

Payers' report	30 670
Recipient's report	30 670

Discrepancy **-**

No discrepancy were found in the "Fee for the use of specially protected natural areas of national importance" between the Payers' data and the Recipient's data.

10. Payment for the use of land plots, BCC 105315

In thousands of KZT **2016**

Payers' report	4 712 178
Recipient's report	4 712 889

Discrepancy **711**

Discrepancy in "Payment for the use of land plots" between the Payer's data and the Recipient's data amount to 711 thousand KZT.

Discrepancy information is shown below:

No.	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclassified
1	JSC "CNPC AktobeMunaiGas"	43 988	44 426	-	438
2	LLP "Kazzinc"	72 404	72 417	13	-
3	LLP "Mining and metallurgy concern ALTYN MM"	-	259	259	-
4	LLP "Sayk-4 Project"	-	1	1	-
Total:		116 392	117 103	273	438

Unclarified discrepancy in JSC “CNPC AktobeMunaiGas” has occurred as the Payer indicated the amount less than the Recipient. No explanations have been received from the Payer.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclarified
105315	JSC “CNPC-AktobeMunaiGas”	43 988	44 426	-	438
Total:		43 988	44 426	-	438

Discrepancy for the amount of 13 thousand KZT between LLP “Kazzinc” (the Payer) the Recipient was formed due to the fact that the payment in the amount of 13 thousand KZT has been deducted from the employee's salary to the State budget, according to the writ of execution.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclarified
105315	LLP “Kazzinc”	72 404	72 417	13	-
Total:		72 404	72 417	13	-

As evidence, the Payer provided:

- Decree on the application of foreclosure on wages and other types of income from 06.05.2016. in the name of Kabdollaev M.K.;
- Payment order.

No.	Company name	Payment order No.	Дата платежного поручения	Amount in thousands of KZT
1	LLP “Kazzinc”	112603	16.06.2016	13
Total:				13

LLP “Mining and metallurgy concern ALTYN MM” (hereinafter the Payer) in a letter, ref. No. 209-06/17 of 12 June 2017 informs that the Company has two branches of production:

- Production of precious metals;
- Contract activities.

But the main activity is the production of precious metals.

On May 27, 2016, a contract was signed for the exploration of gold-bearing ores at a site in the Glubokoe district of the EKO RK between the Ministry of Investment and Development of the RK and LLP “Mining and metallurgy concern ALTYN MM”.

In this connection, the main part of tax and non-tax payments falls on the main activity i.e. the production of precious metals, as the contract activity is in the development stage: exploration, and in connection with a short period from the moment of concluding the Contract, costs in 2016 were not significant”.

The Recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in the production of precious metals. The Payer provided documents that confirm the receipt of the beneficiary, but the report provided data on payments within the contract activity.

In the report, LLP “Mining and metallurgy concern ALTYN MM” does not specify a payment, and the Recipient indicates a payment in the amount of 259 thousand KZT. Discrepancy are the payments on the activity of the production of precious metals.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclarified
105315	LLP "Mining and metallurgy concern ALTYN MM"	-	259	259	-
Total:		-	259	259	-

The Payer as confirming documents sent an extract on the absolute personal account as of December 31, 2016.

No.	Company	Paid			Returned from the budget			Total
		taxes	penalties	finances	taxes	penalties	finances	
1	LLP "Mining and metallurgy concern ALTYN MM"	252	4	3	-	-	-	259
Total:		252	4	3	-	-	-	259

11. Payment for environmental emission, BCC 105316

In thousands of KZT

2016

Payers' report	39 335 557
Recipient's report	39 430 472

Discrepancy **214 681**

Discrepancy in "Payment for environmental emission" between the Payer's data and the Recipient's data amount to 214 681 thousand KZT.

Discrepancy information is shown below:

№	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclarified
1	JSC "CNPC AktobeMunaiGas" LLP "Offshore Oil Company	4 230 181	4 170 299	-	59 881
2	"KazMunayTeniz" JSC "TransNafta Cente"	-	15 531	15 531	-
3	LLP "Standard Cement"	-	7	-	7
4	LLP "Mining and metallurgy concern ALTYN MM"	-	33 598	33 598	-
5	Minor discrepancy in other companies due to rounding	-	105 661	105 661	-
6		-	3	3	-
Total:		4 230 181	4 325 100	154 793	59 888

Unclarified discrepancy in **JSC “CNPC AktobeMunaiGas”** has occurred because in his report the Payer indicated the amount more than the Recipient. No explanations have been received from the Payer.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclarified
105316	JSC “CNPC AktobeMunaiGas”	4 230 181	4 170 299	-	59 881
Total:		4 230 181	4 170 299	-	59 881

A discrepancy of 15 531 thousand KZT occurred on **JSC “Offshore Oil Company “KazMunayTeniz”** in accordance with BCC 105316, under which the Payer wrote a letter on the reasons for Discrepancy, outgoing No. 201-09/779 from June, 16 2017. Discrepancy arose in connection with the implementation by the KMT Branch of trust management of the Tolkyn and Borankol contract territories in accordance with trust management agreements No.1 –TM-HC//198-26 and No.2- TM-HC//197-26 dated July 21, 2010 , concluded between the Ministry of Energy of the Republic of Kazakhstan and the JSC “National Company “KazMunayGas”. Payments of taxes and payments to the budget within the framework of trust management activities are performed from a special bank account of trust management with the permission of the ME RK. Accounting for trust management activities is carried out separately, is reflected in the separate financial statements of the KMT Branch and is not consolidated in the financial statements of the KMT confirmed by the auditors of LLP “Ernst & Young”.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclarified
105316	JSC “Offshore Oil Company “KazMunayTeniz”	-	15 331	15 331	-
Total:		-	15 331	15 331	-

Unclarified discrepancy for **JSC “TransNafta Center”** was due to the fact that the Payer did not provide a report. During the reconciliation process, an e-mail was received from the Payer informing that he can not write the letter formally, because the Company is liquidated, accordingly, there is no seal. According to this report JSC “TransNafta Center” has sold the subsoil use contract since July 5, 2016, in connection with this it is excluded from the list of subsoil use of the MID RK.

We additionally checked on the website of the MSR RK, http://kgd.gov.kz/ru/services/taxpayer_search/legal_entity, whether the Payer was excluded from the register of taxpayers of the RK and received the following information.

Searching results:

№	Name	Type	TIN	BIN	Date of registration	Date of de-registration	Reason for de-registration
1	JSC “Trans Nafta Center”	LE	620200231043	070140006282	24.10.2003		

Information on the payment of taxes and other mandatory payments to the budget in the competence of the tax authorities (in accordance with subparagraph 1 paragraph 1 of Article 557 of Tax Code of the RK, this information is not a tax secret)

Thousand KZT

Type of tax	In 2012	In 2013	In 2014	In 2015	In 2016	In 2017, as of the 1st day of the reporting period
Tax revenues	9 820,8	9 641,9	18 500,7	52 265,5	1 407 400,1	406 259,5

“The information is formed according to the personal accounts of taxpayers for the amounts of taxes and other mandatory payments actually received in the relevant period (excluding customs taxes and payments) to the consolidated budget, taking into account the amounts of return”.

Since it is clear that, based on the search results on the site, the Payer is not excluded from the taxpayer's register in connection with the liquidation, we estimate its discrepancy in the amount of 7 thousand KZT not clarified.

BCC	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclarified
105316	JSC “TransNafta Center”	-	7	-	7
Total:		-	7	-	7

LLP “Standard Cement” (hereinafter the Payer) in the letter, ref. No 4-6-918 dated August 17, 2017 states the following:

According to the Protocol of direct negotiations between the Ministry of Industry and New Technologies of the Republic of Kazakhstan and the Partnership Taskomirsay deposit in SKO dated March 4, 2014, the Partnership was granted the right to enter into a relevant subsoil use contract for coal mining at the Taskomirsay deposit in the South Kazakhstan oblast.

On December 30, 2015 the Partnership, entering a contract with the Ministry of Energy of the Republic of Kazakhstan for coal production at the Taskomirsay deposit in the Suzak region of the South Kazakhstan oblast No. 4246-SCM-ME dated December 30, 2016 (hereinafter referred to as the “Contract”), received the subsoil use right.

The Partnership, from the moment of registration and throughout the day, makes payments for taxes and other types of compulsory payments for core activities, namely, for the production of cement.

To date, in accordance with the Decision of the Expert Commission on Subsoil Use Issues of the Ministry of Energy of the Republic of Kazakhstan (protocol No.13/MERK dated July 28, 2016), the beginning of the development of the Taskomirsay coal deposit has been postponed from 2016 to 2018. In this connection, for 2016 the Partnership paid for the obligation under the Contract in part of the subscription bonus of 5,000 thousand KZT.

The Recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in the production of cement. The Payer provided supporting documents that confirm the receipt of the beneficiary, but in the report provided data on payments within the contract activity.

In the report LLP “Standard Cement” does not specify a payment, and the Recipient specifies a payment in the amount of 33 598 thousand KZT. Discrepancy is a payment for the activity of cement production.

BCC	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclearified
105316	LLP “Standard Cement”	-	33 598	33 598	-
Total:		-	33 598	33 598	-

As confirmation the Payer provided supporting documents in the form of payment orders:

No.	Company Name	Payment order No.	Payment date	Amount in thousands of KZT
1	LLP “Standard Cement”	2602	14.10.2016	176
2	LLP “Standard Cement”	2626	18.10.2016	0,5
3	LLP “Standard Cement”	2603	14.10.2016	9
4	LLP “Standard Cement”	2214	07.09.2016	277
5	LLP “Standard Cement”	2239	09.09.2016	0,4
6	LLP “Standard Cement”	2236	09.09.2016	37
7	LLP “Standard Cement”	2244	09.09.2016	221
8	LLP “Standard Cement”	2242	09.09.2016	3
9	LLP “Standard Cement”	2229	08.09.2016	15
10	LLP “Standard Cement”	2227	08.09.2016	9 833
11	LLP “Standard Cement”	2215	07.09.2016	90
12	LLP “Standard Cement”	1178	23.05.2016	21
13	LLP “Standard Cement”	1172	23.05.2016	3 650
14	LLP “Standard Cement”	1177	23.05.2016	55
15	LLP “Standard Cement”	1175	23.05.2016	475
16	LLP “Standard Cement”	1563	30.06.2016	350
17	LLP “Standard Cement”	564	23.11.2016	473
18	LLP “Standard Cement”	27	23.02.2016	372
19	LLP “Standard Cement”	31	23.02.2016	86
20	LLP “Standard Cement”	28	23.02.2016	848
21	LLP “Standard Cement”	32	23.02.2016	7 064
22	LLP “Standard Cement”	30	23.02.2016	11
23	LLP “Standard Cement”	559	23.11.2016	56
24	LLP “Standard Cement”	561	23.11.2016	9 475
Total:				33 598

LLP “Mining and metallurgy concern ALTYN MM” (hereinafter the Payer) in a letter, ref. No. 209-06/17 dated June 12, 2017 states the following:

“The company has two branches of production:

- Production of precious metals;
- Contract activities.

