OPERATING AND FINANCIAL REVIEW

For the six months ended June 30, 2016

The following document is intended to assist the understanding and assessment of trends and significant changes in the Company's results and financial condition. This review is based on the reviewed interim condensed consolidated financial statements of the Company and should be read in conjunction with those statements and the accompanying notes. All financial data and discussions thereof are based on the reviewed interim condensed consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS"). According to the Company's accounting policy, interest in joint ventures and associates, are accounted for using equity method, and thus are not consolidated line by line ("equity-accounted entities").

OVERVIEW

KazMunaiGas Exploration Production ("the Company" or "KMG EP") is engaged in the exploration, development, production, processing, and export of hydrocarbons, as well as the acquisition of oil and gas assets. The Company has publicly listed Global Depositary Receipts ("GDR") and shares traded on the London Stock Exchange ("LSE") and Kazakhstan Stock Exchange ("KASE"). Its majority shareholder is JSC National Company KazMunaiGas ("NC KMG"), the wholly state-owned joint stock company, which represents the State's interests in the Kazakh oil and gas industry. The Company's core oil and gas assets are located in the Pre-Caspian, Mangistau and Southern Turgai basins. The following table represents the Company's principal oil and gas interests as of June 30, 2016:

Name	Ownership interest	Principal operations	Financial statement reflection
Ozenmunaigas JSC ("OMG")	100%	Crude oil upstream	Consolidated entity
Embamunaigas JSC ("EMG")	100%	Crude oil upstream	Consolidated entity
KMG EP Exploration Assets ("KMGEP EA")	100%	Oil and gas exploration	Consolidated entity
Kazakh Gas Processing Plant ("KazGPZ")	100%	Natural gas upstream and refining	Consolidated entity
JV Kazgermunai LLP ("KGM")	50%	Crude oil upstream	Equity-accounted entity
Petrokazakhstan Inc. ("PKI")	33%	Crude oil upstream	Equity-accounted entity
CITIC Canada Energy Limited ("CCEL")	50%	Crude oil upstream	Financial asset
Ural Oil and Gas LLP ("UOG")	50%	Oil and gas exploration	Equity-accounted entity
KS EP Investments BV ("KS")	51%	Oil and gas exploration	Equity-accounted entity

KEY PERFORMANCE INDICATORS

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
3,035	3,043	3,085	-2%	Total production (ktonnes)*	6,078	6,122	-1%
2,097	2,089	2,086	1%	OMG and EMG production (ktonnes)	4,186	4,107	2%
16,325	924	1,307	100%	Net Income (KZT million)	17,249	2,889	497%
0.24	0.01	0.02	100%	Basic and diluted EPS (KZT thousand)	0.25	0.04	525%
49,429	6,386	14,133	250%	EBITDA (KZT million)**	55,815	8,475	559%
21%	-4%	4%	425%	Operating margin (%)***	11%	-7%	-257%
35,280	(18,146)	10,893	224%	Operating cash flow before working capital adjustments (KZT million)	17,134	(17,474)	-198%
1,064,642	1,050,936	701,892	52%	Net cash position at the end of the period (KZT million)	1,064,642	701,892	52%

**Including proportionate share of equity-accounted entities.*
***EBITDA is calculated by adding back the share of income in equity-accounted entities, finance income and non-cash expenses such as depreciation and amortization to the Company's operating profit.*
****Operating profit does not include share in results of equity accounted entities, CIT expenses, finance charges, impairment charges and other non-operating charges.*

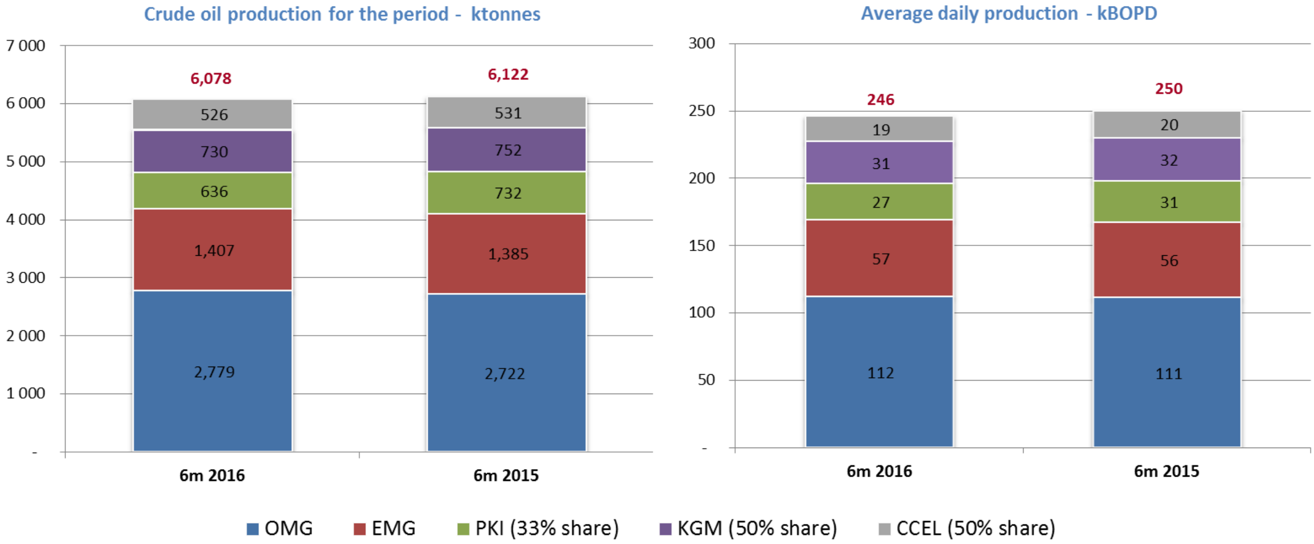
BUSINESS ENVIRONMENT

Macroeconomic factors affecting the Company's financial performance for the period under review include movements in crude oil prices, domestic inflation and foreign exchange rates, specifically the Tenge - US dollar exchange rate.

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
45.59	33.94	61.88	-26%	Average Brent (DTD) (US$ / bbl)	39.81	57.84	-31%
1.6%	3.0%	0.3%	433%	Kazakhstan inflation (%)	4.6%	1.4%	229%
335.58	355.11	185.86	81%	Average Tenge - US$ exchange rate	345.35	185.22	86%
338.66	343.62	186.20	82%	Tenge - US$ exchange rate at the reporting date	338.66	186.20	82%

On August 20, 2015, the Government of the Republic of Kazakhstan and NBK made a decision to switch to a free-floating exchange rate regime of the Tenge.

PRODUCTION ACTIVITY



The Company's total crude oil production in 1H 2016, including the share of production from its joint ventures and associated company, amounted to 6,078 ktonnes or 246 kbopd. OMG and EMG produced 169 kbopd with a further 27 kbopd from PKI, 31 kbopd from KGM and 19 kbopd from CCEL.

Compared to 1H 2015, OMG production increased by 2% or 57 ktonnes, primarily due to the geological and technical measures performed. Compared to the same period in 2015, EMG production in 1H 2016 increased by 2% or 22 ktonnes, primarily due to the increased production of previous-year wells.

The share in PKI's production declined by 13% or 96 ktonnes in 1H 2016, compared to 1H 2015, due to the natural decline at some of PKI's mature fields and a decrease in drilling activity. The share in KGM's production decreased by 3% or 22 ktonnes in 1H 2016, compared with the same period in 2015, due to the natural depletion and an increase of water cut of the KGM fields. The share in CCEL production decreased by less than 1% or 5 ktonnes in 1H 2016, compared with 1H 2015. Total share in production volume of PKI, KGM and CCEL in 1H 2016 was 1,892 ktonnes, which is 6% or 123 ktonnes less than in 1H 2015.

Wells as of reporting date*	Drilled in 1H 2016*	Drilled in 1H 2015*		Well workovers 1H 2016	Well workovers 1H 2015	Well servicing 1H 2016	Well servicing 1H 2015
Number of wells				*Number of well workovers*		*Number of well servicing*	
5,181	104	137	OMG	484	483	6,690	7,102
2,637	25	25	EMG	89	120	1,669	1,825
1,283	10	21	PKI (100%)**	71	110	308	451
235	18	10	KGM (100%)**	12	17	55	44
3,635	29	82	CCEL (100%)**	39	11	1,851	1,734

**Development wells, including injection wells.*

*** Includes 100% of the number of well operations related to JVs and associated company.*

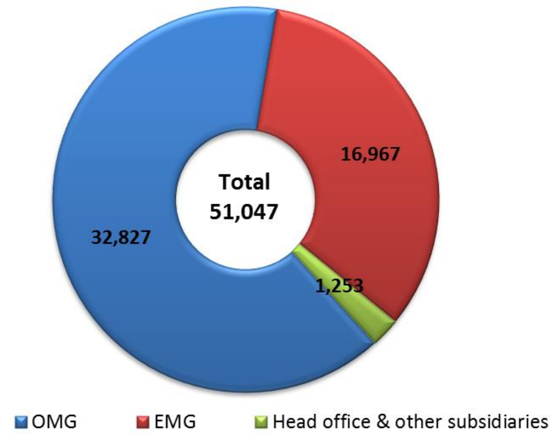
Oil production in the reporting period from the new wells at OMG amounted to 159 ktonnes compared to 147 ktonnes in 1H 2015, as wells drilled in 1H 2016 had higher flow rate of oil. OMG workovers of 484 wells provided an incremental production of 117 ktonnes, while 483 well workovers in 1H 2015 provided incremental production of 121 ktonnes.