But the main activity is the production of precious metals.

On May 27, 2016, a contract was signed for the exploration of gold-bearing ores at a site in the Glubokoe district of the EKO RK between the Ministry of Investment and Development of the RK and LLP “Mining and metallurgy concern ALTYN MM”.

In this connection, the main part of tax and non-tax payments falls on the main activity i.e. the production of precious metals, as the contract activity is in the development

stage: exploration, and in connection with a short period from the moment of concluding the Contract, costs in 2016 were not significant”.

The Recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in the production of precious metals. The Payer provided documents that confirm the receipt of the beneficiary, but the report provided data on payments within the contract activity.

In the report, LLP “Mining and metallurgy concern ALTYN MM” does not specify a payment, and the Recipient indicates a payment in the amount of 105 661 thousand KZT. Discrepancy are the payments on the activity of the production of precious metals.

BCC	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclassified
105316	LLP “MMC ALTYN MM”	-	105 661	105 661	-
Total:		-	105 661	105 661	-

The Payer as confirming documents sent an extract on the absolute personal account as of December 31, 2016.

No.	Company	Paid			Returned from the budget			Total
		taxes	penalties	finances	taxes	penalties	finances	
1	LLP “Mining and metallurgy concern ALTYN MM”	103 202	2 453	609	(603)	-	-	105 661
Total:		103 202	2 453	609	(603)	-	-	105 661

12. Cost recovery payment, BCC 105319

In thousands of KZT

2016

Payers' report	17 363 138
Recipient's report	17 733 122

Discrepancy **369 984**

Discrepancy in “Cost recovery payment” between the Payers' data and the Recipient's data amount to 369 984 thousand KZT.

Discrepancy information is shown below:

№	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclassified
1	JSC “CNPC-AktobeMunaiGas”	-	369 984	-	369 984
Total:		-	369 984	-	369 984

Unclarified discrepancy in JSC “CNPC AktobeMunaiGas” has occurred as the Payer did not report the data, and the Recipient reported the data. No explanations have been received from the Payer.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclarified
105319	JSC “CNPC-AktobeMunaiGas”	-	369 984	-	369 984
Total:		-	369 984	-	369 984

13. Fee for the use of radio-frequency spectrum, BCC 105309

In thousands of KZT **2016**

Payers' report	82 354
Recipient's report	82 355

Discrepancy **1**

Discrepancy in “Fee for the use of radio-frequency spectrum” between the Payers' data and the Recipient's data amount to 1 thousand KZT and are insignificant.

14. Payment for use of navigable waterways, BCC 105310

In thousands of KZT **2016**

Payers' report	(88)
Recipient's report	(88)

Discrepancy **-**

No discrepancy were found in “Payment for use of navigable waterways” between the Payers' data and the Recipient's data.

15. Payment for the use of water resources of surface sources, forest use, BCC 105303, 105304

In thousands of KZT **2016**

Payers' report	362 467
Recipient's report	362 467

Discrepancy **-**

No discrepancy were found in “Payment for the use of water resources of surface sources, forest use” between the Payers' data and the Recipient's data.

4.1.3. Other non-tax revenues to the budget

<i>In thousands of KZT</i>	2016
Payers' report	22 173 328
Recipient's report	22 389 803
Discrepancy	217 153

Including the result of reconciliation in the context of other compulsory payments:

1. The funds received from nature users on compensatory actions , with the exception of receipts from organizations of the oil sector, BCC 204110

<i>In thousands of KZT</i>	2016
Payers' report	1 718 420
Recipient's report	1 741 960
Discrepancy	23 540

Discrepancy in "The funds received on compensatory actions" between the Payers' data and the Recipient's data amount to 23 540 thousand KZT.

Discrepancy information is shown below:

No.	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclassified
1	LLP "Mining and metallurgy concern ALTYN MM"	-	23 539	23 539	-
2	Minor discrepancy in other companies due to rounding	-	1	1	-
Total:		-	23 540	23 540	-

LLP "Mining and metallurgy concern ALTYN MM" (hereinafter the Payer) in a letter, ref. No. 209-06/17 dated June 12, 2017 states the following:

"The company has two branches of production:

- Production of precious metals;
- Contract activities.

But the main activity is the production of precious metals.

On May 27, 2016, a contract was signed for the exploration of gold-bearing ores at a site in the Glubokoe district of the EKO RK between the Ministry of Investment and Development of the RK and LLP "Mining and metallurgy concern ALTYN MM".

In this connection, the main part of tax and non-tax payments falls on the main activity i.e. the production of precious metals, as the contract activity is in the development stage: exploration, and in connection with a short period from the moment of concluding the Contract, costs in 2016 were not significant".

The Recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since the Payer's accounting department keeps separate records, which caused discrepancy.

All the following discrepancy occurred in the production of precious metals. The Payer provided documents that confirm the receipt of the beneficiary, but the report provided data on payments within the contract activity.

In the report, LLP "Mining and metallurgy concern ALTYN MM" does not specify a payment, and the Recipient indicates a payment in the amount of 23 539 thousand KZT. Discrepancy are the payments on the activity of the production of precious metals.

BCC	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclarified
204110	LLP "Mining and metallurgy concern ALTYN MM"	-	23 539	23 539	-
Total:		-	23 539	23 539	-

The payer sent payment orders for the amount of 23,539 thousand KZT as supporting documents.

No.	Company	Payment order/receipt No.	Payment date	Amount in thousands of KZT
1	LLP "Mining and metallurgy concern ALTYN MM"	2688	02.12.2016	3 294
2	LLP "Mining and metallurgy concern ALTYN MM"	2615	22.11.2016	3 000
3	LLP "Mining and metallurgy concern ALTYN MM"	2267	26.10.2016	3 000
4	LLP "Mining and metallurgy concern ALTYN MM"	2113	11.10.2016	10 245
5	LLP "Mining and metallurgy concern ALTYN MM"	2175	17.10.2016	4 000
Total:				23 539

2. Administrative fines, penalties, sanctions, levies imposed by central state bodies, their territorial units on the organization of the oil sector, BCC 204201

<i>In thousands of KZT</i>		2016
Payers' report		627 002
Recipient's report		627 447
Discrepancy		1 123

Discrepancy in "Administrative fines, penalties, sanctions" between the Payers' data and the Recipient's data amount to 1 123 thousand KZT.

Discrepancy information is shown below:

No.	Company	Summary data		Discrepancy	
		Payer's	Recipient's	Clarified	Unclarified
1	JSC "CNPC-AktobeMunaiGas"	144 234	143 895	-	339
2	LLP "Offshore Oil Company "KazMunayTeniz"	-	646	646	-
3	LLP "TransNafta Center"	-	138	-	138
4	Minor discrepancy in other companies due to rounding	-	(1)	(1)	-
Total:		144 234	144 678	645	477

Unclarified discrepancy in JSC “CNPC AktobeMunaiGas” has occurred because in his report the Payer indicated the amount more than the Recipient. No explanations have been received from the Payer.

BCC	Company	Payer's data	Recipient's data	Discrepancy	
				Clarified	Unclarified
204201	JSC “CNPC-AktobeMunaiGas”	144 234	143 895	-	339
Total:		144 234	143 895	-	339

There is a discrepancy of 646 thousand KZT, BCC 204201 in JSC “Offshore Oil Company “KazMunayTeniz”, according to which the Payer, wrote a letter about the reasons for Discrepancy, reference No. 201-09 / 779 of June 16, 2017. Discrepancy arose in connection with the implementation of the KMT branch for the trust management of the Tolkyn and Borankol contract territories in accordance with the discretionary management contract No. 1- DU-UVS // 198-26 and No. 2-DU-UVS // 197-26 of July 21, 2010, concluded between the Ministry of Energy of the Republic of Kazakhstan and JSC “National Company “KazMunayGas”. Payment of taxes and payments to the budget within the framework of the activity of ME RK. Accounting for trust management activities is carried out separately, is reflected in the separate financial statements of the KMT branch and is not consolidated in the financial statements of the KMT, confirmed by the auditors of LLP “Ernst & Young”.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
204201	JSC “Offshore Oil Company “KazMunayTeniz”	-	646	646	-
Total:		-	646	646	-

Unclarified discrepancy for JSC “TransNafta Center” was due to the fact that the Payer did not provide a report. In the reconciliation process from Payer received an electronic message that he can not write a letter officially, because the Company is liquidated, respectively, there is no seal. According to this report, JSC “TransNafta Center” has sold the subsoil use contract since July 5, 2016, in connection with this it is excluded from the list of subsoil use of the MIDRK.

We additionally checked on the site of the MSR RK, http://kgd.gov.kz/ru/services/taxpayer_search/legal_entity, whether the Payer was excluded from the register of taxpayers of the RK and received the following information.

Search results:

№	Name	Type	TIN	BIN	Registration date	Date of deregistration	Reason for the deregistration
1	JSC “Trans Nafta Center”	LP	620200231043	070140006282	24.10.2003		

Information on the payment of taxes and other mandatory payments to the budget in the competence of the tax authorities (in accordance with subitem 1. item 1 of Article 557 of the Tax Code of the Republic of Kazakhstan, this information is not a tax secret)

Type of tax	In 2012	In 2013	In 2014	In 2015	In 2016	Thousand KZT
						In 2017, as of the 1st day of the reporting period
Tax revenues	9 820,8	9 641,9	18 500,7	52 265,5	1 407 400,1	406 259,5

“The information is formed according to the personal accounts of taxpayers for the amounts of taxes and other mandatory payments actually received in the relevant period (excluding customs taxes and payments) to the consolidated budget, taking into account the amounts of return”

Since it is clear that, based on the search results on the site, the Payer has not been excluded from the taxpayer's register in connection with the liquidation, we estimate his discrepancy in the amount of 138 thousand KZT as not clarified.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
204201	JSC “TransNafta Center”	-	138	-	138
Total:		-	138	-	138

3. Other fines, penalties, sanctions, levies imposed by state institutions financed from the republican budget, on the organization of the oil sector, BCC 204202

<i>In thousands KZT</i>	2016
Payers report	379 226
Recipient report	379 226
Discrepancy	-

Differences in “Other fines, penalties, sanctions on the organization of the oil sector” between the Payer data and the Recipient data were not revealed.

4. Funds received from nature users for claims for compensation of harm by organizations of the oil sector, BCC 204203

<i>In thousands KZT</i>	2016
Payers report	6 742 701
Recipient report	6 742 701
Discrepancy	-

Discrepancy for “Funds received from nature users for claims for compensation of harm by the organizations of the oil sector” between the Payer data and the Recipient data are not available.

5. Other non-Tax revenues in the republican budget, with the exception of receipts from organizations of the oil sector, including, BCC 206108

<i>In thousands KZT</i>	2016
Payers report	960
Recipient report	1 337
Discrepancy	377

Discrepancy on “Other non-tax receipts from organizations of the oil sector” between the Payer data and Recipient data is the amount of 377 thousand KZT.

Discrepancy information is shown below:

№	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
1	LLP “Kazzinc”	-	311	311	-
2	JSC “Eurasian energy Corporation”	-	6	6	-
3	JSC “Shubarkol Komir”	-	14	14	-
4	JSC “CNPC-AktobeMunaiGas”	-	2	-	2
5	JSC “Aluminium of Kazakhstan” branch of KBM	-	30	30	-
6	LLP “Mining and metallurgy concern ALTYN MM”	-	14	14	-
Total:		-	377	375	2

Discrepancy for the amount of 311 thousand KZT between LLP “Kazzinc” (hereinafter referred to as the Payer) and the Recipient was formed due to the fact that payment in the amount of 311 thousand KZT was withheld from the wages of employees in favor of the State Budget, according to the performance lists.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
206108	LLP “Kazzinc”	-	311	311	-
Total:		-	311	311	-

As evidence, the Payer provided:

- Decisions on foreclosure on wages and other types of income;
- payment orders.

№	Company name	Date of issue of the decision on foreclosure on wages and other types of income	Phys. Person whose salary is withheld	No. of the payment order	Date of payment order	Amount in thousands KZT
1	LLP “Kazzinc”	04.07.2016	Bytuf D.L.	116376	12.08.2016	5
2	LLP “Kazzinc”	31.10.2016	Belashov M.M.	125270	13.12.2016	5
3	LLP “Kazzinc”	01.11.2016	Zhumaybekov S.A. Zhylykshymbaeva	125269	13.12.2016	5
4	LLP “Kazzinc”	01.11.2016	Zh.B.	124592	08.12.016	5
5	LLP “Kazzinc”	28.02.2016	Manarbekuly R.	108496	13.04.2016	87
6	LLP “Kazzinc”	28.02.2016	Manarbekuly R.	110399	13.05.2016	70

№	Company name	Date of issue of the decision on foreclosure on wages and other types of income	Phys. Person whose salary is withheld	No. of the payment order	Date of payment order	Amount in thousands KZT
7	LLP “Kazzinc”	28.02.2016	Manarbekuly R.	112495	14.06.2016	82
8	LLP “Kazzinc”	28.02.2016	Manarbekuly R.	114580	14.07.2016	20
9	LLP “Kazzinc”	10.08.2016	Orazbekov K.O.	118127	14.09.2016	9
10	LLP “Kazzinc”	02.11.2016	Putkov I.S.	125268	13.12.2016	5
11	LLP “Kazzinc”	07.12.2015	Skorobogatov Ya.I.	102803	12.01.2016	9
12	LLP “Kazzinc”	04.11.2016	Timofeev S.P.	125277	13.12.2016	9
Total:						311

Discrepancy for the amount of 6 thousand KZT between **JSC “Eurasian energy Corporation”** (hereinafter referred to as the “Payer”) and the Recipient was formed due to the fact that the Payer does not indicate this payment, as it is produced by the enterprise on the basis of the writ of execution at the expense of the employee's salary. Based on the purpose of payment, this amount should be, according to Payer, reflected on the personal account of an individual.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
206108	JSC “Eurasian energy Corporation”	-	6	6	-
Total:		-	6	6	-

As evidence, the Payer provided the payment order:

№	Company name	Date of issue of the decision on foreclosure on wages and other types of income	Phys. Person whose salary is withheld	No. of the payment order	Date of payment order	Amount in thousands KZT
1	JSC “Eurasian energy Corporation”	Administrative fine in accordance with Decision No. 793-16-55 of 07.06.2016.	Leontiev D.S.	10006724	05.08.2016	6
Total:						6

Discrepancy for the amount of 14 thousand KZT between **JSC “Shubarkol Komir”** (hereinafter referred to as the Payer) and the Recipient was formed due to the fact that the Payer does not indicate this payment because it is produced by the enterprise on the basis of the writ of execution at the expense of the employee's salary. Based on the purpose of payment, this amount should be, according to Payer, reflected on the personal account of an individual.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
206108	JSC “Shubarkol Komir”	-	14	14	-
Total:		-	14	14	-

As evidence, the Payer provided the payment order:

№	Company name	Date of issue of the decision on foreclosure on wages and other types of income	Phys. Person whose salary is withheld	No. of the payment order	Date of payment order	Amount In thousands KZT
1	JSC "Shubarkol Komir"	Withholding from wages for December 2015, convicted by court verdict No. 1-37 of 10.09.2015.	Illarionov V. Y.	128	14.01.2016	13,439
2	JSC "Shubarkol Komir"	Payment of court costs at the decision of the specialized inter-district economic court of the Karaganda oblast. No. 2-6001 / 2015 of 10.11.2015.	-	-	22.01.2016	0,267
Total:						13,706

Unclarified discrepancy for **JSC "CNPC- AktobeMunaiGas"** was due to the fact that the Payer in the report showed the amount less than the Recipient. No explanation from Payer.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
206108	JSC "CNPC- AktobeMunaiGas"	-	2	-	2
Total:		-	2	-	2

With a letter of ref. No. 1-11-1714 dated June 8, 2017. **JSC "Aluminium of Kazakhstan" branch of KBM** (hereinafter referred to as Payer) informs that discrepancy for the amount of 30 thousand KZT arose due to the fact that this payment was recovered from the salary of a natural person Nagul I.I., according to the court decision on recovery of wages and other types of income under payment order No. 4013 of 06/04/2017. The payer did not reflect this payment under BCC 206108 in the EITI reporting, since he considered that this payment is not a payment of the Company.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
206108	JSC "Aluminium of Kazakhstan" branch of KBM	-	30	30	-
Total:		-	30	30	-

The payer to confirm the payment order:

№	Company name	No. of the payment order	Date of the payment order	Amount in thousands KZT
1	JSC "Aluminium of Kazakhstan" branch of KBM	4013	06.04.2016	30
Total:				30

LLP “Mining and metallurgy concern ALTYN MM” (hereinafter referred to as the “Payer”) by letter, ref. No. 209-06 / 17 of 12 June 2017, reports the following:

“The company has two branches of production:

- Production of precious metals;
- Contract activities.

But the main activity is the production of precious (precious) metals.

On May 27, 2016, a contract was concluded for the exploration of gold-bearing ores at a site in the Glubokovsky district of the East Kazakhstan oblast between the Ministry of Investment and Development of the Republic of Kazakhstan and LLP “Mining and metallurgy concern ALTYN MM”.

In this connection, the main part of tax and non-tax payments falls on the main activity - the production of precious (precious) metals, tk. contract activity is in the development stage - exploration, and in connection with a short period since the conclusion of the Contract, the costs in 2016 were not significant.”

The recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since accounting is kept separate in Payer's accounting, which caused discrepancy.

All the following discrepancy occurred in the production of precious metals. The payer provided documents that confirm receipt of the Recipient, but the report provided data on payments within the contract activity.

In the LLP “Mining and metallurgy concern ALTYN MM” report does not specify a payment, and the Recipient indicates a payment of 14,000 KZT. Discrepancy are payments for the activities of the production of precious metals.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclassified
206108	LLP “Mining and metallurgy concern ALTYN MM”	-	14	14	-
Total:		-	14	14	-

Payer sent a payment order as supporting documents.

№	Company name	No. of the payment order	Date of the payment order	Amount In thousands KZT
1	LLP “Mining and metallurgy concern ALTYN MM”	2967	22.12.2016	14
Total:				14

6. Other non-tax revenues to the local budget, other non-tax revenues from oil sector organizations, BCC 206109, 206111

<i>In thousands KZT</i>		2016
Payers report		187 615
Recipient report		188 818
Discrepancy		1 203

Discrepancy for “Other non-tax revenues to the local budget” between Payer data and Recipient data is the amount of 1,203 thousand KZT.

Discrepancy information is shown below:

№	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
1	Kazakhstan branch "Karachaganak Petroleum Operating B.V."	-	879	879	-
2	LLP "Kazzinc"	-	280	280	-
3	JSC "Eurasian energy Corporation"	-	9	9	-
4	JSC "Shubarkol Komir"	-	35	35	-
Total:		-	1 203	1 203	-

Kazakhstan branch "Karachaganak Petroleum Operating BV" on discrepancy provided as confirming documents payment order No. 06656 dated July 29, 2016, which the Company paid for the execution of the decision of the SIECWKO of May 12, 2016 on the suit of the Prosecutor Burlinsky district on recovery from KPO of the amount of damage 879,0 thousand KZT for an individual. In this regard, this amount is not reflected in the Payer report.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
206109	Kazakhstan branch "Karachaganak Petroleum Operating B.V."	-	879	879	-
Total:		-	879	879	-

Discrepancy for the amount of 280 thousand KZT between **LLP "Kazzinc"** (hereinafter referred to as the Payer) and the Recipient was formed due to the fact that payment in the amount of 280 thousand KZT was withheld from the wages of employees in favor of the State budget according to the performance lists.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
206109	LLP "Kazzinc"	-	280	280	-
Total:		-	280	280	-

As evidence, the Payer provided:

- Decisions on foreclosure on wages and other types of income;
- payment orders.

№	Company name	Date of issue of the decision on foreclosure on wages and other types of income	Phys. Person whose salary is withheld	No. of the payment order	Date of payment order	Amount in thousands KZT
1	LLP "Kazzinc"	18.12.2015	Ramazanov A.B.	108247	12.04.2016	2
2	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	106549	14.03.2016	7
3	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	104859	12.02.2016	49
4	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	103167	15.01.2016	51
5	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	122672	15.11.2016	25
6	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	125537	14.12.2016	25
7	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	119330	11.10.2016	26
8	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	118197	14.09.2016	27
9	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	116428	12.08.2016	27
10	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	114608	14.07.2016	38
11	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	112458	14.06.2016	27
12	LLP "Kazzinc"	10.10.2012	Kizatuldin K.A.	110366	13.05.2016	26

№	Company name	Date of issue of the decision on foreclosure on wages and other types of income	Phys. Person whose salary is withheld	No. of the payment order	Date of payment order	Amount in thousands KZT
13	LLP "Kazzinc"	10.10.2012 Application of 08.08.2016 No. 181631082016H00 007 on the return of funds	Kizatuldin K.A. Kenzhibaev A.	108464	13.04.2016	28
14	LLP "Kazzinc"	Application of 08.08.2016 No. 181631082016H00 006 on the return of funds	Kenzhibaev A.	60801749	02.09.2016	(22)
15	LLP "Kazzinc"	Application of 08.08.2016 No. 181631082016H00 005 on the return of funds	Kenzhibaev A.	60812422	02.09.2016	(11)
16	LLP "Kazzinc"	Application of 08.08.2016 No. 181631082016H00 010 on the return of funds	Kenzhibaev A.	60811486	02.09.2016	(10)
17	LLP "Kazzinc"	Statement of 08.08.2016 No. 181631082016H00 011 on the return of funds	Kenzhibaev A.	60798654	02.09.2016	(11)
18	LLP "Kazzinc"	Application of 08.08.2016 No. 181631082016H00 009 on the return of funds	Kenzhibaev A.	60798653	02.09.2016	(12)
19	LLP "Kazzinc"	funds		60811484	02.09.2016	(12)
Total:						280