Oil production for 1H 2016 from the new wells at EMG amounted to 11.5 ktonnes compared to 7.7 ktonnes in 1H 2015. EMG performed 89 well workovers in 1H 2016, which provided an incremental production of 23 ktonnes, while 120 well workovers provided 23 ktonnes in 1H 2015.

CAPITAL EXPENDITURE OVERVIEW

Capital expenditure figures presented in this section represent actual additions to the property, plant and equipment ("PPE") and intangible assets ("IA") accounts during the reporting period. The amounts indicated in the consolidated cash flow statement of the Company as purchases of PPE and intangible assets, reflect additions presented herein adjusted for the changes in related working capital accounts, such as advances prepaid and accounts payable for PPE and IA.

Capital expenditures for OMG, EMG, Head office and other subsidiaries - KZT million



Capital expenditures of OMG, EMG, Head office and other KMG EP subsidiaries

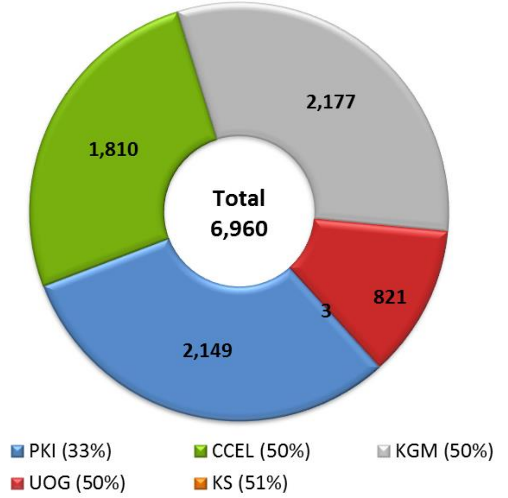
In 1H 2016, the Company's capital expenditures amounted to KZT51.0 billion or KZT4.7 billion less than in 1H 2015. Capital expenditures include the cost of drilling new wells, the construction and modernization of production facilities, the purchase of fixed and intangible assets and non-production capital expenditures.

OMG capital expenditures for 1H 2016 amounted to KZT32.8 billion, which is KZT12.2 billion less than in 1H 2015, mainly due to a decrease in production drilling as a result of a decrease in drilling volume and a discount obtained from the contractor for drilling services, as well as lower fixed asset purchases in the reporting period.

EMG capital expenditures amounted to KZT17.0 billion in 1H 2016, which is KZT7.7 billion more than in 1H 2015, mainly due to a higher level of construction and modernization of production facilities, production and exploration drilling in the reporting period compared to 1H 2015.

Head office and other subsidiaries' capital expenditures in 1H 2016 amounted to KZT1.3 billion, which is KZT0.2 billion less than in 1H 2015, primarily due to the lower level of exploration drilling in 1H 2016.

Capital expenditures of equity-accounted entities - KZT million



Capital expenditure of equity-accounted entities

PKI capital expenditures in 1H 2016 amounted to KZT6.5 billion (KMG EP 33% share: KZT2.1 billion), which is KZT4.0 billion less than in 1H 2015, mainly due to the decrease in drilling volumes in the current period.

KGM capital expenditures for the period were KZT4.4 billion (KMG EP 50% share: KZT2.2 billion), which is KZT0.7 billion more than in 1H 2015, mainly due to the higher purchase of fixed assets and production drilling in the reporting period, which was partially offset by lower construction and modernization of production facilities in 1H 2016 compared to 1H 2015.

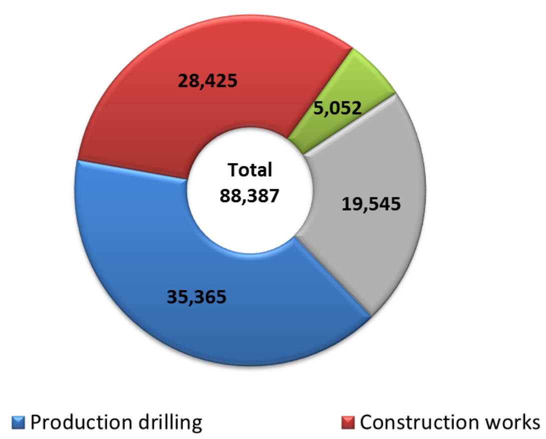
CCEL capital expenditures in 1H 2016 were KZT3.6 billion (KMG EP 50% share: KZT1.8 billion), which is KZT3.7 billion less than in 1H 2015, primarily due to the decrease in drilling volumes, lower construction and modernization of production facilities and fixed asset purchases in the current period.

UOG capital expenditures amounted to KZT1.6 billion (KMG EP 50% share: KZT0.8 billion), which is KZT2.7 billion less than in 1H 2015, mainly due to the payment of a commercial discovery bonus in 1H 2015.

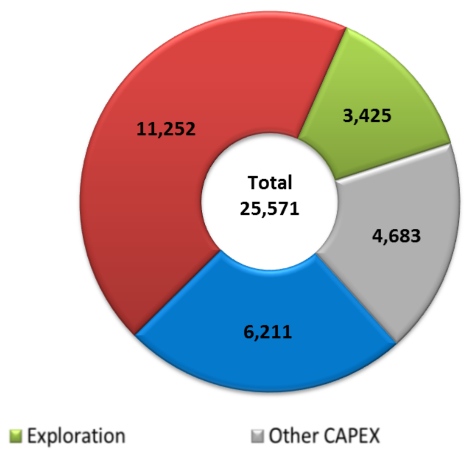
KS capital expenditures amounted to KZT7 million (KMG EP 51% share: KZT3 million), which is KZT419 million less than in 1H 2015, as further operations on the oilfield are pending internal approval.

Below are current 2016 capital expenditure expectations for consolidated and equity accounted entities:

Current 2016 capital expenditure expectations for OMG, EMG and other subsidiaries - KZT million



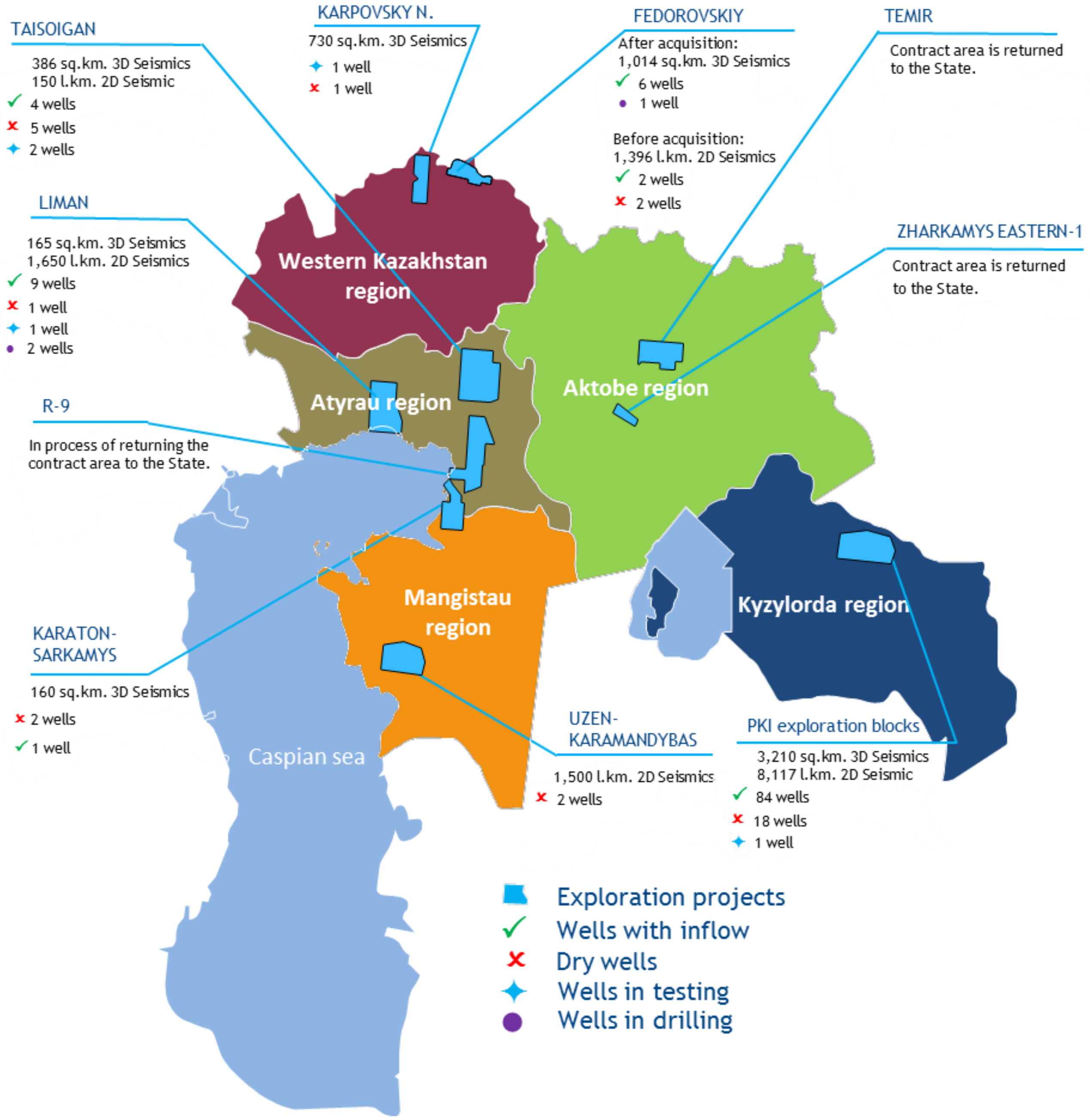
Current 2016 capital expenditure expectations for equity-accounted entities - KZT million (proportional share)*