Discrepancy for the amount of 9 thousand KZT between JSC "Eurasian Energy Corporation" (hereinafter referred to as the "Payer") and the Recipient was formed due to the fact that the Payer does not specify this payment, t. it is produced by the enterprise on the basis of the writ of execution at the expense of the employee. Based on the purpose of payment, this amount should be, according to Payer, reflected on the personal account of an individual.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclassified
206109	JSC "Eurasian energy Corporation"	-	9	9	-
Total:		-	9	9	-

As evidence, the Payer provided payment orders:

№	Company name	Date of issue of the decision on foreclosure on wages and other types of income	Phys. Person whose salary is withheld	No. of the payment order	Date of payment order	Amount in thousands KZT
1	JSC "Eurasian energy Corporation"	Indebtedness for procedural costs to the state's income in	Semenov V.S.	10001167	09.02.2016	6

№	Company name	Date of issue of the decision on foreclosure on wages and other types of income	Phys. Person whose salary is withheld	No. of the payment order	Date of payment order	Amount in thousands KZT
2	JSC "Eurasian energy Corporation"	accordance with / I No. 3690-15-55 of 01.10.15. Indebtedness for procedural costs to the state's income according to / I No. 1529-15-55 of 01.10.15.	Tatshanov F.R.	10003858	06.05.2016	3
Total:						9

Discrepancy for the amount of 35 thousand KZT between JSC "Shubarkol Komir" (hereinafter referred to as the "Payer") and the Beneficiary was formed due to the fact that the Payer does not indicate this payment, as the third party receivables are extinguished. Based on the purpose of the payment, this amount is not reflected in the Payer report.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclassified
206109	JSC "Shubarkol Komir"	-	35	35	-
Total:		-	35	35	-

As evidence, the Payer provided the payment order:

№	Company name	Purpose of payment	No. of the payment order	Date of payment order	Amount in thousands KZT
1	JSC "Shubarkol Komir"	Transfer of receivables to the budget of the State Administration of the Akim of the Egindybulak rural district of the Karkaralinsky district under the agreement 301/10 / SZ of 28.07.2010. and according to the Act-reconciliation of mutual settlements as of 01.02.2016.	1073	31.03.2016	35
Total:					35

7. Subsoil users' allocations for social and economic development of the oblast and development of its infrastructure, BCC 206114

In thousands KZT

2016

Payers report	12 517 404
Recipient report	12 708 314
Discrepancy	190 910

Discrepancy on “Subsoil users' contributions to the social and economic development of the oblast and the development of its infrastructure” between the Payer data and Recipient data amounts to 190 910 thousand KZT.

Discrepancy information is shown below.:

№	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclassified
1	JSC “Trans Nafta Center”	-	186 566	-	186 566
2	LLP “Standard Cement”	-	4 344	4 344	-
Total		-	190 910	4 344	186 566

Unclassified discrepancy for JSC “TransNafta Center” was due to the fact that the Payer did not provide a report. In the reconciliation process from Payer received an electronic message that he can not write a letter officially, because the Society is liquidated, respectively, there is no seal. According to this message JSC “TransNafta Center” from July 5, 2016, the subsoil use contract was sold, in connection with this it is excluded from the list of subsoil use of the MID RK.

We additionally checked on the site of the MSR RK, http://kgd.gov.kz/ru/services/taxpayer_search/legal_entity, whether the Payer was excluded from the register of taxpayers of the RK and received the following information:

Search results:

№	Name	Type	TIN	BIN	Date of registration	Date of deregistration	Reason of deregistration
1	JSC “Trans Nafta Center”	lp	620200231043	070140006282	24.10.2003		

Information on the payment of taxes and other mandatory payments to the budget in the competence of the tax authorities (in accordance with subitem 1. item 1 of Article 557 of the Tax Code of the Republic of Kazakhstan, this information is not a tax secret)

Type of tax	Thousand KZT					
	In 2012	In 2013	In 2014	In 2015	In 2016	In 2017, as of the 1st day of the reporting period
Tax revenues	9 820,8	9 641,9	18 500,7	52 265,5	1 407 400,1	406 259,5

“The information is formed according to the personal accounts of taxpayers for the amounts of taxes and other mandatory payments actually received in the relevant period (excluding customs taxes and payments) to the consolidated budget, taking into account the amounts of return”

Since it is clear that, based on the search results on the site, the Payer has not been excluded from the taxpayer's register in connection with the liquidation, we estimate his discrepancy in the amount of 186 566 thousand KZT as not clarified.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
206114	JSC “Trans Nafta Center”	-	186 566	-	186 566
Total:		-	186 566	-	186 566

LLP “Standard Cement” (hereinafter referred to as the “Payer”) by letter, ref. No. 4-6-918 dated August 17, 2017, reports the following:

According to the Protocol of direct negotiations between the Ministry of Industry and New Technologies of the Republic of Kazakhstan and the Partnership for the Taskomirsay deposit in the South Kazakhstan Oblast from March 4, 2014, the Partnership was granted the right to conclude an appropriate subsoil use contract for coal mining at the Taskomirsay deposit in the South Kazakhstan oblast.

30.12.2015. The Partnership, having concluded with the Ministry of Energy of the Republic of Kazakhstan a contract for the implementation of coal mining at the Taskomirsay deposit in the Suzak region of the South Kazakhstan oblast No. 4246-SCM-ME dated December 30, 2016. (hereinafter referred to as the “Contract”), received the subsoil use right.

The Partnership, from the moment of registration and throughout the day, makes payments for taxes and other types of compulsory payments for core activities, namely, for the production of cement.

To date, in accordance with the Decision of the Expert Commission on Subsoil Use Issues of the Ministry of Energy of the Republic of Kazakhstan (Minutes No. 13 / MEDC of 28.07.2016), the beginning of the development of the Taskomirsay coal deposit has been postponed from 2016 to 2018. In this connection, for 2016 the Partnership paid for the obligation under the Contract in part of the subscription bonus of 5,000 thousand KZT.

The recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since accounting is kept separate in Payer's accounting, which caused discrepancy.

All the following discrepancy occurred in the production of cement. The payer provided supporting documents that confirm the receipt of the Recipient, but the report provided data on payments within the contract activity.

In the LLP report, “Standard Cement” does not specify a payment, and the Recipient specifies a payment in the amount of 4,344 thousand KZT. Discrepancy is a payment for the activities of cement production.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
206114	LLP “Standard Cement”	-	4 344	4 344	-
Total		-	4 344	4 344	-

As evidence, the Payer provided supporting documents in the form of payment orders:

№	Company name	No. of the payment order	Date of the payment order	Amount in thousands KZT
1	LLP “Standard Cement”	1431	13.06.2016	4 344
Total:				4 344

4.1.4. Customs payments

<i>In thousands KZT</i>	2016
Payers report	648 300 540
Recipient report	647 295 852
Discrepancy	5 304 422

Including the result of reconciliation in the context of customs payments:

1. Import customs duties, including, BCC 106101

<i>In thousands KZT</i>	2016
Payers report	7 409 759
Recipient report	7 513 293
Discrepancy	103 578

Discrepancy on the “Import customs duties” between the Payer's data and the Recipient's data amounts to 103,578 thousand KZT.

Discrepancy information is shown below.:

№	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
1	“Agip Karachaganak B.V.” (The Netherlands)	22	-	22	-
2	LLP “Standard Cement” LLP “Mining and metallurgy concern	-	101 866	101 866	-
3	ALTYN MM” Minor discrepancy in other companies due to	-	1 689	1 689	-
4	rounding	-	1	1	-
Total:		22	103 556	103 578	-

The branch of the company with limited liability “Agip Karachaganak B.V” as confirming documents sent payment order No. 1123 dated July 13, 2016 for the amount of 22.0 thousand KZT. Under this payment, an import duty on imported goods was paid, which was paid by LLP “EAT”.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
106101	The branch of the company with limited liability “Agip Karachaganak B.V”	22	-	22	-
Total		22	-	22	-

LLP “Standard Cement”(hereinafter referred to as the “Payer”) by letter, ref. No. 4-6-918 dated August 17, 2017, reports the following:

According to the Protocol of direct negotiations between the Ministry of Industry and New Technologies of the Republic of Kazakhstan and the Partnership for the Taskomirsaydeposit in the South Kazakhstan oblast from March 4, 2014, the Partnership was granted the right to conclude an appropriate subsoil use contract for coal mining at the Taskomirsay deposit in the South Kazakhstan oblast.

30.12.2015 the Partnership, having concluded with the Ministry of Energy of the Republic of Kazakhstan a contract for the implementation of coal mining at the Taskomirsay deposit in the Suzak region of the South Kazakhstan oblast No. 4246-SCM-ME dated December 30, 2016. (hereinafter referred to as the “Contract”), received the subsoil use right.

The Partnership, from the moment of registration and throughout the day, makes payments for taxes and other types of compulsory payments for core activities, namely, for the production of cement.

To date, in accordance with the decision of the Expert Commission on Subsoil Use Issues of the Ministry of Energy of the Republic of Kazakhstan (Minutes No. 13 / MEDC of 28.07.2016), the beginning of the development of the Taskomirsay coal deposit has been postponed from 2016 to 2018. In this connection, for 2016 the Partnership paid for the obligation under the Contract in part of the subscription bonus of 5,000 thousand KZT.

The recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since accounting is kept separate in Payer's accounting, which caused discrepancy.

All the following discrepancy occurred in the production of cement. The payer provided documents that confirm the receipt of the Recipient, but the report provided data on payments within the contract activity.

In the report, LLP “Standard Cement” does not specify a payment, and the Recipient indicates a payment in the amount of 101,866 thousand KZT. Discrepancy is a payment for the activities of cement production.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclassified
106101	LLP “Standard Cement”	-	101 866	101 866	-
Total:		-	101 866	101 866	-

As evidence, the Payer provided supporting documents in the form of payment orders:

№	Company name	No. of the payment order	Date of the payment order	Amount in thousands KZT
1	LLP “Standard Cement”	2517	04.10.2016	40 843
2	LLP “Standard Cement”	1711	19.07.2016	1 800
3	LLP “Standard Cement”	2189	05.09.2016	5 447
4	LLP “Standard Cement”	0123	20.01.2016	224
5	LLP “Standard Cement”	1622	07.07.2016	500
6	LLP “Standard Cement”	1517	27.06.2016	20
7	LLP “Standard Cement”	0722	07.04.2016	390
8	LLP “Standard Cement”	0098	18.01.2016	5 000
9	LLP “Standard Cement”	1093	12.03.2016	4 228
10	LLP “Standard Cement”	0054	13.01.2016	3 900
11	LLP “Standard Cement”	602	06.12.2016	22 000
12	LLP “Standard Cement”	58	11.03.2016	1 814
13	LLP “Standard Cement”	11	18.02.2016	12 350
14	LLP “Standard Cement”	3071	06.12.2016	250
15	LLP “Standard Cement”	0240	09.02.2016	3 100
Total:				101 866

LLP “Mining and metallurgy concern ALTYN MM” (hereinafter referred to as the “Payer”) by letter, ref. No. 209-06 / 17 of 12 June 2017, reports the following:

“The company has two branches of production:

- Production of precious metals;
- Contract activities.

But the main activity is the production of precious (precious) metals.

On May 27, 2016, a contract was concluded for the exploration of gold-bearing ores at a site in the Glubokovsky district of the East Kazakhstan oblast between the Ministry of Investment and Development of the Republic of Kazakhstan and LLP “Mining and metallurgy concern ALTYN MM”.

In this connection, the main part of tax and non-tax payments falls on the main activity - the production of precious (precious) metals, tk. contract activity is in the development stage - exploration, and in connection with a short period since the conclusion of the Contract, the costs in 2016 were not significant.”

The recipient provided data on the receipts for the legal entity as a whole, while the Payer in his reports singled out only the contractual part, since accounting is kept separate in Payer's accounting, which caused discrepancy.

All the following discrepancy occurred in the production of precious metals. The payer provided documents that confirm receipt of the Recipient, but the report provided data on payments within the contract activity.

In the LLP “Mining and metallurgy concern ALTYN MM” report does not specify a payment, and the Recipient indicates a payment of 1 689 thousand KZT. Discrepancies are payments for the activities of the production of precious metals.

BCC	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclassified
106101	LLP “Mining and metallurgy concern ALTYN MM”	-	1 689	1 689	-
Total:		-	1 689	1 689	-

Payer sent payment orders as supporting documents.

№	Company name	No. of the payment order	Date of the payment order	Amount in thousands KZT
1	LLP “Mining and metallurgy concern ALTYN MM”	001	15.06.2016	61
2	LLP “Mining and metallurgy concern ALTYN MM”	n/u	09.06.2016	31
3	LLP “Mining and metallurgy concern ALTYN MM”	001	30.03.2016	22
4	LLP “Mining and metallurgy concern ALTYN MM”	Receipt	30.03.2016	766
5	LLP “Mining and metallurgy concern ALTYN MM”	007	05.02.2016	43
6	LLP “Mining and metallurgy concern ALTYN MM”	001	19.04.2016	0,079
7	LLP “Mining and metallurgy concern ALTYN MM”	003	30.03.2016	2
8	LLP “Mining and metallurgy concern ALTYN MM”	2654	25.11.2016	705
9	LLP “Mining and metallurgy concern ALTYN MM”	525	23.06.2016	51
Total:				1 681

With a letter of ref. No. 273-08 / 17 of 08.08. 2017 Payer informs that the sum of 8 thousand KZT was paid in cash by the employee of the company, but it can not confirm this payment, as the document (fiscal receipt) is lost.

2. Customs duties on exported goods, BCC 106102

<i>In thousands KZT</i>	2016
Payers report	(311)
Recipient report	65

Discrepancy **376**

Discrepancy in the “Customs duties on exported goods” between the Payer's data and the Recipient's data amount to 376 thousand KZT.

Discrepancy information is shown below.:

№	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
	Karachaganak Petroleum				
1	Operating B.V.	-	43	43	-
2	LLP JV “Zhaikmunai”	(358)	(25)	333	-
Total:		(358)	18	376	-

Discrepancy for **Kazakhstan branch of Karachaganak Petroleum Operating B.V.** is 43 thousand KZT.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
	Karachaganak Petroleum				
106102	Operating B.V.	-	43	43	-
Total:		-	43	43	-

The Kazakhstan branch of Karachaganak Petroleum Operating B.V. as a supporting document sent a reconciliation verification certificate from the customs committee for the period from 01.01.2016 to 31.12.2016, for No. 54 of 14.04.2017 on the Department of State Revenues for WKO. In this act, the incoming balance is 43 thousand KZT and the return made to the same amount, which eventually gave “0”.

Customs fee	Balance at the beginning of the period (arrears -, overpayment +)	Returned	Paid	Balance at the end of the period (arrears -, overpayment +)
106102	-	43	43	-
Total:	-	43	43	-

LLP JV “Zhaikmunai” as confirming documents sent a payment order No. 63237057 from 05.12.2016, on which a return was made from the RSU “Department of State Revenues in the city of Oral” under BCC 106102 for the amount of 358 thousand KZT and the reconciliation certificate for customs payments and taxes with DSR WKO for 2016, where a return of 358 KZT thousand is also shown.

№	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
	LLP JV				
106102	“Zhaikmunai”	(358)	(25)	333	-
Total:		(358)	(25)	333	-

3. Export customs duties on crude oil, BCC 106110

In thousands KZT

2016

Payers report	629 480 935
Recipient report	628 181 146

Discrepancy **5 003 193**

Discrepancy in the “Export customs duty on crude oil” between the Payer's data and the Recipient's data amount to 5,003,193 thousand KZT.

Discrepancy information is shown below.:

№	Company	Summary data		Discrepancy	
		Payer	Recipient	Clarified	Unclarified
1	JSC “CNPC-AktobeMunaiGas”	26 218 226	23 066 735	-	3 151 491
2	JSC “Offshore Oil Company”	-	1 723 020	1 723 020	-
3	“KazMunayTeniz”	1 495 858	1 624 540	128 682	-
Total:		27 714 084	26 414 296	1 851 702	3 151 491

Unclarified discrepancy for **JSC “CNPC-AktobeMunaiGas”** was due to the fact that the Payer in the report showed more than the Recipient. No explanation from Payer.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
106110	JSC “CNPC-AktobeMunaiGas”	26 218 226	23 066 735	-	3 151 491
Total:		26 218 226	23 066 735	-	3 151 491

LLP JV “Zhaikmunai” sent a clarification letter and Halyk Bank checks as supporting documents. Discrepancy for the amount of 128,682 thousand KZT was due to the following reasons:

- the amount of 203,682 thousand KZT by the Payer was taken into account in 2015, as the payment date falls on December 31, 2015, but the Recipient considers this amount in 2016 as it is received;
- the amount of 75 000 thousand KZT The payer is accounted for in 2016, as the payment date falls on December 30, 2016, but the Recipient considers this amount in 2017 as it is received.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
106110	LLP “JV “Zhaikmunai”	1 495 858	1 642 540	128 682	-
Total:		1 495 858	1 642 540	128 682	-

According to **JSC “Offshore Oil Company” KazMunayTeniz**, Discrepancy was formed in the amount of 1 723 020 KZT under BCC 106110, under which the Payer wrote a letter about the reasons for Discrepancy No.01-09 / 779 of June 16, 2017. Discrepancy arose in connection with the implementation by the KMT Branch of the trust management of the Tolky and Borankol contract territories in accordance with trust management agreements No. 1- DU-UVS // 198-26 and No. 2-DU-UVS // 197-26 dated July 21, 2010 , concluded between the Ministry of Energy of the Republic of Kazakhstan and the JSC “National Company” KazMunayGas”. Payments of taxes and payments to the budget within the framework of trust management activities are

performed from a special bank account of trust management with the permission of the ME RK. Accounting for trust management activities is carried out separately, is reflected in the separate financial statements of the KMT branch and is not consolidated in the financial statements of the KMT, confirmed by the auditors of LLP “Ernst & Young”.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
106110	JSC “Offshore Oil Company” KazMunayTeniz”	-	1 723 020	1 723 020	-
Total:		-	1 723 020	1 723 020	-

4. Export customs duties on the goods developed from oil, BCC 106111

<i>In thousands KZT</i>	2016
The Report Of Payers	19 364
Report Of Recipient	19 364
Discrepancy	-

Differences in “Export customs duties on the goods developed from oil” between the data provided by Payers and those provided by Recipient is not revealed.

5. Customs duties on imported goods and (or) the import duties, the obligation to pay which arose before the entry into force of the Agreement on establishment and application in Customs Union of the order of enrollment and distribution of import customs duties, BCC 106112

<i>In thousands KZT</i>	2016
The Report Of Payers	4 355 371
Report Of Recipient	4 355 648
Discrepancy	277

Discrepancy on “Customs duties” between the data of Payer and Recipient data is the sum of 277 thousand KZT.

Information on Discrepancy shown below:

№	Company	Summary data		Discrepancy	
		Payers	Recipient	Clarified	Unclarified
1	Kazakhstan branch of “Nelson Petroleum Buzachi BV.”	163	440	277	-
Total:		163	440	277	-

For the local branch of “Nelson petroleum Buzachi B. V.” company formed a discrepancy in the amount of 277 thousand KZT, according to BCC 106112 where the Payer has provided the payment order and absolute personal account. Payments were made by the Buzachi Operating LTD Branch, according to the letter, ref. No. 02-917-10 dated 22 May 2017, on behalf and by order of the Branch of the Corporation CNPC International (Buzachi) BV, Nelson Petroleum Buzachi BV and Buzachi in the total

amount of 440 thousand KZT. Specifically for “Nelson” payments were made to 163 thousand KZT for paid payment orders.

№	Company name	№ payment order/cheque	Date of the payment order	Amount in thousands KZT
1	Branch of “BUZACHI OPERATING” LTD company	1345	18.05.2016	131
2	Branch of “BUZACHI OPERATING” LTD company	1956	07.07.2016	6
3	Branch of “BUZACHI OPERATING” LTD company	2252	17.08.2016	6
4	Branch of “BUZACHI OPERATING” LTD company	2909	26.10.2016	7
5	Branch of “BUZACHI OPERATING” LTD company	3501	14.12.2016	13
Total:				163

5. Proceeds from the implementation of customs control and customs procedures, BCC 106201

<i>In thousands KZT</i>	2016
The Report of Payers	6 456 920
Report of Recipient	6 457 969
Discrepancy	7 131

Differences on “Receipts from customs control and customs procedures” between the data provided by Payers and by Recipient are equal to 7 131 thousand KZT.