**Capital expenditure amounts for 2016 presented herein represent currently expected amounts based on the management's estimates as of date of issuance of this report. Amounts do not represent any formal commitments and are subject to changes in any direction.*

EXPLORATION ACTIVITY

The following map depicts the Company's major exploration projects along with the cumulative number of exploration wells that have been drilled as of June 30, 2016.



The following table shows exploration activity of the Company and its equity accounted entities during the reporting period:

Block (interest)	Prospect	Well	Status as of reporting date
Liman (100%)	Novobogat SE	PR-4, PR-5, PR-7, PR-8	Agreement on drilling of the PR-4, PR-5, PR-7, PR-8 (project depth - 2,500m.) wells is concluded. In process of drilling PR-4 (depth as of reporting date – 1,977m.) and PR-7 (depth as of reporting date – 2,283m.) wells.
Temir (100%)			Return of the contract area to the State is completed.
Zharkamys Eastern (100%)	Tuskum		Return of the contract area to the State is completed.
Uzen-Karamandybas (100%)	South-western part of the explration block		The tender procedures for the selection of a 3D-MOGT field works contractor are underway. Received approval from the Ministry of Energy of the Republic of Kazakhstan on the extension of the exploration period of the contract until 2018.
Taisoigan (100%)	Uaz	U-22, U-24	Agreement on drilling of the U-22 (project depth - 850m.), U-24 (project depth - 1,265m.) wells is concluded. Completed drilling the U-22 well, the well is in testing. Completed drilling the U-24 well, expecting testing of the well. Completed works on preparation of technical project and EIA project to the 2-D MOGT field works on the Taisoigan block. The project was approved by the scientific-technical council of Zapkaznedra. Agreement on conduction of 2-D MOGT seismic field works on the Taisoigan block is concluded.
R-9 (100%)			The Company is in the process of returning the contract area to the State.
Karaton Sarkamys (100%)	North-eastern wing of the S. Nurzhanov field		Testing of 4 productive Jurassic and trias objects is completed with the receipt of inflow of oil. The well was conserved. Processing and interpretation of 3D seismic work of the Birlestik cube is underway. Received approval from the Ministry of Energy of the Republic of Kazakhstan on the extension of the exploration period of the contract until 2018.
		NSV-1	Completed drilling of the NSV-1 well to the depth of 3,818m. The well is conserved.
Karpovskiy Severniy (KS-51%)	Orlovskaya Central	SK-2	Planning to perform testing of the allocated productive objects of the well.
Fedorovskiy block (UOG-50%)	Rozhkovskiy	U-25	In process of drilling the well. The project depth – 5,200m. Depth as of reporting date - 4,500m. Completed geophysical exploration works.
	Pavlovskaya, Yanvartsevskaya		Completed data processing. Currently interpreting and processing further data on joint Kirghoff cube.
Doszhan-Zhamansu (24.75% through PKI)	South Doszhan, South-Eastern Doszhan, Zhamansu		During the reporting period no works were conducted at the Doszhan-Zhamansu block.
Karaganda (PKI-33%)	Karabulak, Buharsai		Completed drilling of the Karabulak-19 exploration well, the well is in testing.
Karavanchi (PKI – 33%)	Karavanchi		3-D seismic field works of 120 sq. km. have been conducted on the contract area 260-D.
Western Tuzkol (PKI – 33%)	Western Tuzkol		During the reporting period no works were conducted at the Western Tuzkol block.

RESULTS OF OPERATIONS

The following section is based on the Company's reviewed interim condensed consolidated financial statements. The amounts shown in US dollars are included solely for the convenience of the user at the average exchange rate over the respective period for the consolidated statement of comprehensive income and the consolidated cash flow statement and at the closing rate for the consolidated statement of financial position.

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
					(KZT million, unless otherwise stated)		
192,176	**121,190**	**124,373**	**55%**	**Revenue**	**313,366**	**241,105**	**30%**
(68,591)	(54,618)	(51,208)	34%	Production expenses	(123,209)	(109,172)	13%
(32,281)	(30,316)	(27,610)	17%	SG&A	(62,597)	(54,050)	16%
(45,115)	(34,195)	(34,194)	32%	Taxes other than on income	(79,310)	(82,573)	-4%
–	–	(128)	-100%	Exploration expenses	–	(477)	-100%
(6,728)	(6,621)	(6,274)	7%	DD&A	(13,349)	(10,620)	26%
39,461	**(4,560)**	**4,959**	**696%**	**Operating profit / (loss)**	**34,901**	**(15,787)**	**-321%**
(6,936)	–	–	-100%	Allowance for VAT recoverable	(6,936)	–	-100%
(3,020)	(3,690)	(2,647)	14%	Share of results of associate and JV's	(6,710)	1,907	-452%
(151)	(131)	(3)	100%	Loss on disposal of fixed assets	(282)	(75)	276%
5,335	7,074	4,697	14%	Finance income / (costs), net	12,409	9,804	27%
(11,864)	13,313	1,579	-851%	Foreign exchange gain / (loss), net	1,449	18,634	-92%
(6,500)	(11,082)	(7,278)	-11%	Income tax expense	(17,582)	(11,594)	52%
16,325	**924**	**1,307**	**100%**	**Net income**	**17,249**	**2,889**	**497%**

The increase in net income for 1H 2016 compared to 1H 2015 is mainly due to an increase in export sales income that resulted from a higher average Tenge-US dollar exchange rate in 1H 2016 compared to 1H 2015, as well as an increase in oil products sales income due to the Company's switch to an oil processing scheme starting from April, 2016, which was partially offset by a drop in the average Brent price from US$57.84 per barrel in 1H 2015 to US$39.81 per barrel in 1H 2016. Moreover, net income increased in 1H 2016 compared to 1H 2015 due to the decrease in taxes other than on income, the increase in net finance income, which were partially offset by the decrease in share in income of associate and joint ventures, lower foreign exchange gain, an increase in production expenses, selling, general and administrative expenses, as well as an increase in depreciation, depletion and amortization. Additionally, the Company assessed the amount of VAT paid in its operating activities that more likely than not will be nonrecoverable from the Government and accrued an additional allowance in the amount of KZT6.9 billion related to the Company's sale of assets to OMG and EMG in 2012.

Revenue

The following table shows sales volumes and realized prices of crude oil:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
				Export sales of crude oil			
				UAS pipeline			
74,675	50,069	47,006	59%	Net sales (KZT million)	124,744	105,729	18%
720	639	589	22%	Volume (ktonnes)	1,359	1,458	-7%
103,715	78,355	79,806	30%	Average price (KZT/tonne)	91,791	72,516	27%
42.75	30.52	59.39	-28%	Average price (US$/bbl*)	36.76	54.15	-32%
				CPC pipeline			
58,663	51,271	27,497	113%	Net sales(KZT million)	109,934	66,637	65%
524	581	335	56%	Volume (ktonnes)	1,105	907	22%
111,952	88,246	82,081	36%	Average price (KZT/tonne)	99,488	73,470	35%
46.14	34.37	61.08	-24%	Average price (US$/bbl*)	39.84	54.86	-27%
133,338	101,340	74,503	79%	Total sales of crude oil-exported (KZT million)	234,678	172,366	36%
1,244	1,220	924	35%	Total crude oil-exported (ktonnes)	2,464	2,365	4%
				Domestic sales of crude oil			
–	15,393	15,041	-100%	Net domestic sales (KZT million)	15,393	27,556	-44%
–	830	652	-100%	Volume (ktonnes)	830	1,197	-31%
–	18,546	23,069	-100%	Average price (KZT/tonne)	18,546	23,021	-19%
–	7,22	17.17	-100%	Average price (US$/bbl*)	7.22	17.19	-58%
				Shipments of crude oil to Russia			
–	–	30,295	-100%	Net sales (KZT million)	–	31,309	-100%
–	–	546	-100%	Volume (ktonnes)	–	566	-100%
–	–	55,485	-100%	Average price (KZT/tonne)	–	55,316	-100%
–	–	41.29	-100%	Average price (US$/bbl*)	–	41.31	-100%
				Total sales of crude oil			
133,338	116,733	119,839	11%	Total net sales of crude oil (KZT million)	250,071	231,231	8%
1,244	2,050	2,122	-41%	Total volume (ktonnes)	3,294	4,128	-20%
107,185	56,943	56,475	90%	Average price (KZT/tonne)	75,917	56,015	36%
44.18	22.18	42.03	5%	Average price (US$/bbl*)	30.40	41.83	-27%
				Sales of oil products			
55,060	316	568	100%	Net sales (KZT million)	55,376	810	100%
761	3	17	100%	Volume (ktonnes)	764	34	100%
72,352	105,333	33,412	117%	Average price (KZT/tonne)	72,482	23,824	204%
215.60	296.62	179.77	20%	Average price (US$/tonne)	209.88	128.63	63%
3,778	4,141	3,966	-5%	Other sales (KZT million)	7,919	9,064	-13%
192,176	**121,190**	**124,373**	**55%**	**Total revenue (KZT million)**	**313,366**	**241,105**	**30%**