Information on Discrepancy shown below:

№	Company	Summary data		Discrepancy	
		Payers	Recipient	Clarified	Unclassified
1	JSC “CNPC-AktobeMunaiGas” LLP “Offshore Oil Company	318 943	319 010	-	67
2	“KazMunayTeniz” “Agip Karachaganak B.	-	776	776	-
3	V.” (Netherlands)	121	-	121	-
4	LLP JV “Zhaikmunai”	312 251	313 051	800	-
5	JSC “TNC “Kazkhrom” Kazakhstan branch of	38 408	35 513	2 895	-
6	“Nelson Petroleum Buzachi BV.”	65 724	65 755	31	-
7	LLP “Standard Cement”	-	2 059	2 059	-
8	LLP “Bast”	178	153	25	-
9	LLP “MMC ALTYNMM”	-	357	357	-
Total:		735 625	736 675	7 065	67

Unexplained discrepancy according to JSC “CNPC Aktobemunaigas” was due to the fact that the Payer showed the report an amount less than the Recipient. Explanation from the Payer is received.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclassified
106201	JSC “CNPC Aktobemunaigas”	318 943	319 010	-	67
Total:		318 943	319 010	-	67

At JSC “Offshore oil company “KazMunayTeniz” was established discrepancy in the amount of 776 thousand KZT, on BCC 106201 where the Payer has written a letter about the reasons for discrepancy No. 201-09/779 dated 16 June 2017. Discrepancy arose in connection with the exercise of a Branch of KMT activities asset management contract territories Tolkyin and Borankol in accordance with the agreements of trust management No. 1 –NB-HC//198-26 and No. 2 –NB-HC //197-26 of 21.07.2010 concluded between the Ministry of Energy of the Republic of Kazakhstan and JSC “National company “KazMunayGas”. Payment of taxes and payments to the budget in the framework of trust management are carried out from the special Bank accounts of trust management with the permission of the Ministry of economy of RK. The accounting activities of the trust is separately reflected in the separate financial statements of the branch of the KMT and not consolidate in the approved auditors LLP “Ernst & Young” the financial statements of KMT.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
106201	LLP “Offshore Oil Company “KazMunayTeniz”	-	776	776	-
Total:		-	776	776	-

Branch of limited liability partnership “Agip Karachaganak B.V.” as supporting documents sent payment order № 705 from 04.05.2016 in the amount of 23 thousand KZT and No. 1122 of 13.07.2016 in the amount of 98 thousand KZT, only 121 thousand KZT, which shows what has been paid, the customs charge is that paid for LLP “EAT”.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
106201	Branch of limited liability company “Agip Karachaganak B. V”	121	-	121	-
Total:		121	-	121	-

LLP JV “Zhaikmunai” as supporting documents sent a letter of explanation and receipts of Halyk Bank. Differences in the amount of 800 thousand KZT occurred for the following reasons:

- the amount of 1 950 thousand KZT taken into account by the Payer in 2015, as the due date falls on 31.12.2015, but the Receiver takes into account this amount in 2016;
- the amount of 1 150 thousand KZT taken into account by the Payer in 2016, as date of payment falls on 30.12.2016, but the Receiver takes into account this amount in 2017 in accordance with receiving.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
106201	LLP JV “Zhaikmunai”	312 251	313 051	800	-
Total:		312 251	313 051	800	-

Discrepancy of 2 895 thousand KZT between JSC “Kazchrome” (hereinafter Payer) and the Recipient was formed as a result of the fact that the Recipient has shown an amount less than the Payer, the Payer as supporting documents provided reconciliation reports that confirm the payment amount of the Payer.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
106201	JSC "TNC "Kazkhrom"	38 408	35 513	2 895	-
Total:		38 408	35 513	2 895	-

The payer as confirmation was provided by the Acts of reconciliation with customs authorities for the period 01 January – 31 December 2016.

Branch/ office	№ check reconciliation report in DPR	Date of issue of the reconciliation report	According to Payer	According to Recipient	Discrepancy
Aksu Ferroalloy plant	68	13.03.2017	18 600	17 200	1 400
Donskoy Ore Mining and Processing Plant	6 255 340	10.01.2017 07.06.2016 15.09.2016	460 340 385	460 340 385	- - -
Aktobe ferroalloys plant	47 N/A	03.02.2017 N/A	11 700 6 923	10 000 6 923	1 700 -
JSC "TNC "Kazkhrom"	-	-	-	205	205
Kazmarganets Mining Enterprise(branch JSC "TNC "Kazkhrom")	N/A	07.03.17	-	-	-
Итого:			38 408	35 513	2 895

For the Kazakhstan branch of "Nelson Petroleum Buzachi B. V." company was established discrepancy in 31 thousand KZT on BCC 106201:

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
106201	FCC "Nelson Petroleum Buzachi B. V."	65 724	65 755	31	-
Total:		65 724	65 755	31	-

The payer have submitted a letter of explanation and absolute account as proof:

№	Document date	№ document	Paid	Accrued	Accrued interest	Reduced	Return/ the delay	Comment
1777	2016-05-13	50711/02081 1/0005741/04	-	31	-	-	-	mistakenly credited amount CDC
1707	2016-01-12	92	8 454	-	-	-	-	
1711	2016-01-18	1515	564	-	-	-	-	
1717	2016-01-22	199	234	-	-	-	-	
1733	2016-02-15	462	9 534	-	-	-	-	
1822	2016-06-17	1738	41	-	-	-	-	
1828	2016-07-04	1879	271	-	-	-	-	
1842	2016-08-18	2266	11 843	-	-	-	-	
1843	2016-08-19	50711/02081 1/0005741//	31	-	-	-	-	It is not payment, the reversal of amounts erroneously credited CDC

№	Document date	№ document	Paid	Accrued	Accrued interest	Reduced	Return/ the delay	Comment
1853	2016-08-31	2396	22	-	-	-	-	
1854	2016-08-31	2392	7	-	-	-	-	
1855	2016-08-31	2390	0	-	-	-	-	
1863	2016-09-06	2432	105	-	-	-	-	
1873	2016-09-16	2563	11 025	-	-	-	-	
1874	2016-09-29	2668	4	-	-	-	-	
1877	2016-10-03	2685	11	-	-	-	-	
1886	2016-10-28	2840	3 137	-	-	-	-	
1893	2016-11-10	3098	0	-	-	-	-	
1895	2016-11-15	3169	13 649	-	-	-	-	
1896	2016-11-23	3263	136	-	-	-	-	
1903	2016-12-14	3517	6 688	-	-	-	-	
Total:			65 755	31	-	-		
Total amount of actually paid in the beginning of the year			65 724					

LLP “Standard Cement” (hereinafter Payer) by the letter, Ref. No. 4-6-918 of 17.08.2017 reports the following:

According to the Protocol of direct negotiations between Ministry of industry and new technologies of the Republic of Kazakhstan and the Association for Taskomirsay deposit in SKO of March 04, 2014, the Partnership granted the right to conclude a contract on subsoil use for extraction of coal at the Taskomirsay deposit in South Kazakhstan oblast.

30.12.2015. Partnership received the right of subsoil use by concluding the contract for the implementation of coal production at Taskomirsay Deposit in the Suzak district of South Kazakhstan oblast № 4246-SCM-FOE of 30.12.2016 (hereinafter - Contract) with the Ministry of energy of the Republic of Kazakhstan.

The partnership makes payments for taxes and other mandatory payments by main activity, namely the production of cement from the date of registration and throughout the day.

Today, in accordance with the Decision of the Expert Commission on subsoil use of the Ministry of energy of the Republic of Kazakhstan (minutes No. 13/MEDC from 28.07.2016), start of Taskomirsay coal deposits development postponed from 2016 to 2018. Therefore, for 2016, the Partnership paid the obligation under the Contract in part of the subscription bonus in the amount of 5 000 thousand KZT.

The recipient has provided data on the income of the legal person as a whole, while the Payer in their reports highlighted only the contract portion, as the accounts of the Payer is separate accounting, which caused discrepancy.

All of the following discrepancy occurred for the production of cement. Payer has provided supporting documents which confirm income of the recipient, but the report provided data on payments within the contract activities.

In the report of LLP “Standard Cement” does not indicate a payment, and the Payee indicates payment in the amount of 2 059 thousand KZT. The difference is the payment for the cement production.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclassified
106201	LLP “Standard Cement”	-	2 059	2 059	-
Total:		-	2 059	2 059	-

As confirmation, the Payer has to provide supporting documents in the form of payment orders:

№	Company name	№ of payment order	Date of the payment order	Amount in thousands of KZT
1	LLP "Standard Cement"	3227	28.12.2016	100
2	LLP "Standard Cement"	2519	04.10.2016	130
3	LLP "Standard Cement"	1710	19.07.2016	500
4	LLP "Standard Cement"	2187	05.09.2016	90
5	LLP "Standard Cement"	1894	04.08.2016	500
6	LLP "Standard Cement"	0241	09.02.2016	200
7	LLP "Standard Cement"	1621	07.07.2016	50
8	LLP "Standard Cement"	1516	27.06.2016	41
9	LLP "Standard Cement"	0053	13.01.2016	100
10	LLP "Standard Cement"	1092	12.05.2016	170
11	LLP "Standard Cement"	0721	07.04.2016	43
12	LLP "Standard Cement"	1651	12.07.2016	100
13	LLP "Standard Cement"	56	11.03.2016	35
Total:				2 059

Discrepancy in the amount of 25 thousand KZT between LLP "Bast" (hereinafter Payer) and the Recipient was formed due to the fact that the Payer showed incorrect IIC (individual identity code) at the payment. The recipient confirmed that it is the payment not received due to incomplete IIC.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclearified
106201	LLP "Bast"	178	153	25	-
Total:		178	153	25	-

As confirmation, the Payer has to provide supporting documents in the form of the payment order:

№	Company name	№ of payment order	Date of the payment order	Amount in thousands of KZT
1	LLP "Bast"	00001609	15.11.2016	25
Total:				25

LLP "Mining and metallurgy concern ALTYN MM" (hereinafter Payer) letter, Ref. No. 209-06/17 of 12.06.2017 the city reports the following:

"The company has two production sectors:

- Production of precious metals;
- Contracted activities.

But the main activity is the production of noble (precious) metals.

On may 27, 2016, the contract was signed for exploration of gold ore in the area in the Glubokovskiy district of East Kazakhstan oblast of Kazakhstan between the Ministry for investment and development of Kazakhstan and LLP "Mining and metallurgy concern ALTYN MM".

Therefore, the whole of tax and non-tax payments accounted for the main activity – the production of noble (precious) metals as contract activity is at a stage of development – exploration, and due to the short period since the conclusion of the Contract, costs in 2016 were not substantial."

The recipient has provided data on the income of the legal person as a whole, while the Payer highlighted only the contract portion in their reports, as the accounts of the Payer is separate accounting, which caused discrepancy.

All of the following discrepancy occurred for the production of noble metals. Payer has provided supporting documents which confirm income of the recipient, but the report provided data on payments within the contract activities.

In the report of LLP “Mining and metallurgy Concern ALTYN MM” does not indicate a payment, and the Payee indicates payment in the amount of 357 thousand KZT. Discrepancy are payments for activities production of precious metals.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclassified
106201	LLP “Mining and metallurgy Concern ALTYN MM”	-	357	357	-
Итого:		-	357	357	-

Payer sent the payment order as supporting documents.

№	Company name	№ of payment order	Date of the payment order	Amount in thousands of KZT
1	LLP “Mining and metallurgy Concern ALTYN MM”	2653	25.11.16r.	21
2	LLP “Mining and metallurgy Concern ALTYN MM”	N/A	29.08.2016	23
3	LLP “Mining and metallurgy Concern ALTYN MM”	001	15.06.2016	32
4	LLP “Mining and metallurgy Concern ALTYN MM”	N/A	09.06.2016	23
5	LLP “Mining and metallurgy Concern ALTYN MM”	001	29.03.2016	23
6	LLP “Mining and metallurgy Concern ALTYN MM”	001	30.03.2016	23
7	LLP “Mining and metallurgy Concern ALTYN MM”	Receipt	30.03.2016	23
8	LLP “Mining and metallurgy Concern ALTYN MM”	005	05.02.2016	45
9	LLP “Mining and metallurgy Concern ALTYN MM”	001	19.04.2016	33
10	LLP “Mining and metallurgy Concern ALTYN MM”	004	30.03.2016	23
11	LLP “Mining and metallurgy Concern ALTYN MM”	002	30.03.2016	32
12	LLP “Mining and metallurgy Concern ALTYN MM”	2552	18.11.2016	24
13	LLP “Mining and metallurgy Concern ALTYN MM”	524	23.06.2016	32
Total:				357

6. Special protective, antidumping and countervailing duties, BCC 106202

<i>In thousands KZT</i>	2016
The Report Of Payers	578 502
Report Of Recipient	768 367
Discrepancy	189 867

Discrepancy on “Receipts from customs control and customs procedures” between the data of Payer and Recipient data is 189 867 thousand KZT.

Information on Discrepancy shown below:

№	Company	Summary data		Discrepancy	
		Payers	Recipient	Clarified	Unclarified
1	JSC “CNPC-AktobeMunaiGas”	-	172 000	-	172 000
2	LLP “Standard Cement”	-	17 866	17 866	-
3	Small discrepancy for other companies due to round-off	-	1	1	-
Total:		-	189 867	17 867	172 000

Unexplained discrepancy in JSC “CNPC Aktobemunaigas” was due to the fact that the Payer did not report the data, and the Recipient reported data. Explanation from the Payer is not received.

BCC	Company	According to Payer	According to Recipient	Discrepancy	
				Clarified	Unclarified
106202	JSC “CNPC Aktobemunaigas”	-	172 000	-	172 000
Итого:		-	172 000	-	172 000

LLP “Standard Cement” (hereinafter Payer) by the letter, Ref. No. 4-6-918 from 17.08.2017 reports the following:

According to the Protocol of direct negotiations between Ministry of industry and new technologies of the Republic of Kazakhstan and Association for Taskomirsay deposit in SKO of March 04, 2014, the Partnership granted the right to conclude a contract on subsoil use for extraction of coal at the Taskomirsay deposit in South Kazakhstan oblast.

30.12.2015. Partnership by concluding the contract with the Ministry of energy of the Republic of Kazakhstan for the implementation of coal production at Taskomirsay deposit in Suzak district of South Kazakhstan oblast № 4246-SCM-FOE of 30.12.2016. (hereinafter - Contract), received the right of subsoil use.

The partnership makes payments for taxes and other mandatory payments by main activity, namely the production of cement from the date of registration and throughout the day.

Today, in accordance with the decision of the Expert Commission on subsoil use of the Ministry of energy of the Republic of Kazakhstan (protocol No. 13/MEDC of 28.07.2016), the beginning of development of Taskomirsay coal deposit postponed from 2016 to 2018. Therefore, for 2016, the Partnership paid the obligation under the Contract in part of the subscription bonus in the amount of 5 000 thousand KZT.

The recipient has provided data on the income of the legal person as a whole, while the Payer in their reports highlighted only the contract portion, as the accounts of the Payer is separate accounting, which caused discrepancy.

All of the following discrepancy occurred for the production of cement. Payer has provided supporting documents which confirm income of the recipient, but the report provided data on payments within the contract activities.

In the report of LLP “Standard Cement” does not indicate a payment, and the Payer indicates payment in the amount of 17 866 thousand KZT. The difference is the payment for the cement production.

BCC	Company	Summary data		Discrepancy	
		Payers	Recipient	Payers	Recipient
106202	LLP “Standard Cement”	-	17 866	17 866	-
Total:		-	17 866	17 866	-

As confirmation, the Payer has to provide supporting documents in the form of payment orders:

№	Company name	№ of payment order	Date of the payment order	Amount in thousands of KZT
1	LLP "Standard Cement"	2516	04.10.2016	299
2	LLP "Standard Cement"	2128	31.08.2016	140
3	LLP "Standard Cement"	2190	05.09.2016	4 945
4	LLP "Standard Cement"	1713	19.07.2016	320
5	LLP "Standard Cement"	2119	31.08.2016	52
6	LLP "Standard Cement"	0315	22.02.2016	100
7	LLP "Standard Cement"	1095	12.05.2016	4 560
8	LLP "Standard Cement"	13	18.02.2016	7 450
Total:				17 866

4.2. Payments reflected in foreign currency (USD)

	2016 <i>In thousands of USD</i>	2016 <i>In thousands of KZT</i>
Report of Payers	2 219 912	755 509 962
Report of Recipient	2 177 858	755 509 962
Discrepancy	42 054	-

Including the result of reconciliation in the context of taxes paid in foreign currency:

1. Corporate income tax BCC 101102-101108

	2016 <i>In thousands of USD</i>	2016 <i>In thousands of KZT</i>
Report Of Payers	1 504 234	518 246 845
Report Of Recipient	1 504 234	518 246 845
Discrepancy	-	-

2. Individual income tax BCC 101204

	2016 <i>In thousands of USD</i>	2016 <i>In thousands of KZT</i>
Report Of Payers	42 076	7 237
Report Of Recipient	22	7 237
Discrepancy	42 054	-

This discrepancy is due to the fact that LLP “Tengizchevroil” according to BCC 101204 showed in the report Attachment 1 Form of sales tax payment report filled out by the Payer/Recipient in dollars, more than specified in Attachment 1-1 “Form on payments made in foreign currency”.

According to the oral explanation of the Payer, this discrepancy is due to the fact that the “Chevron” company is directly responsible for paying the income tax for their employees which are seconded by LLP “Tengizchevroil” on this BCC, but we do not specify these payments in its report, as the “Chevron” makes payment in tax authorities, not LLP “Tengizchevroil”. (see Attachment 1-3).

3. The property tax BCC 104101

	2016 <i>In thousands of USD</i>	2016 <i>In thousands of KZT</i>
Report of Payers	37 140	12 582 884
Report of Recipient	37 140	12 582 884
Discrepancy	-	-

4. VAT BCC 105101-105104

	2016 <i>In thousands of USD</i>	2016 <i>In thousands of KZT</i>
Report of Payers	178 318	61 150 494
Report of Recipient	178 318	61 150 494
Discrepancy	-	-

5. Tax on extraction of mineral resources from the organizations of oil sector, BCC 105326

	2016 <i>In thousands of USD</i>	2016 <i>In thousands of KZT</i>
Report of Payers	132 376	49 163 290
Report of Recipient	132 376	49 163 290
Discrepancy	-	-

6. The share of the Republic of Kazakhstan on production sharing BCC 105328

	2016 <i>In thousands of USD</i>	2016 <i>In thousands of KZT</i>
Report of Payers	325 768	114 359 212
Report of Recipient	325 768	114 359 212
Discrepancy	-	-

Seven Payers making payment of the taxes and other obligatory payments in the budget in foreign currency (USD) according to subsoil use contracts and represented Reports in USD.

At reconciliation of the Report for each company recalculated foreign currency into KZT on the date of payments transfer to the budget.

4.3. Total taxes and other obligatory payments to the budget

<i>In thousands of KZT</i>	2016
Report of Payers	2 405 087 048
Report of Recipient	2 418 710 556
Discrepancy	27 362 461

4.3.1. Tax payments to the budget from Payers of oil and gas sector

<i>In thousands of USD</i>	2016
Report of Payers	1 925 785 654
Report of Recipient	1 938 232 468
Discrepancy	25 223 640

Discrepancy in the total of “Tax payments to the budget from companies in the oil and gas sector” between the data of Payer and Recipient data is 25 223 640 thousand KZT.

4.3.2. Tax payments to the budget from Payers of mining sector

<i>In thousands of USD</i>	2016
Report of Payers	479 301 395
Report of Recipient	480 478 088
Discrepancy	2 138 821

Discrepancy in the total of “Tax payments to the budget from mining sector Payers” between the data of Payer and Recipient data is of 2 138 821 thousand KZT.

4.4. The distribution of taxes and other obligatory payments in budgets

National fund

<i>In thousands of USD</i>	2016
Report of Payers	1 006 898 939
Report of Recipient	1 005 275 834
Discrepancy	3 673 096

Tax payments in the Republican budget

<i>In thousands of USD</i>	2016
Report of Payers	1 124 593 047
Report of Recipient	1 125 707 468
Discrepancy	8 381 365

Tax payments to the local budget

<i>In thousands of USD</i>	2016
Report of Payers	273 595 064
Report of Recipient	287 727 258
Discrepancy	15 308 000

In 2016, the Payers and the Recipient in their reports did not stated data on budget payments in kind, therefore they are not shown in this report.