* *Converted at 7.23 barrels per tonne of crude oil.*

The Company exports crude oil using two principal routes: via the pipeline owned by the Caspian Pipeline Consortium ("CPC") and via the Uzen-Atyrau-Samara pipeline ("UAS") owned by KazTransOil JSC (in Kazakhstan). The Company also delivers its crude oil to the domestic market, and in 1H 2015 the Company made counter-oil supply to the Russian Federation as part of the intergovernmental agreement.

The relative profitability of the two export routes depends on the quality of crude oil in the pipeline, the prevailing international market prices and the relevant pipeline tariffs. It should be noted that the volume of crude oil that can be shipped through the pipelines has to be agreed with the Ministry of Energy of the Republic of Kazakhstan ("ME"). Thus, crude oil volume allocations between different routes change from period to period primarily due to greater or lower ME quotas for a certain route.

In 2015, the Company fulfilled all its obligation under the counter-oil supply agreement between the Government of Kazakhstan and the Russian Government and, as a result, there were no shipments of crude oil to Russia in 1H 2016.

Prior to April, 2016 the Company sold a portion of crude oil it produced to KazMunaiGas Refining and Marketing JSC ("KMG RM"), a related party, in order to meet its domestic supply obligation. KMG RM further processed this crude oil and sold refined products. Starting from April, 2016 the Company ceased sales of crude oil to KMG RM and started tolling crude oil at the Atyrau Refinery ("ANPZ") and Pavlodar Refinery ("PNHZ") and selling refined products on its own account using KMG RM as a sales agent.

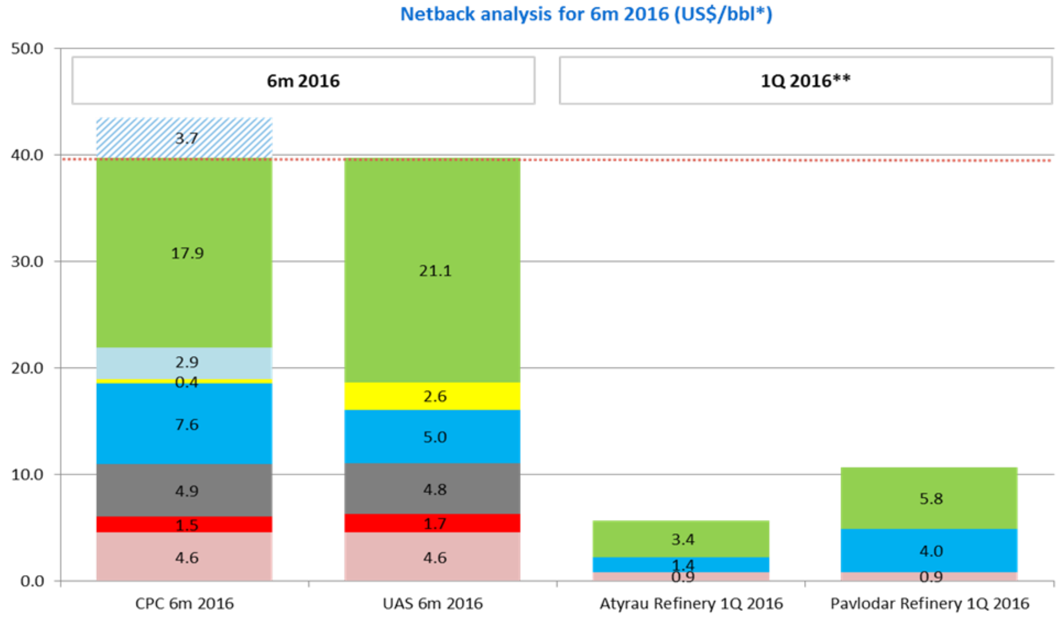
Statement of Net Revenue from sales of Refined Products (ANPZ)

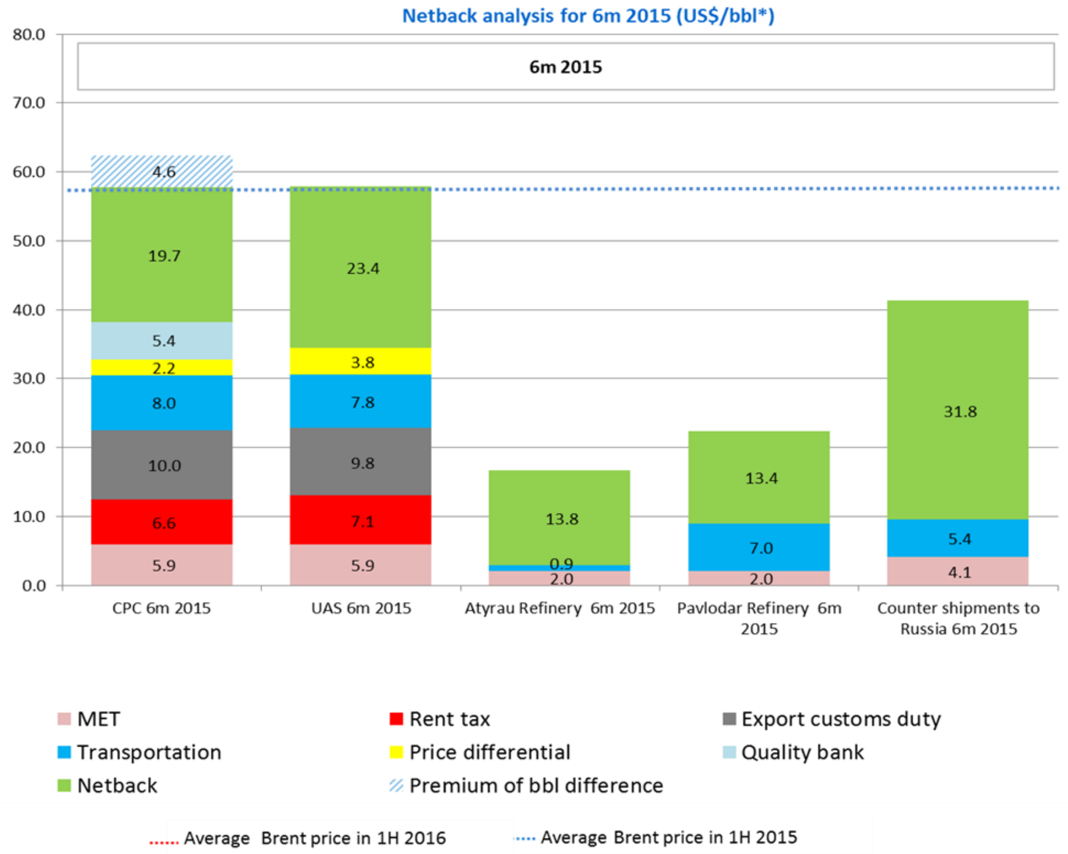
	April 2016	May 2016	June 2016
	(KZT thousand, unless otherwise stated)		
Revenue	12,020,815	16,529,667	16,864,514
Costs, including:	(6,296,213)	(7,134,487)	(6,910,864)
Processing	(4,016,530)	(5,037,738)	(4,731,285)
Additives	(15,091)	(44,557)	(25,403)
Excise tax	(233,908)	(331,997)	(312,809)
Export customs duty	(1,402,201)	(1,159,489)	(1,219,187)
Selling and transportation expenses	(75,441)	(91,728)	(126,094)
KMG Refinery and Marketing commission fee	(553,042)	(468,978)	(496,087)
Net revenue	**5,724,602**	**9,395,180**	**9,953,650**
Volume of oil products sold, thousands of tonnes	192.7	226.7	216.0
Processing losses, thousands of tonnes	11.5	14.9	13.3
Total volume of crude oil processed and sold, thousands of tonnes	**204.2**	**241.6**	**229.3**
Net revenue Tenge per tonne of crude oil	**28,041**	**38,886**	**43,406**

Statement of Net Revenue from sales of Refined Products (PNHZ)

	April 2016	May 2016	June 2016
	(KZT thousand, unless otherwise stated)		
Revenue	1,193,237	4,849,308	3,660,919
Costs, including:	(412,715)	(1,508,460)	(1,138,437)
Processing	(275,964)	(1,127,844)	(793,393)
Additives	(30,295)	(21,939)	(35,384)
Excise tax	(52,234)	(201,125)	(178,387)
Selling and transportation expenses	(6,509)	(25,775)	(26,604)
KMG Refinery and Marketing commission fee	(47,713)	(131,777)	(104,669)
Net revenue	**780,522**	**3,340,848**	**2,522,482**
Volume of oil products sold, thousands of tonnes	16.6	63.7	45.6
Processing losses, thousands of tonnes	2	7.6	5.4
Total volume of crude oil processed and sold, thousands of tonnes	**18.6**	**71.3**	**51.0**
Net revenue Tenge per tonne of crude oil	**42,060**	**46,845**	**49,526**

The following chart shows the OMG and EMG realized prices adjusted for crude oil transportation, rent tax, export customs duty ("ECD"), mineral extraction tax ("MET") and other expenses based on the shipment route (netback analysis).





*Converted at actual barrels per tonne of crude oil.

** The Company switched to oil processing scheme starting from April 2016, as the result the Company shipped OMG and EMG crude oil for processing to Atyrau Refinery and Pavlodar Refinery in 2Q 2016.

Export netbacks for 1H 2016 decreased in the period compared to 1H 2015, primarily due to a drop in the average Brent price from US$57.8 per barrel in 1H 2015 to US$39.8 per barrel in 1H 2016. Additionally, expenses related to export of crude oil via the CPC route increased in 1H 2016 compared to 1H 2015 due to the decision of the Government of the Republic of Kazakhstan and NBK to switch to the free-floating exchange rate regime of the Tenge, which negatively affected CPC netback.

Domestic market netbacks decreased in 1H 2016 due to the drop in average sales prices in Tenge terms and the increase of the average Tenge-US dollar exchange rate.

Prior to April, 2016 the Company supplied crude oil to the domestic market by selling to KMG RM, a subsidiary of the Parent Company. Prices for domestic market sales were previously determined through an annual negotiation process with KMG RM and the Parent Company. In 1Q 2016 KMG RM unilaterally set the domestic price in order to make itself profit neutral. These prices have not been agreed by the Company's Management nor have they been approved by the Independent Non-Executive Directors of the Company ("INEDs"), as required under the Charter of the Company.

The Company's management decided to recognize revenue for the sale of crude oil in 1Q 2016 in the financial statements at the value of the consideration received and receivable.

Production expenses

The following table shows a breakdown of the Company's production expenses, resulting mainly from OMG and EMG operations:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
33,188	37,172	34,116	-3%	Employee benefits	70,360	75,651	-7%
15,970	–	272	100%	Refinery processing costs	15,970	390	100%
4,943	5,478	4,356	13%	Energy	10,421	9,166	14%
5,323	4,459	5,385	-1%	Repairs and maintenance	9,782	8,523	15%
4,206	4,883	4,524	-7%	Materials and supplies	9,089	9,731	-7%
1,276	1,178	1,164	10%	Transportation services	2,454	2,455	0%
1,389	(303)	2,030	-32%	Change in crude oil balance	1,086	5,208	-79%
–	–	(39)	-100%	Change in estimate of environmental remediation obligation	–	287	-100%
–	–	(62)	-100%	Movement in asset retirement obligation	–	(3,913)	-100%
2,296	1,751	(538)	-527%	Other	4,047	1,674	142%
68,591	**54,618**	**51,208**	**34%**	**Total production expenses**	**123,209**	**109,172**	**13%**

Production expenses in 1H 2016 increased by KZT14.0 billion or 13% compared to 1H 2015, primarily due to an increase in refinery processing costs, repairs and maintenance expenses, energy expenses and a decrease in asset retirement obligation in excess of capitalized asset. This was partially offset by a decrease in employee benefits and change in crude oil balance.

Refinery processing costs in 1H 2016 increased compared to 1H 2015 due to the Company's decision to switch to an oil processing scheme starting from April, 2016. As the result, the Company sold 764 ktonnes of oil products in 1H 2016 compared to 34 ktonnes in 1H 2015.

Repairs and maintenance expenses in 1H 2016 increased by 15% compared to 1H 2015, mainly due to the increase of hydrofracturing expenses as number of wells subject to hydrofracturing increased from 37 wells in 1H 2015 to 67 wells in 1H 2016.

Increase in energy expenses by 14% compared to 1H 2015 is primarily related to the increase in tariffs of energy suppliers.

Employee benefit expenses in 1H 2016 decreased by 7% compared to 1H 2015, mainly due to a cut in the annual bonus for production personnel for 2016 and a decrease in employee benefit liabilities, which were partially offset by a 7% indexation increase in basic salaries for production personnel from January 1, 2016 according to the terms of the collective agreement.

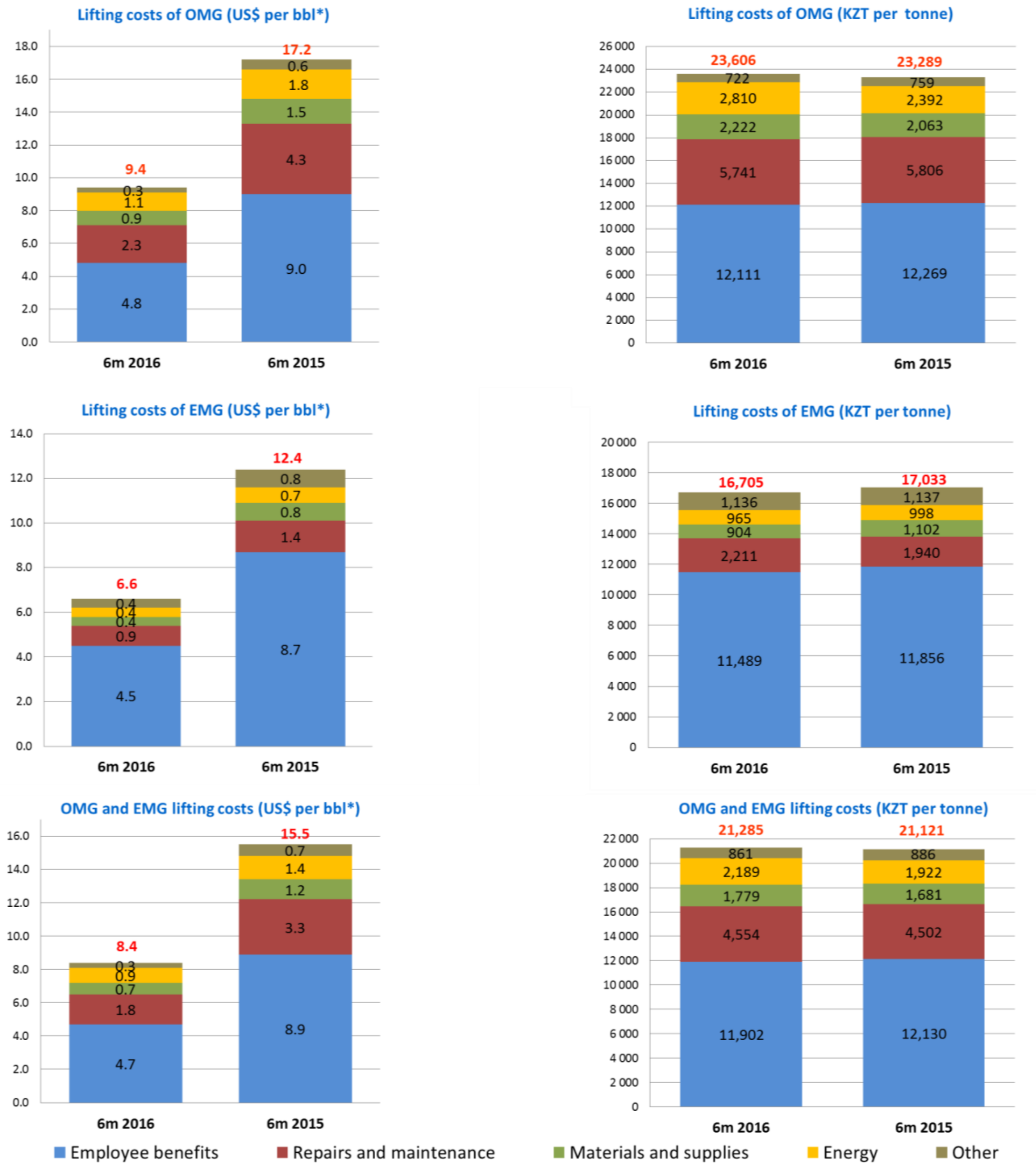
A decrease in asset retirement obligation in excess of capitalized asset in 1H 2015 resulted mainly from the extension of EMG subsoil agreements.

Lifting Costs

Lifting cost per barrel is calculated as production costs of OMG and EMG subsidiaries, including materials and supplies, production payroll, repairs and maintenance, and other production expenses except for the DD&A, taxes, contractual social obligations, actuarial costs, obligatory professional pension deductions and other expenses not directly related to the production process divided by total crude oil produced.