4.5. The level and percentage of unidentified discrepancy

We determined the level and percentage of unidentified discrepancy, the results are presented below:

№	Types of payments to the budget	BCC	The Data Of Taxpayers	The Recipient Data	Outstanding discrepancy	% outstanding discrepancy
I-III. Taxes and non-tax revenues						
1	Corporate income tax	101110-101105	917 319 303	914 903 706	2 830 614	0,309%
2	Individual income tax	101201-101205	69 877 376	83 655 037	22 580	0,027%
3	Social tax	103101	79 397 268	79 748 244	4 727	0,006%
4	The tax on property of legal entities and individual entrepreneurs	104101	63 963 534	63 661 583	527 761	0,829%
5	Land tax	104309 (104303, 104308)	3 086 212	3 100 528	-	0,000%
6	The tax on vehicles from legal entities	104401	517 827	521 534	788	0,151%
7	The value added tax	105101, 105102, 105104, 105113, 105114, 105115	(176 677 300)	(175 161 299)	1 203 486	0,687%
8	The excise tax on crude oil and gas condensate produced in Kazakhstan	105229	-	-	-	0,000%
9	Other tax revenues	107109, 107110	11 528	12 765	1 480	11,594%
10	The excess profit tax, except for receipts from oil sector enterprises	105302	7 348 964	7 348 964	-	0,000%
11	The excess profit tax from organizations of petroleum sector	105322	37 631 951	38 467 698	835 747	2,173%
12	Bonus, except for receipts from oil sector organisations	105305	3 807 652	3 965 654	157 501	3,972%
13	Bonuses from the organizations of oil sector	105325	6 197 454	6 197 454	-	0,000%
14	Tax on extraction of mineral resources, except for receipts from oil sector organisations	105306	146 379 060	146 388 271	-	0,000%
15	Tax on extraction of mineral resources from the organizations of oil sector	105326	274 878 421	274 875 221	3 200	0,001%
16	Rent tax on exports, except for receipts from oil sector organisations	105307	2 307 389	2 307 389	-	0,000%
17	Rent tax on export from the organizations of oil sector	105327	114 281 319	114 281 318	-	0,000%
18	The share of the Republic of Kazakhstan on production sharing under the concluded contracts, except for receipts from oil sector organisations	105308	-	-	-	0,000%
19	The share of the Republic of Kazakhstan on production sharing under the concluded contracts, from oil sector organisations	105328	122 397 854	122 397 854	-	0,000%
20	Additional payment of subsoil user carrying out activities for the contract on production section, from the organizations of oil sector	105329	-	-	-	0,000%
21	The fee for use of specially protected natural territories of Republic	105313	30 670	30 670	-	0,000%

№	Types of payments to the budget	BCC	The Data Of Taxpayers	The Recipient Data	Outstanding discrepancy	% outstanding discrepancy
22	The fee for use of specially protected natural territories of local importance	105314	-	-	-	0,000%
23	Fee for land use	105315	4 712 178	4 712 889	438	0,009%
24	Payment for emissions into the environment	105316	39 335 557	39 430 472	59 888	0,152%
25	Payment for reimbursement of historical costs	105319	17 363 138	17 733 122	369 984	2,086%
26	Fee for use of the radio spectrum	105309	82 354	82 355	-	0,000%
27	The fee for use of navigable waterways	105310	(88)	(88)	-	0,000%
28	The fee for using water resources of superficial sources	105303	362 467	362 467	-	0,000%
29	The fee for forest use	105304	1 093	1 093	-	0,000%
30	The funds received from the natural resources on claims for damages, except for receipts from oil sector organisations	204110	1 718 420	1 741 960	-	0,000%
31	Administrative fines, penalties, sanctions, penalties imposed by the Central state bodies, its territorial subdivisions on the organizations of oil sector	204201	627 002	627 447	477	0,076%
32	Other fines, penalties, sanctions, charges imposed by state institutions financed from the Republican budget to the organizations of oil sector	204202	379 226	379 226	-	0,000%
33	The funds received from the natural resources on claims for damages by the organizations of oil sector	204203	6 742 701	6 742 701	-	0,000%
34	Other non-tax revenues in the Republican budget, except for receipts from oil sector organisations	206108	960	1 337	2	0,150%
35	Other non-tax revenues to the local budget	206109	187 403	188 606	-	0,000%
36	Other non-tax receipts from oil sector organisations	206111	212	212	-	0,000%
37	Payments of subsoil users on the socio-economic development of the region and the development of its infrastructure	206114	12 517 404	12 708 314	186 566	1,468%
	Total taxes the reconciliation of the EITI		1 756 786 509	1 771 414 704	6 205 239	0,350%
1	Import customs duties (other duties, taxes and fees having equivalent action), paid in accordance with the Agreement on establishment and application in customs Union of the order of enrollment and distribution of import customs duties (other duties, taxes and fees	106101	7 409 759	7 513 293	-	0,000%

№	Types of payments to the budget	BCC	The Data Of Taxpayers	The Recipient Data	Outstanding discrepancy	% outstanding discrepancy
	having equivalent action)					
2	Customs duties on exported goods	106102	-311	65	-	0,000%
3	The total customs duties for imported goods	106105	-	-	-	0,000%
4	Export customs duty on crude oil	106110	629 480 935	628 181 146	3151491	0,502%
5	Export customs duties on the goods developed from oil	106111	19 364	19 364	-	0,000%
6	Customs duties on imported goods and (or) the import duties, the obligation to pay which arose before the entry into force of the Agreement on establishment and application in customs Union of the order of enrollment and distribution of import customs duties (other duties, taxes and fees having equivalent action)	106112	4 355 371	4 355 648	-	0,000%
7	Proceeds from the implementation of customs control and customs procedures	106201	6 456 920	6 457 969	67	0,001%
8	Special protective, antidumping and countervailing duties	106202	578 502	768 367	172 000	22,385%
	Total customs payments according to EITI reconciliation		648 300 540	647 295 852	3 323 558	0,513%
	Total sections I-IV		2 405 087 049	2 418 710 556	9 528 797	0,394%

As can be seen, the percentage of unresolved discrepancy amounted to 0,394% and was formed mainly by differences on special protective, antidumping and countervailing duties (22,385%), Corporate income tax (0.309%) and Export customs duties on crude oil (0.502%) on the Payer of CNPC-Aktobemunai JSC due to the fact that no explanations have been received from the Payer. Outstanding discrepancy does not exceed 1% of all revenues and is not material.

4.6. Reconciliation of social investments

In 2017, under preparation of the 12th EITI National Report for 2016, along with the tax and non-tax payments, the Independent Consultant reconciled subsoil users' data on the financing of social activities (projects, programs, social facilities, including those transferred to the local administrative authorities (hereinafter referred to as LAA) in the regions with their further development of the LAA in the framework of agreements, memorandums, contracts, social partnership, etc. (<http://eiti.geology.gov.kz/en/national-reports>).

So, according to the LAA data in 2016, subsoil users' expenditures amounted to 38 286 432 thousand KZT, objects were transferred to the book value of 6 335 471 785 thousand KZT. At the same time, according to the subsoil users' data who have been reconciled (for oil and gas companies, the volume of tax deductions for each amounted to more than 1 billion KZT, mining - more than 100 million KZT), in fact, 39 114 335 thousand KZT was transferred, and 8 569 763 thousand KZT transferred to the balance of facilities. The largest discrepancy in the amount of transferred objects, which comprise 6 332 489 883 thousand KZT at the North Caspian Operating Company (NCOC) is unclear. This Company does not participate in the reconciliation, since it is not a subsoil user, its affiliates, as separate taxpayers, participated in the reconciliation.

In order to ensure transparency and assess the effectiveness of expenditures of the subsoil users' resources on social development of regions and their development of LAA, the results of the reconciliation were published on the EITI National website of Kazakhstan in Appendix 3-2 <http://eiti.geology.gov.kz/ru/national-reports>. Also, explanations for each discrepancy have been published (Appendix 13). During the reconciliation, subsoil users submitted copies of supporting documents in the form of memorandums, contracts, general register of payment orders for all paid expenses.

V. RECOMMENDATIONS

Based on the results of the reconciliation, we recommend:

To include NCS in the ToR for the preparation of report:

- 1) Use the reports of previous years (if the situation has not changed, it is enough to give a link to the report of the previous year and not duplicate the already existing analytics, schemes, etc. in the new report, until the information contained in them is obsolete).
- 2) Compare the report data with the previous year, and explain the changes that occurred. The report should be more analytical than overview.
- 3) To include in the TOR a preparation of the report, it is necessary to identify 1-3 key topics for elaboration in the contextual part in order to subsequently initiate public discussions.
- 4) To include in the TOR for the preparation of the Report a separate annex according to the reconciliation of enterprises in the quasi-public sector
- 5) To add a column indicating the company listing data on the stock exchanges (the name of the stock exchange and the company code) in the Report Form (Appendix 1-4 and 1-5).
- 6) To include in the TOR and instructions for completing the reports that the Payer having the subsoil use trustee must include payments on taxes and payments in the EITI report within the framework of the trust management activity.
- 7) The instruction on filling out the reporting forms by the Payers should be brought into line with the updated Terms of Reference, in particular, when filling in the data on currency payments, on payments by third parties when the reorganization procedure is performed by the Payers.
- 8) To focus on the question of public sector and quasi-fiscal charges, the activities for uniform approach on disclosure of this information should be included into the Working plan on implementation of the EITI in Kazakhstan 2018.
- 9) In the next EITI report, use the pilot's advice on mainstreaming.
- 10) At preparation of the list of companies for verification, the RK MID (Secretariat) should take into account changes in legal status at assignment of subsoil using to other artificial person, reorganisation, liquidation cancelled to the contracts and so forth for the moment of constitution of the list with his subsequent updating at such changes during the year.
- 11) To make a decision on the reporting of companies in case of their liquidation, transfer or sale of the subsoil use right (the Company must report on the EITI from the beginning of the financial year to the moment of liquidation/transfer/sale)
- 12) The competent and authorized state bodies should take measures to improve the quality of reporting in terms of reflecting social expenditure indicators, taking into account the synchronization of data in the annual reports of the LCU and the EITI, both in terms of general expenses and those listed at BCC 206114. To the EITI Secretariat of the Republic of Kazakhstan in order to reduce the difference according to the Appendix 3-2 "Summary Report on Expenditures for Social Development and Local Infrastructure, Except for Funds Listed on BCC 206114" to Form 3-1 for Akimats, it is necessary to explain that the form does not contain data on BCC 206114.

Recommendations of Working Group on the reconciliation:

- 13) NCS should discuss a possible significant threshold of discrepancies on each payment, explanations on discrepancies are not required (for example, less than 10 MCI). It is necessary, as discrepancies to insignificant amounts is frequent, for example 2 or 10 thousand KZT due to documents missing or owing to payment for the third persons on (physical) court order.
- 14) At preparation of ToR for the following EITI Report for 2017 to define the list of details revealing contract (including PSA and barter) conditions and their performance maximally according to current legislation on companies being a subject of reconciliation.
- 15) National EITI Secretariat should send enquiry to the Ministry of Finance to grant written explanations, whether can and in which cases one legal person to execute payment to the budget for other legal person (discrepancy in case of payments for the third parties are fixed in the EITI reports throughout years of time). RK MF should take measure for application of unified mode at implementation of such payments and their fixing. To consider at the NCS.
- 16) National EITI Secretariat should send enquiry to the RK MF for the explanation of the reasons on which the most large discrepancies occurred through no fault of the Payer during implementation of reconciliation. RK MF should take measure for development of the system of the account of taxes and payments. Responsible persons of the RK MF should be obliged to provide to the Independent Adviser explanations in case of revealing of discrepancies through no fault of companies (at granting by the companies of verifying accounting documents). The member of the NCS presenting the Ministry of Finance should follow the application of this commitment.
- 17) If companies do not provide the reports or not provide explanation on discrepancies:
 - competent authority shall report to the NCS on measures taken on these companies.
 - the party of companies in the NCS (KazEnergy and AGMP) shall develop a plan of measures on work with such companies entering specified associations.To discuss at the NCS.

General Director,
Auditor of the Republic of Kazakhstan
Qualification certificate №0318
Of May 2, 1997

T.E. Nurgaziyev

Project Manager,
Auditor of the Republic of Kazakhstan

M.S. Ilyasov

Auditor of the Republic of Kazakhstan:
Qualification certificate № – 0000238
Of February 18, 2015

S.A. Seitmagzimova