As most of the OMG and EMG production expenses are denominated in Tenge, lifting costs in US$ per bbl decreased mainly due to the increase of the average Tenge - US dollar exchange rate that resulted from the decision of the Government of the Republic of Kazakhstan and NBK to switch to the free-floating exchange rate regime of Tenge in 3Q 2015.

The following chart depicts production lifting costs of OMG and EMG in US$/bbl*:



**converted at 7.36 barrels per tonne of crude oil*

Selling, general and administrative expenses

The following table presents a breakdown of the Company's selling, general and administrative expenses resulting mainly from OMG, EMG and KMG EP Head office operations:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
22,078	23,875	14,805	49%	Transportation expenses	45,953	31,787	45%
4,138	3,881	4,205	-2%	Employee benefits	8,019	8,730	-8%
1,802	–	–	100%	Agency fee	1,802	–	100%
811	617	5,190	-84%	Fines and penalties	1,428	7,583	-81%
1,080	71	123	778%	Sponsorship	1,151	188	512%
715	339	546	31%	Consulting and audit services	1,054	888	19%
237	170	202	17%	Repairs and maintenance	407	375	9%
–	–	1,113	-100%	Management fees	–	2,226	-100%
1,420	1,363	1,426	0%	Other	2,783	2,273	22%
32,281	**30,316**	**27,610**	**17%**	**Total SG&A expenses**	**62,597**	**54,050**	**16%**

Selling, general and administrative expenses in 1H 2016 amounted to KZT62.6 billion which is 16% higher than in 1H 2015. The increase is mainly due to the rise in transportation expenses, which was partially offset by a decrease in fines and penalties, employee benefits and management fees.

The increase in transportation expenses in 1H 2016 compared to 1H 2015 resulted primarily from higher transportation costs for CPC route due to an increase in the average Tenge-US dollar exchange rate as CPC tariff is mostly US dollar denominated. Moreover, transportation costs for domestic route increased in 1H 2016 compared to 1H 2015 due to an increase in domestic sales volume and transportation tariffs of JSC "KazTransOil" for domestic route by 21%.

Employee benefits in 1H 2016 decreased by 8% compared to 1H 2015, mainly due to a cut in annual bonus for 2016 for administrative personnel and a decrease in employee benefit liabilities.

The agency fees accrued in 1H 2016 in the amount of KZT1.8 billion correspond to commissions paid to KMG RM for the sale of the Company's oil products.

In 1H 2016, the Company accrued KZT1.3 billion of penalties related to CIT and EPT provisions on possible future tax audit assessments for 2012-2016 and KZT0.1 billion of penalties related to untimely fulfilment of tax obligations.

Taxes other than on income

The following table presents a breakdown of the Company's taxes other than on income as represented mainly by OMG and EMG operations:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
16,389	17,074	10,338	59%	Export customs duty	33,463	31,377	7%
17,349	14,918	11,704	48%	MET	32,267	25,632	26%
9,643	–	10,139	-5%	Rent tax	9,643	21,962	-56%
1,643	1,681	1,622	1%	Property tax	3,324	2,806	18%
91	522	391	-77%	Other taxes	613	796	-23%
45,115	**34,195**	**34,194**	**32%**	**Total taxes other than on income**	**79,310**	**82,573**	**-4%**

Taxes other than on income in 1H 2016 decreased by KZT3.3 billion or 4% compared to 1H 2015, mainly due to the decrease in rent tax.

Rent tax decreased in 1H 2016 compared to 1H 2015 due to the average Brent price drop, which resulted in reduction of tax rate to 0% in 1Q 2016, that was partially offset by the increase of average Tenge - US dollar exchange rate.

ECD expenses increased in 1H 2016 compared to 1H 2015 mainly due to the export of oil products as the result of the Company's decision to switch to oil processing scheme starting from April, 2016 and an increase in the average Tenge-US dollar exchange rate, which was partially offset by the average ECD rate drop from US$72 per tonne of crude oil in 1H 2015 to US$35 per tonne of crude oil in 1H 2016. The ECD rate was dropped from US$80 to US$60 per tonne of crude oil effective from 19 March 2015, from US$60 to US$40 per tonne of crude oil effective from 1 January 2016. A floating ECD rate was introduced from 1 March 2016.

The increase of MET in 1H 2016 compared to 1H 2015 mainly resulted from an increase in the average Tenge – US dollar exchange rate, which was partially offset by a drop in the average Brent price from US$57.8 per barrel in 1H 2015 to US$39.8 per barrel in 1H 2016.

Income Tax Expense

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
22,825	12,006	8,585	166%	Profit before tax	34,831	14,483	140%
25,845	15,696	11,232	130%	Profit before tax (with adjustments*)	41,541	12,576	230%
6,500	11,082	7,278	-11%	Income tax	17,582	11,594	52%
7,430	8,450	7,278	2%	Income tax (with adjustments*)	15,880	11,594	37%
28%	92%	85%	-67%	Effective tax rate	50%	80%	-38%
29%	54%	65%	-55%	Effective tax rate (with adjustments*)	38%	92%	-59%

** Profit before tax and income tax expense without share in results of JV's and associated company, impairment charges and related amounts for past periods and deferred tax benefit.*

The higher income tax in 1H 2016 compared to 1H 2015 is due to an additional accrual of CIT in the amount of KZT2.2 billion, which resulted from additional tax accruals on past periods. Additionally, the higher income tax in 1H 2016 compared to 1H 2015 is due to the increase of OMG deferred tax expense in the amount of KZT5.9 billion as compared to 1H 2015 due to the utilization of deferred tax asset on OMG PPE, which was partially offset by deferred tax asset created on tax loss carried forward.

OVERVIEW OF JVS AND ASSOCIATE OPERATIONS

Below is the Company's share in income of associate and joint ventures as reflected in the Company's reviewed interim condensed consolidated financial statements:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
2,005	478	508	295%	Share in income from KGM	2,483	8,030	-69%
(4,553)	(3,878)	(2,534)	80%	Share in loss from PKI	(8,431)	(5,235)	61%
(472)	(290)	(621)	-24%	Share in loss from UOG	(762)	(888)	-14%
(3,020)	**(3,690)**	**(2,647)**	**14%**	**Share in income / (loss) in associate and JV's**	**(6,710)**	**1,907**	**-452%**

KGM

KGM's core operating activity is the production and sale of hydrocarbons in the Akshabulak, Nuraly and Aksai oilfields in the South Turgai basin, Kyzylorda region. The Company acquired a 50% stake in JV Kazgermunai LLP in April 2007.

KGM's oil production in 1H 2016 was 1,459 ktonnes (50% share is 730 ktonnes), which is 44 ktonnes or 3% lower than in 1H 2015.

KGM key financial and operational indicators (100%) are shown below:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
92,549	90,619	185,954	-50%	Revenue	183,168	375,377	-51%
(74,110)	(75,977)	(116,752)	-37%	Operating expenses	(150,087)	(237,722)	-37%
727	450	(1,391)	-152%	Finance income / (cost), net	1,177	(554)	-312%
(5,224)	615	(255)	100%	Foreign exchange gain / (loss), net	(4,609)	(483)	854%
3,953	(6,711)	(50,334)	-108%	Income tax expense	(2,758)	(57,940)	-95%
17,895	8,996	17,222	4%	Net income	26,891	78,678	-66%
729	730	751	-3%	Crude oil production, ktonnes	1,459	1,503	-3%

The decrease in 1H 2016 revenue mainly resulted from a decrease in the average export and domestic prices, as well as a lower export sales volume in comparison with 1H 2015.

KGM's crude oil sales split by routes is as follows:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(ktonnes)					(ktonnes)		
619	439	505	23%	Domestic market	1,058	955	11%
105	289	236	-56%	Export via KCP	394	535	-26%
724	**728**	**741**	**-2%**	**Total crude oil sales, ktonnes**	**1,452**	**1,490**	**-3%**

A decrease in average export and domestic prices and the export sales volume has also resulted in a decrease in operating expenses, particularly rent tax (by US$26.0 million), transportation expenses (by US$20.7 million) and MET (by US$12.3 million).

ECD expenses decreased by US$21.4 million due to the decrease in export sales volume in 1H 2016 compared to 1H 2015 and ECD rate drop from US$80 to US$60 per tonne of crude oil effective from 19 March 2015, from US$60 to US$40 per tonne of crude oil effective from 1 January 2016, as well as the introduction of a floating ECD rate from 1 March 2016.

Operating expenses on a per barrel sold basis are as follows:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(US$ per bbl sold)*					*(US$ per bbl sold*)*		
5.0	4.8	4.0	25%	DD&A	4.9	3.8	29%
1.6	2.4	3.6	-56%	Transportation expenses	2.0	3.8	-47%
0.5	2.4	2.5	-80%	Export customs duty	1.5	3.3	-55%
1.2	1.6	2.4	-50%	Mineral extraction tax	1.4	2.4	-42%
0.7	0.7	1.2	-42%	Employee benefits	0.7	1.2	-42%
0.9	0.5	1.4	-36%	Repairs and maintenance	0.7	1.2	-42%
0.4	0.5	0.5	-20%	Materials and supplies	0.4	0.6	-33%
0.6	–	2.8	-79%	Rent tax	0.3	2.5	-88%
0.1	–	2.1	-95%	Fines and penalties	–	1.0	-100%
2.3	0.6	–	100%	Other	1.5	0.8	88%
13.3	**13.5**	**20.5**	**-35%**	**Total operating expenses**	**13.4**	**20.6**	**-35%**

** Converted at 7.7 barrels per tonne of crude oil.*

The share in KGM income, reflected in the reviewed interim condensed consolidated financial statements of the Company, represents a proportionate share of the results of KGM for 1H 2016, adjusted for the impact of amortization of the fair value of the licenses, partially offset by related deferred tax benefit of KZT2.1 billion (KZT0.7 billion in 1H 2015).

For the capital expenditure analysis of JV's and associate please refer to the "Capital Expenditure Overview" section.

PKI

PKI is an oil and gas group involved in field exploration and development, oil and gas production and the sale of crude oil. The Company acquired a 33% stake in PKI in December 2009.

During 1H 2016, PKI produced 1,925 ktonnes of oil (33% share: 636 ktonnes) which is 13% less than in 1H 2015. The decline in production was due to the reserve depletion of some of PKI's mature fields and a decrease in drilling activity. PKI's key financial and operational indicators (100%) are shown below:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
159,940	140,409	292,609	-45%	Revenue	300,349	578,168	-48%
(137,620)	(152,577)	(285,007)	-52%	Operating expenses	(290,197)	(552,515)	-47%
(14,207)	(9,454)	(15,732)	-10%	Finance cost, net	(23,661)	(22,465)	5%
(24,558)	13,007	(8,365)	194%	Income tax (expense) / benefit	(11,551)	(39,240)	-71%
(16,445)	(8,615)	(16,495)	0%	Net income / (loss)	(25,060)	(36,052)	-30%
944	981	1,084	-13%	Crude oil production, ktonnes	1,925	2,218	-13%

The decrease in revenue in 1H 2016, in comparison with 1H 2015, occurred mainly due to lower export volumes and a decrease in average Brent prices and domestic prices.

PKI's crude oil sales split by routes is as follows:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(ktonnes)					(ktonnes)		
720	566	656	10%	Domestic sales	1,286	1,303	-1%
101	192	212	-52%	Export via KCP (PKKR 100%)	293	436	-33%
53	144	119	-55%	Export via KCP (KGM 50%)	197	268	-26%
26	25	21	24%	Export via KCP (Kolzhan 100% & PKVI 75%)	51	43	19%
–	39	37	-100%	Export via KCP (TP 50%)	39	93	-58%
29	–	–	100%	Export Uzbekistan (TP 50%)	29	–	100%
929	**966**	**1,045**	**-11%**	**Total crude oil sales, ktonnes**	**1,895**	**2,143**	**-12%**

Operating expenses decreased mainly due to lower export and domestic sales and average export and domestic prices that primarily resulted in lower ECD (by US$35.7 million), transportation expenses (by US$33.6 million) and rent tax (by US$33.2 million).

Operating expenses on a per barrel sold basis are as follows:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(US$ per bbl sold)*					*(US$ per bbl sold*)*		
8.4	7.5	9.5	-12%	DD&A	8.0	9.5	-16%
2.3	3.1	4.3	-47%	Transportation expenses	2.7	4.4	-39%
0.6	2.5	2.9	-79%	Export customs duty	1.6	3.5	-54%
1.5	1.3	2.5	-40%	Repairs and maintenance	1.4	2.6	-46%
1.6	1.0	2.0	-20%	Employee benefits	1.3	2.2	-41%
1.0	1.3	2.5	-60%	Mineral extraction tax	1.2	2.4	-50%
0.8	0.9	0.8	0%	Materials and supplies	0.8	1.1	-27%
0.7	–	3.2	-78%	Rent tax	0.4	2.3	-83%
(0.1)	(0.3)	1.9	-105%	Fines and penalties	(0.2)	1.0	-120%
2.2	3.1	5.7	-61%	Other	2.7	4.2	-36%
19.0	**20.4**	**35.3**	**-46%**	**Total operating expenses**	**19.9**	**33.2**	**-40%**

** Converted at 7.75 barrels per tonne of crude oil.*

The share in PKI results reflected in the Company's reviewed interim condensed consolidated financial statements represents a proportionate share of the results of PKI in 1H 2016 adjusted for the impact of amortization of the fair value of the licenses for the amount of KZT5.6 billion (KZT3.0 billion in 1H 2015).

For the capital expenditure analysis of JVs and associate please refer to the "Capital Expenditure Overview" section.

CCEL

As per the purchase agreement arrangements, interest in CCEL is reflected as a financial asset in the reviewed interim condensed consolidated financial statements of the Company in accordance with IFRS. CCEL results included herein are presented for information purposes only and are not consolidated or equity accounted in the reviewed interim condensed consolidated financial statements of the Company.

In December 2007, the Company acquired a 50% stake in CCEL Karazhanbasmunai ("CCEL"). CCEL explores heavy oil in the Karazhanbas field, which is situated on the Buzachi peninsula, 230 km from Aktau. The field was discovered in 1974 and is the largest shallow field of high-viscosity oil in the CIS; its exploitation is carried out by applying thermal methods.

As of June 30, 2016 the Company had KZT32.5 billion (US$96.1 million) as a receivable from CCEL. The Company has accrued KZT2.2 billion (US$6.5 million) of interest income in 1H 2016, relating to the US$26.87 million annual priority return from CCEL. Payments are usually made twice a year in 2Q and 4Q.

In 1H 2016, CCEL produced around 1,053 ktonnes (50% share: 526 ktonnes) of crude oil, which decreased by less than 1% compared to 1H 2015. CCEL's key financial and operational indicators (100%) are as follows:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
149,299	121,487	178,855	-17%	Revenue	270,786	329,715	-18%
(104,144)	(118,765)	(158,976)	-34%	Operating expenses	(222,909)	(360,670)	-38%
(5,199)	(5,096)	(6,829)	-24%	Finance cost, net	(10,295)	(14,004)	-26%
6,318	–	15,094	-58%	Income tax expense	6,318	14,327	-56%
46,274	(2,374)	28,144	64%	Net income / (loss)	43,900	(30,632)	-243%
522	531	530	-2%	Crude oil production, ktonnes	1,053	1,062	-1%

The decrease in revenue in 1H 2016 is mainly a result of a decrease in average export sales prices. CCEL crude oil sales split by routes is as follows:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(ktonnes)					*(ktonnes)*		
275	312	213	29%	Export via Novorossiysk	587	403	46%
208	253	85	145%	Export via Ust'-Luga	461	285	62%
–	–	104	-100%	Domestic market	–	222	-100%
–	–	139	-100%	Shipments of crude oil to Russia	–	139	-100%
483	**565**	**541**	**-11%**	**Total crude oil sales, ktonnes**	**1,048**	**1,049**	**0%**

Total operating expenses in 1H 2016 decreased by 38% compared to 1H 2015 mainly due to the decrease in rent tax, ECD, repairs and maintenance, employee benefits and DD&A.

Rent tax decreased in 1H 2016 compared to 1H 2015 as a result of the decrease in average Brent price. ECD expenses decreased due to the ECD rate drop from US$80 to US$60 per tonne of crude oil effective from 19 March 2015, from US$60 to US$40 per tonne of crude oil effective from 1 January 2016, as well as the introduction of a floating ECD rate from 1 March 2016. The decrease in ECD expenses was partially offset by an increase in export sales in 1H 2016 compared to 1H 2015.

Employee benefits, as well as repairs and maintenance costs decreased in 1H 2016 compared to 1H 2015, mainly as a result of the decision of the Government of the Republic of Kazakhstan and NBK to switch to the free-floating exchange rate regime of the Tenge in 3Q 2015. Repairs and maintenance costs also decreased due to the decrease in cost of well servicing and well workovers in the reporting period compared to 1H 2015, which was partially offset by the increase in volume of well servicing and well workovers.

Operating expenses on per barrel sold basis are as follows:

2Q 2016	1Q 2016	2Q 2015	Change		1H 2016	1H 2015	Change
(US$ per bbl sold)*					*(US$ per bbl sold*)*		
7.0	6.5	8.6	-19%	Employee benefits	6.7	10.5	-36%
6.6	6.1	6.4	3%	Transportation expenses	6.3	7.0	-10%
4.5	5.5	4.7	-4%	Export customs duty	5.0	6.9	-28%
3.7	4.1	4.4	-16%	Energy	3.9	4.7	-17%
3.4	2.7	5.0	-32%	DD&A	3.0	7.7	-61%
2.2	1.7	4.0	-45%	Repairs and maintenance	1.9	4.6	-59%
3.1	–	4.6	-33%	Rent tax	1.4	4.8	-71%
0.9	0.5	1.0	-10%	Materials and supplies	0.7	1.0	-30%
0.6	0.2	0.3	100%	Mineral extraction tax	0.4	0.3	33%
0.3	4.2	5.0	-94%	Other	2.4	4.1	-41%
32.3	**31.5**	**44.0**	**-27%**	**Total operating expenses**	**31.7**	**51.6**	**-39%**

** Converted at 6.68 barrels per tonne of crude oil.*

For the capital expenditure analysis of JV's and associate please refer to the "Capital Expenditure Overview" section.

Lifting cost and netback analysis of JV's and associated company

Lifting costs of producing JV's and associate is represented as follows:

	KGM	PKI	CCEL
	(US$ thousand, unless otherwise stated)		
Employee benefits	5,357	11,934	42,607
Materials	4,780	11,875	4,801
Repair and maintenance	3,052	11,891	13,220
Energy	4,707	8,566	27,355
Other	1,252	8,559	22,001
Total lifting expenses (US$ thousand)	**19,148**	**52,825**	**109,984**
Production (ktonnes)	**1,459**	**1,925**	**1,053**
Lifting cost US$ per bbl*	**1.7**	**3.5**	**15.6**

**Following average tonne / bbl conversion factors were used KGM 7.7, PKI 7.75, CCEL 6.68.*

Netback of export sales at major producing JV's and associate is represented as follows:

	KGM	PKI	CCEL
	(US$ per bbl sold*, unless otherwise stated)		
Benchmark end-market quote (Brent)	39.8	39.8	39.8
Price differential and premium of bbl difference, net	(10.2)	(9.3)	(3.8)
Average realized price	**29.6**	**30.5**	**36.0**
Rent tax	(1.0)	(1.1)	(1.3)
Export customs duty	(5.4)	(4.9)	(4.7)
Transportation expenses	(3.7)	(5.1)	(5.9)
MET	(3.8)	(1.8)	(0.2)
Netback price	**15.7**	**17.6**	**23.9**

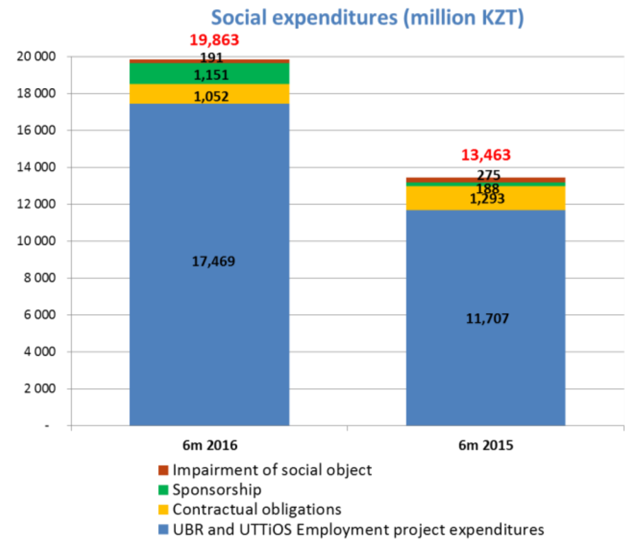
**Following average tonne / bbl conversion factors were used KGM 7.7, PKI 7.75, CCEL 6.68.*

Netback of domestic sales at major producing JV's and associate is represented as follows:

	KGM	PKI	CCEL
	(US$ per bbl sold*, unless otherwise stated)		
Realized price	**11.4**	**15.5**	–
Transportation expenses	(1.4)	(1.3)	–
MET	(0.4)	(0.7)	–
Netback price	**9.6**	**13.5**	–

**Following average tonne / bbl conversion factors were used KGM 7.7, PKI 7.75, CCEL 6.68.*

CORPORATE SOCIAL RESPONSIBILITY



Corporate Social Responsibility (CSR) is a key and integral part of the Company's activities. Since inception, the Company has allocated billions of Tenge for the construction of residential housing, health and sports centers, kindergartens, health camps, and contributed to the reconstruction of schools and hospitals in the Atyrau and Mangistau regions, as well as sponsoring the relocation of towns from some of the depleted EMG oil fields. The CSR strategy of the Company aims to develop the regions in which it operates.

In 2012, two service units – UBR and UTTiOS were created to employ approximately 2,000 people in the Mangistau region. In 1H 2016, the Company incurred KZT17.5 billion of operating expenses at UBR and UTTiOS, including KZT9.5 billion of employee benefit expenses and KZT8.0 billion for materials, supplies and other expenses.

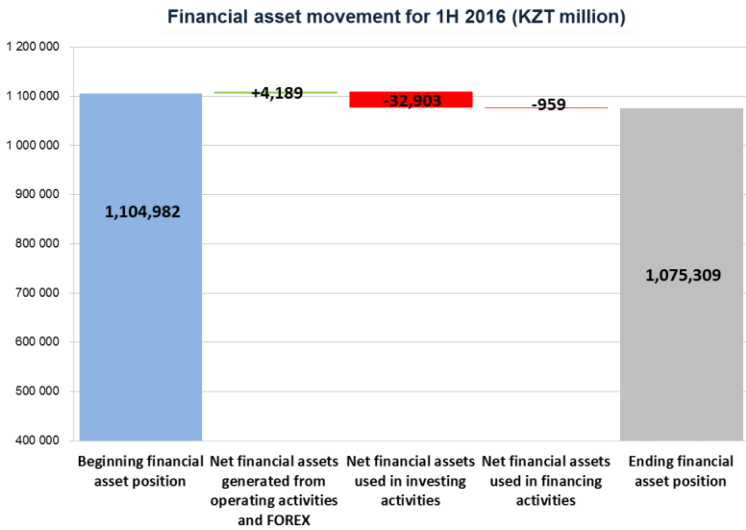
The Company has invested approximately KZT7 million for the purchase of equipment to support the operations at UBR and UTTiOS. Expenses for the financing of UTTiOS were partially offset by income from third parties in 1H 2016, which totalled KZT2.6 billion (KZT2.7 billion in 1H 2015).

In 1H 2016 the Company spent KZT1.2 billion on sponsorship and supporting charities.

Obligations from exploration and production licenses arise from contracts for subsoil use and include payments to the social programs fund, the ecology fund and the commitment to train personnel. In 1H 2016, the Company's social expenses related to the execution of contractual obligations amounted to KZT1.1 billion, including the social programs and ecology fund that amounted to KZT0.8 billion as well as the training of local specialists which amounted to KZT0.3 billion.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity requirements arise principally from its need to finance existing operations (working capital), the need to finance investment (capital expenditure) and to reach its growth targets via acquisitions. The management believes that the Company has an adequate liquidity position to meet its obligations and pursue investment opportunities.



During 1H 2016, net financial assets inflow from operating activities and FOREX amounted to KZT4.2 billion or KZT6.3 billion less than in 1H 2015. The decrease is primarily attributable to higher income tax paid in 1H 2016 compared to 1H 2015.

Net financial assets outflow from investing activities in 1H 2016 was KZT32.9 billion versus an outflow of KZT35.3 billion in 1H 2015. The decrease in net outflows primarily resulted from higher dividends received from joint ventures and associate (KZT5.1 billion more) and higher interest received from financial instruments (KZT2.0 billion more), which was partially offset by higher capital expenditures (KZT5.4 billion more).

Net financial asset outflow from financing activities in 1H 2016 was KZT1.0 billion (outflow of KZT0.7 billion in 1H 2015). The increase in outflows is mainly associated with the higher repayment of borrowings made in 1H 2016 compared to 1H 2015 (KZT0.3 billion more).

Net cash position

The table below shows a breakdown of the Company's net cash position:

	As at June 30, 2016	As at December 31, 2015	As at June 30, 2015	Change
	(KZT million, unless otherwise stated)			%
Current portion	5,572	5,585	3,120	0%
Non-current portion	5,095	5,990	3,805	-15%
Total borrowings	**10,667**	**11,575**	**6,925**	**-8%**
Cash and cash equivalents	380,074	237,310	182,723	60%
Other current financial assets	658,875	833,912	506,490	-21%
Non-current financial assets	36,360	33,760	19,604	8%
Total financial assets	**1,075,309**	**1,104,982**	**708,817**	**-3%**
Foreign currency denominated cash and financial assets, %	**96%**	**99%**	**91%**	
Net cash	**1,064,642**	**1,093,407**	**701,892**	**-3%**

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Forward-looking Statements

This document includes statements that are, or may be deemed to be, ''forward-looking statements''. These forward-looking statements can be identified by the use of forward-looking terminology including, but not limited to, the terms ''believes'', ''estimates'', ''anticipates'', ''expects'', ''intends'', ''may'', ''target'', ''will'', or ''should'' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They include, but are not limited to, statements regarding the Company's intentions, beliefs and statements of current expectations concerning, amongst other things, the Company's results of operations, financial condition, liquidity, prospects, growth, potential acquisitions, strategies and as to the industries in which the Company operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that may or may not occur. Forward-looking statements are not guarantees of future performance and the actual results of the Company's operations, financial condition and liquidity and the development of the country and the industries in which the Company operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. The Company does not intend, and does not assume any obligation, to update or revise any forward-looking statements or industry information set out in this document, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved.