OPERATING AND FINANCIAL REVIEW

For the nine months ended September 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 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 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 September 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
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

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
3,056	3,035	3,123	-2%	Total production (ktonnes)*	9,134	9,245	-1%
2,117	2,097	2,112	0%	OMG and EMG production (ktonnes)	6,303	6,219	1%
58,474	16,325	134,884	-57%	Net Income (KZT million)	75,723	137,773	-45%
0.86	0.24	1.98	-57%	Basic and diluted EPS (KZT thousand)	1.11	2.02	-45%
67,581	49,429	(28,731)	n/a	EBITDA (KZT million)**	123,396	(20,256)	n/a
26%	21%	-32%	n/a	Operating margin (%)***	17%	-14%	n/a
57,874	35,280	(7,064)	n/a	Operating cash flow before working capital adjustments (KZT million)	75,008	(24,538)	n/a
1,145,167	1,064,642	938,254	22%	Net cash position at the end of the period (KZT million)	1,145,167	938,254	22%

**Including proportionate share of equity-accounted entities and CCEL.*
***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, foreign exchange gain/loss and other non-operating charges.*

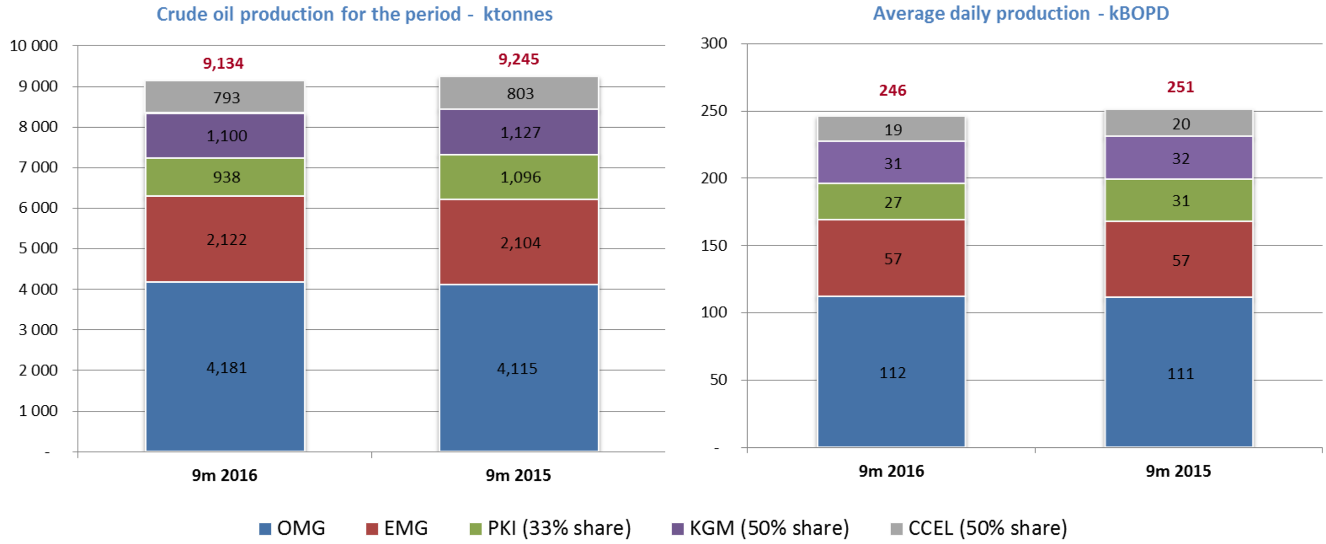
BUSINESS ENVIRONMENT

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.

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
45.86	45.59	50.47	-9%	Average Brent (DTD) (US$ / bbl)	41.88	55.31	-24%
1.0%	1.6%	1.5%	-33%	Kazakhstan inflation (%)	5.6%	2.9%	93%
341.34	335.58	216.92	57%	Average Tenge - US$ exchange rate	344.00	195.90	76%
335.46	338.66	270.40	24%	Tenge - US$ exchange rate at the reporting date	335.46	270.40	24%

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 9 months 2016, including the share of production from its joint ventures and associated company, amounted to 9,134 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 9 months 2015, OMG production increased by 2% or 66 ktonnes, primarily due to the geological and technical measures performed. Compared to the same period in 2015, EMG production in 9 months 2016 increased by 1% or 18 ktonnes, primarily due to the increased production of wells drilled in 2015.

The share in PKI's production declined by 14% or 158 ktonnes in 9 months 2016, compared to 9 months 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 2% or 27 ktonnes in 9 months 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 1% or 10 ktonnes in 9 months 2016, compared with 9 months 2015, due to the decrease in drilling volume and an increase of water cut of the field. Total share in production volume of PKI, KGM and CCEL in 9 months 2016 was 2,831 ktonnes, which is 6% or 195 ktonnes less than in 9 months 2015.

Wells as of reporting date*	Drilled in 9m 2016*	Drilled in 9m 2015*		Well workovers 9m 2016	Well workovers 9m 2015	Well servicing 9m 2016	Well servicing 9m 2015
Number of wells				*Number of well workovers*		*Number of well servicing*	
5,167	122	187	OMG	707	719	10,037	10,651
2,659	42	51	EMG	166	196	2,550	2,686
1,292	13	57	PKI (100%)**	113	157	455	674
241	23	26	KGM (100%)**	37	38	67	68
3,652	49	96	CCEL (100%)**	52	20	2,783	2,512

**Development wells, including injection wells.*

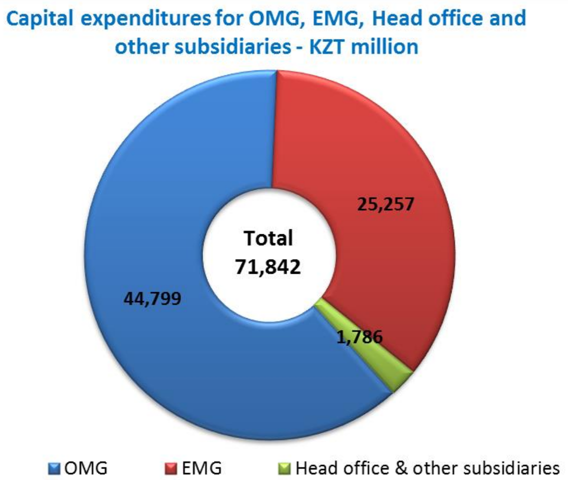
*** Includes 100% of the number of well operations related to JVs and associated company.*

Oil production in the reporting period from the new wells at OMG amounted to 296 ktonnes compared to 309 ktonnes in 9 months 2015, as number of wells drilled in 9 months 2016 was lower than in the same period of 2015. OMG workovers of 707 wells provided an incremental production of 222 ktonnes, while 719 well workovers in 9 months 2015 provided incremental production of 259 ktonnes.

Oil production for 9 months 2016 from the new wells at EMG amounted to 46 ktonnes compared to 33 ktonnes in 9 months 2015. EMG performed 166 well workovers in 9 months 2016, which provided an incremental production of 64 ktonnes, while 196 well workovers provided 54 ktonnes in 9 months 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.



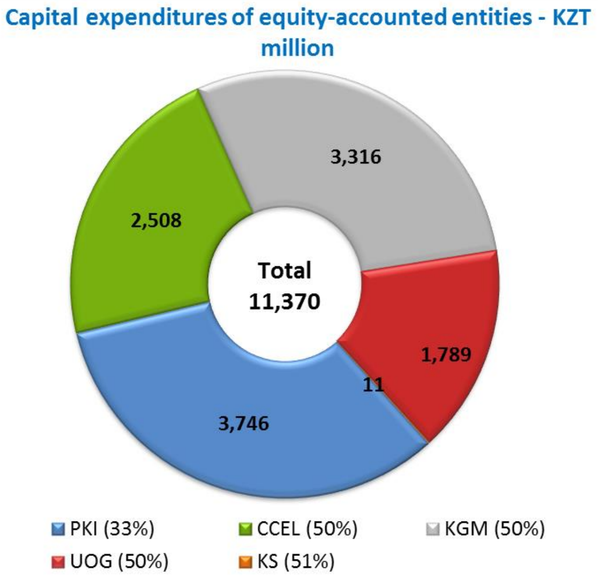
Capital expenditures of OMG, EMG, Head office and other KMG EP subsidiaries

In 9 months 2016, the Company's capital expenditures amounted to KZT71.8 billion or KZT3.4 billion less than in 9 months 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 9 months 2016 amounted to KZT44.8 billion, which is KZT12.6 billion less than in 9 months 2015, mainly due to a decrease in production drilling as a result of a decrease in drilling volumes 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 KZT25.3 billion in 9 months 2016, which is KZT9.7 billion more than in 9 months 2015, mainly due to a construction of a Prorva sulphur cleaning unit, as well as an increase in exploration drilling in the reporting period compared to 9 months 2015.

Head office and other subsidiaries' capital expenditures in 9 months 2016 amounted to KZT1.8 billion, which is KZT0.5 billion less than in 9 months 2015, primarily due to the lower level of exploration drilling in 9 months 2016.



Capital expenditure of equity-accounted entities

PKI capital expenditures in 9 months 2016 amounted to KZT11.4 billion (KMG EP 33% share: KZT3.7 billion), which is KZT4.7 billion less than in 9 months 2015, mainly due to the decrease in drilling volumes in the current period.

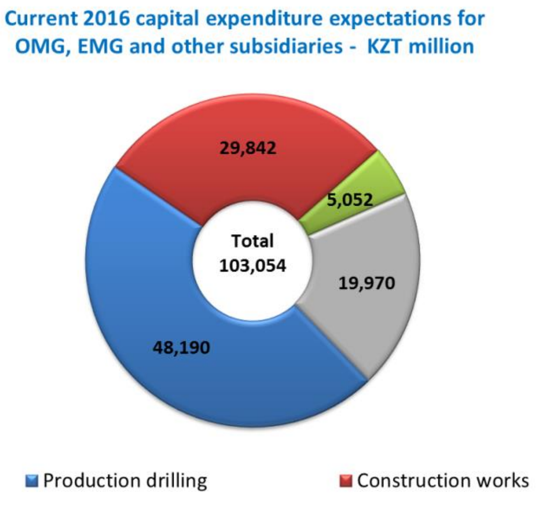
KGM capital expenditures for the period were KZT6.6 billion (KMG EP 50% share: KZT3.3 billion), which is KZT1.3 billion less than in 9 months 2015, mainly due to the lower construction and modernization of production facilities and production drilling in the reporting period, which was partially offset by the higher purchase of fixed assets in 9 months 2016 compared to 9 months 2015.

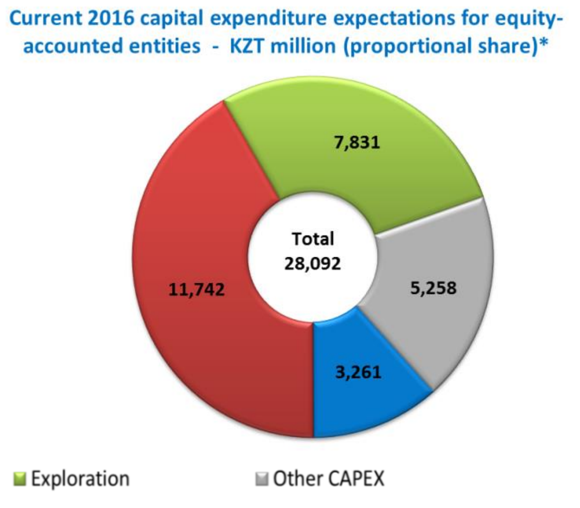
CCEL capital expenditures in 9 months 2016 were KZT5.0 billion (KMG EP 50% share: KZT2.5 billion), which is KZT4.0 billion less than in 9 months 2015, primarily due to the decrease in drilling volumes, lower construction and the modernization of production facilities and fixed asset purchases in the current period.

UOG capital expenditures amounted to KZT3.6 billion (KMG EP 50% share: KZT1.8 billion), which is KZT1.3 billion less than in 9 months 2015, mainly due to the payment of a commercial discovery bonus in 9 months 2015.

KS capital expenditures amounted to KZT21 million (KMG EP 51% share: KZT11 million), which is KZT608 million less than in 9 months 2015, as further operations on the oilfield are pending internal approval.

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

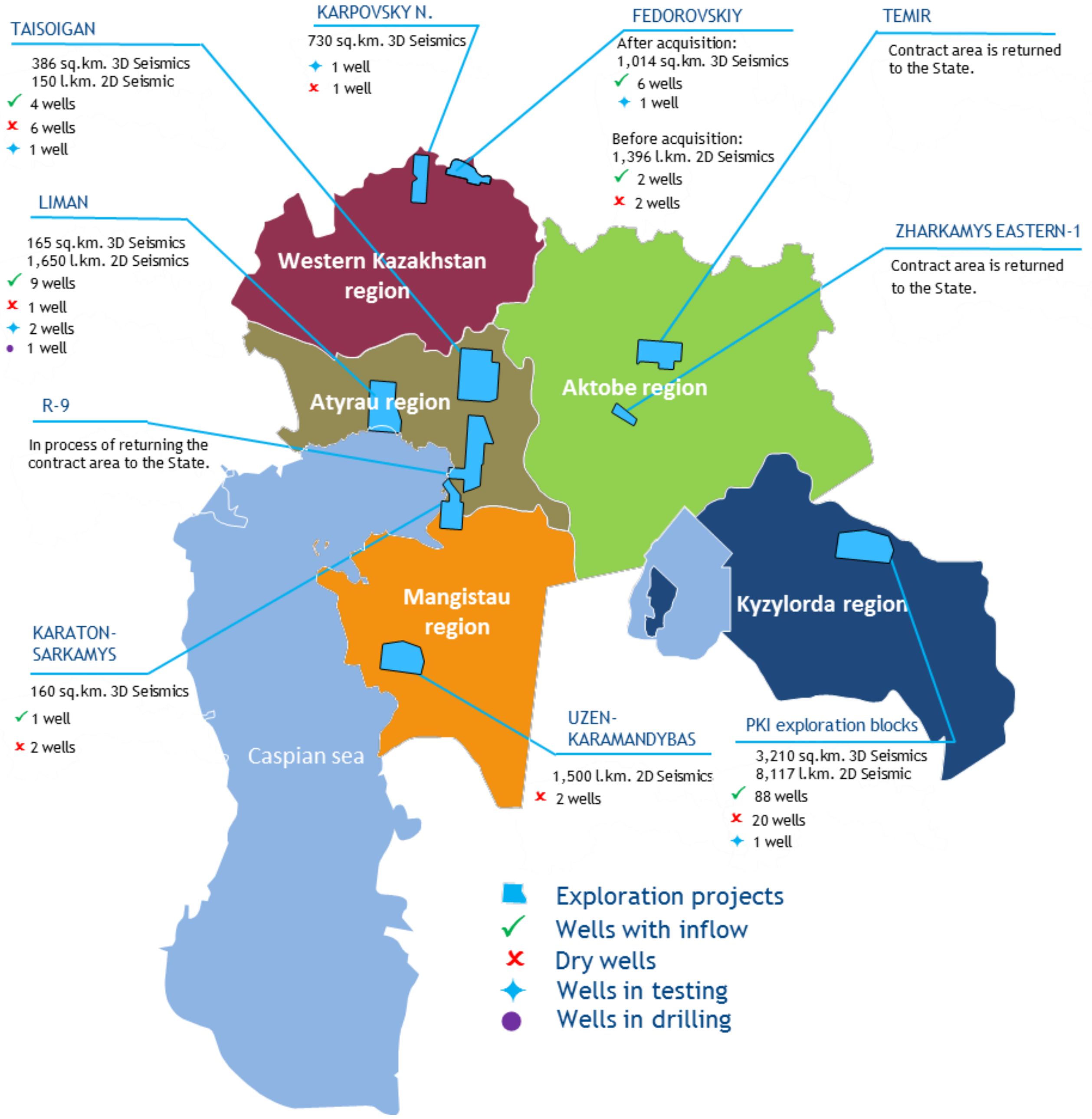




**Capital expenditure amounts for 2016 presented herein represent currently expected amounts based on the management's estimates as of date of issuance of this report. Amounts do not represent any formal commitments and are subject to changes in any direction.*

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 September 30, 2016.



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

Block (interest)	Date of acquisition	Prospect	Well	Status as of reporting date
Liman (100%)	19.01.2006	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. Completed drilling PR-4 and PR-7 wells. PR-4 and PR-7 wells are in testing. In process of drilling PR-5 well (depth as of reporting date - 443m.).
Temir (100%)	18.07.2011			Return of the contract area to the State is completed.
Zharkamys Eastern (100%)	30.06.2011	Tuskum		Return of the contract area to the State is completed.
Uzen-Karamandybas (100%)	18.07.2011	South-western part of the exploration 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%)	29.01.2004	Uaz	U-22, U-24	Agreement on drilling of the U-22 (project depth - 850m.) and U-24 (project depth - 1,265m.) wells is concluded. Completed drilling the U-22 well, the well is conserved. Completed drilling the U-24 well, the well is in testing. 2-D MOGT seismic field works on the Taisoigan block are completed. 3-D seismic field data is passed for processing.
R-9 (100%)	10.06.2007			The Company is in the process of returning the contract area to the State.
Karaton Sarkamys (100%)	18.07.2011	North-eastern wing of the S. Nurzhanov field	 NSV-1	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. Completed drilling of the NSV-1 well to the depth of 3,818m. The well is conserved.
Karpovskiy Severniy (KS-51%)	18.10.2011	Orlovskaya Central	SK-2	Planning to perform testing of 4 intervals of the well.
Fedorovskiy block (UOG-50%)	11.03.2011	Rozhkovskiy Pavlovskaya, Yanvartsevskaya	U-25	Completed drilling the U-25 well. The well is in testing. Completed geophysical exploration works. Seismic data processing results were received and approved.
Doszhan-Zhamansu (24.75% through PKI)	22.12.2009	South Doszhan, South-Eastern Doszhan, Zhamansu		Completed drilling of the Doszhan-48 exploration well, the well is oil-and-gas bearing and awaiting reserves determination.
Karaganda (PKI-33%)	22.12.2009	Karabulak, Buharsai		Completed drilling the Severny Karabulak-3 and Karabulak-19 exploration wells. The Severny Karabulak-3 well - dry. The Karabulak-19 well – with inflow, the well is in testing.
Karavanchi (PKI – 33%)	22.12.2009	Karavanchi		Completed drilling of the Karavanchi-28 and Karavanchi-29 exploration wells. Karavanchi-28 well is dry. Karavanchi-29 is in testing.
Western Tuzkol (PKI – 33%)	22.12.2009	Western Tuzkol		Completed drilling of the Ketekazgan-17 and Western Tuzkol-93 exploration wells, as well as the Ketekazgan-34 appraisal well. The Ketekazgan-17 well – with inflow. The Western Tuzkol-93 well – water well. The Ketekazgan-34 well – with inflow.

RESULTS OF OPERATIONS

The following section is based on the Company's 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.

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
201,340	**192,176**	**108,232**	**86%**	**Revenue**	**514,706**	**349,337**	**47%**
(72,155)	(68,591)	(50,865)	42%	Production expenses	(195,364)	(160,037)	22%
(31,917)	(32,281)	(37,068)	-14%	SG&A	(94,514)	(91,118)	4%
(36,493)	(45,115)	(49,011)	-26%	Taxes other than on income	(115,803)	(131,584)	-12%
(51)	–	(1,186)	-96%	Exploration expenses	(51)	(1,663)	-97%
(9,175)	(6,728)	(4,538)	102%	DD&A	(22,524)	(15,158)	49%
51,549	**39,461**	**(34,436)**	**-250%**	**Operating profit / (loss)**	**86,450**	**(50,223)**	**-272%**
20,298	(6,936)	–	100%	Allowance for VAT recoverable	13,362	–	100%
(893)	(3,020)	(5,393)	-83%	Share of results of associate and JV's	(7,603)	(3,486)	118%
(250)	(151)	4	-100%	Gain / (loss) on disposal of fixed assets	(532)	(71)	649%
6,914	5,335	(8,249)	-184%	Finance income / (costs), net	19,323	1,555	100%
(8,733)	(11,864)	243,029	-104%	Foreign exchange gain / (loss), net	(7,284)	261,663	-103%
(10,411)	(6,500)	(60,071)	-83%	Income tax expense	(27,993)	(71,665)	-61%
58,474	**16,325**	**134,884**	**-57%**	**Net income**	**75,723**	**137,773**	**-45%**

The decrease in net income for 9 months 2016 compared to 9 months 2015 is mainly due to a foreign exchange loss recognized in 9 months 2016 as compared to foreign exchange gain in 9 months 2015, which resulted from the decision of the Government of the Republic of Kazakhstan and NBK to switch to the freely floating exchange rate regime of the Tenge in 3Q 2015. This was partially offset by an increase in export sales income that resulted from a higher average Tenge-US dollar exchange rate in 9 months 2016 compared to 9 months 2015 and higher export volume, 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 were partially offset by a drop in the average Brent price from US$55.3 per barrel in 9 months 2015 to US$41.9 per barrel in 9 months 2016. Net income also decreased in 9 months 2016 compared to 9 months 2015 due to an increase in production expenses, selling, general and administrative expenses, as well as an increase in depreciation, depletion and amortization, and the decrease in share in income of associate and joint ventures, which were partially offset by the decrease in income tax expense, taxes other than on income and the increase in net finance income. Additionally, the Company accrued an allowance for VAT recoverable in the amount of KZT11.2 billion related to both past and current periods, which was offset by the VAT received by the Company in the amount of KZT24.5 billion as the result of the positive decision achieved regarding the Company's application for the VAT recovery in the amount of KZT57.4 billion. This VAT claim is related to the accumulated excess for the period of 2012-2015, including the formation of JSC Ozenmunaigas and JSC Embamunaigas in 2012. The Company intends to further engage with the relevant parties to work on the recoverability of the remaining amount.

Revenue

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

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
				Export sales of crude oil			
				UAS pipeline			
76,507	74,675	41,323	85%	Net sales (KZT million)	201,251	147,052	37%
719	720	560	28%	Volume (ktonnes)	2,078	2,018	3%
106,408	103,715	73,791	44%	Average price (KZT/tonne)	96,848	72,870	33%
43.12	42.75	47.05	-8%	Average price (US$/bbl*)	38.94	51.45	-24%
				CPC pipeline			
62,182	58,663	30,453	104%	Net sales(KZT million)	172,116	97,090	77%
561	524	378	48%	Volume (ktonnes)	1,666	1,285	30%
110,841	111,952	80,563	38%	Average price (KZT/tonne)	103,311	75,556	37%
44.91	46.14	51.37	-13%	Average price (US$/bbl*)	41.54	53.35	-22%
138,689	133,338	71,776	93%	Total sales of crude oil-exported (KZT million)	373,367	244,142	53%
1,280	1,244	938	36%	Total crude oil-exported (ktonnes)	3,744	3,303	13%
				Domestic sales of crude oil			
–	–	16,569	-100%	Net domestic sales (KZT million)	15,459	44,125	-65%
–	–	658	-100%	Volume (ktonnes)	830	1,855	-55%
–	–	25,181	-100%	Average price (KZT/tonne)	18,625	23,787	-22%
–	–	16.06	-100%	Average price (US$/bbl*)	7.49	16.79	-55%
				Shipments of crude oil to Russia			
–	–	14,793	-100%	Net sales (KZT million)	–	46,102	-100%
–	–	350	-100%	Volume (ktonnes)	–	916	-100%
–	–	42,266	-100%	Average price (KZT/tonne)	–	50,313	-100%
–	–	26.95	-100%	Average price (US$/bbl*)	–	35.52	-100%
				Total sales of crude oil			
138,689	133,338	103,138	34%	Total net sales of crude oil (KZT million)	388,826	334,369	16%
1,280	1,244	1,946	-34%	Total volume (ktonnes)	4,574	6,074	-25%
108,351	107,185	53,000	104%	Average price (KZT/tonne)	85,008	55,047	54%
43.90	44.18	33.79	30%	Average price (US$/bbl*)	34.18	38.87	-12%
				Sales of oil products			
57,662	55,060	251	100%	Net sales (KZT million)	113,038	1,061	100%
753	761	9	100%	Volume (ktonnes)	1,517	43	100%
76,576	72,352	27,889	175%	Average price (KZT/tonne)	74,514	24,674	202%
224.34	215.60	128.57	74%	Average price (US$/tonne)	216.61	125.95	72%
4,989	3,778	4,843	3%	Other sales (KZT million)	12,842	13,907	-8%
201,340	**192,176**	**108,232**	**86%**	**Total revenue (KZT million)**	**514,706**	**349,337**	**47%**

* *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 9 months 2015 the Company made counter-oil supply to the Russian Federation as part of an 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 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 9 months 2016.

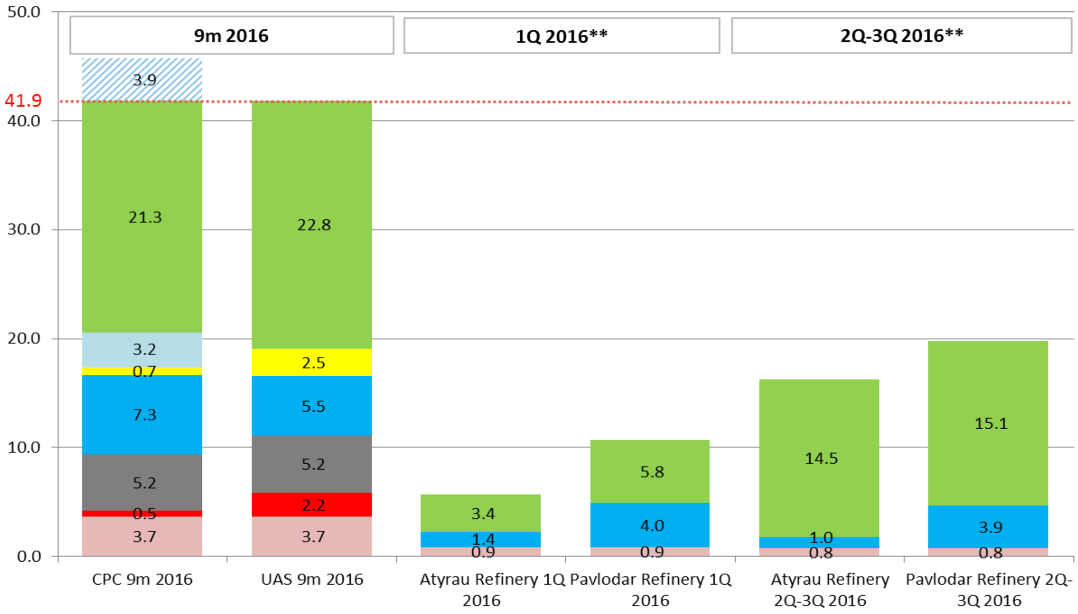
Prior to April 2016 the Company sold a portion of produced crude oil to KazMunaiGas Refining and Marketing JSC ("KMG RM"), a related party, in order to meet its domestic supply obligation. KMG RM further processed this crude oil and sold refined products. Starting from April 2016 the Company ceased sales 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 (Atyrau Refinery and Pavlodar Refinery)

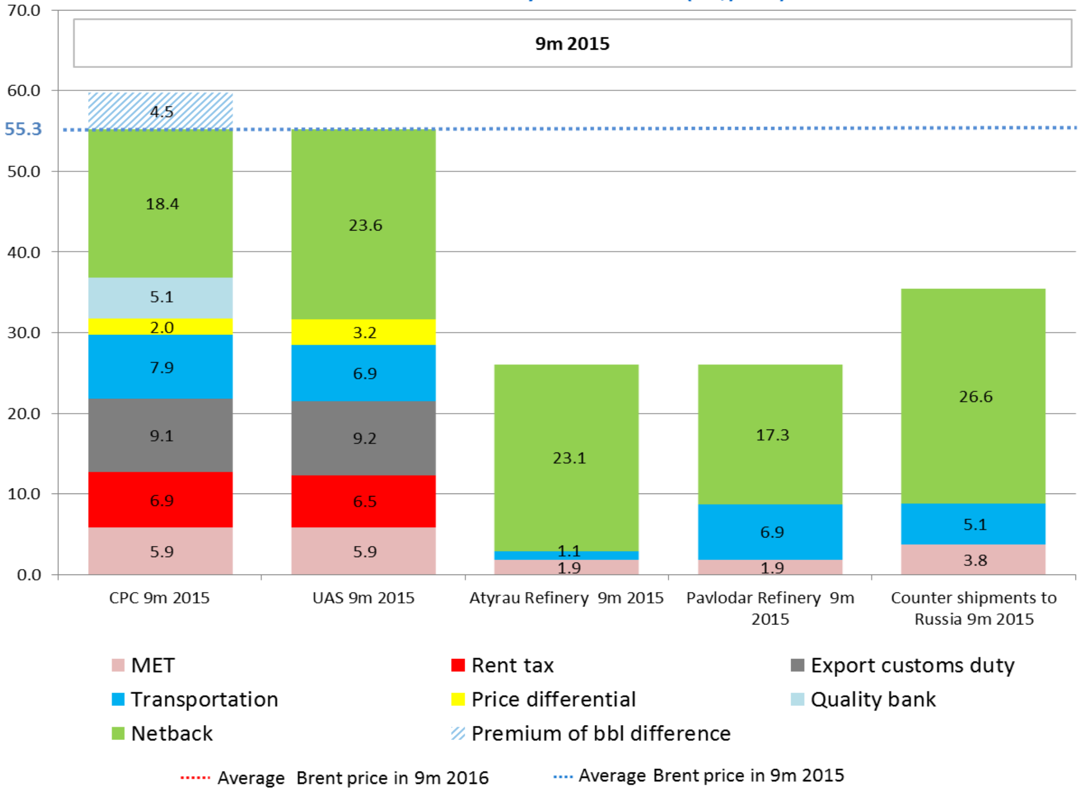
Atyrau Refinery	Pavlodar Refinery	Atyrau Refinery	Pavlodar Refinery		Atyrau Refinery	Pavlodar Refinery
2Q	**2Q**	**3Q**	**3Q**		**April-September 2016**	
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*	
45,415	9,703	50,379	7,812	Revenue	95,794	17,515
(20,342)	(3,060)	(20,729)	(2,400)	Costs, including:	(41,071)	(5,460)
(13,786)	(2,197)	(14,164)	(1,675)	Processing	(27,950)	(3,872)
(85)	(88)	(186)	(126)	Additives	(271)	(214)
(879)	(432)	(799)	(327)	Excise tax	(1,678)	(759)
(3,781)	–	(3,660)	–	Export customs duty	(7,441)	–
(293)	(59)	(343)	(46)	Selling and transportation expenses	(636)	(105)
(1,518)	(284)	(1,577)	(226)	KMG Refinery and Marketing commission fee	(3,095)	(510)
25,073	**6,643**	**29,650**	**5,412**	**Net revenue**	**54,723**	**12,055**
635.3	125.9	661.4	96.6	Volume of oil products sold, thousands of tonnes	1,296.7	222.5
39.7	14.9	36.5	11.5	Processing losses, thousands of tonnes	76.2	26.4
675.0	**140.8**	**697.9**	**108.1**	Total volume of crude oil processed and sold, thousands of tonnes	**1,372.9**	**248.9**
37,145	**47,180**	**42,485**	**50,065**	**Net revenue Tenge per tonne of crude oil**	**39,859**	**48,433**

The following chart shows the 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).

Netback analysis for 9m 2016 (US$/bbl*)



Netback analysis for 9m 2015 (US$/bbl*)



**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-3Q 2016. Netbacks of Atyrau Refinery and Pavlodar Refinery for 2Q-3Q 2016 are based on the net revenue tenge per tonne of crude oil shipped to Atyrau Refinery and Pavlodar Refinery for oil processing reflected in the Statement of Net Revenue from sales of Refined Products.*

Netback for the UAS route in 9 months 2016 decreased compared to 9 months 2015 primarily due to a drop in the average Brent price from US$55.3 per barrel in 9 months 2015 to US$41.9 per barrel in 9 months 2016.

Netback for the CPC route in 9 months 2016 increased compared to 9 months 2015, primarily due to a decrease in the rent tax and a higher average Tenge-US dollar exchange rate in 9 months 2016 compared to 9 months 2015, which was partially offset by a decrease in the average Brent price from US$55.3 per barrel in 9 months 2015 to US$41.9 per barrel in 9 months 2016.

Domestic market netbacks decreased in 9 months 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. As at the reporting date the Independent Non-Executive Directors of the Company ('the INEDs') have not come to a final decision with respect to the approval of these prices.

Production expenses

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

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
37,734	33,188	38,260	-1%	Employee benefits	108,094	113,911	-5%
15,853	15,970	165	100%	Refinery processing costs	31,823	555	100%
7,180	5,323	5,483	31%	Repairs and maintenance	16,962	14,006	21%
5,113	4,943	4,576	12%	Energy	15,534	13,742	13%
4,052	4,206	4,025	1%	Materials and supplies	13,141	13,756	-4%
1,446	1,276	1,435	1%	Transportation services	3,900	3,890	0%
(1,505)	1,389	(5,011)	-70%	Change in crude oil balance	(419)	197	-313%
–	–	(86)	-100%	Movement in asset retirement obligation	–	(3,999)	-100%
2,282	2,296	2,018	13%	Other	6,329	3,979	59%
72,155	**68,591**	**50,865**	**42%**	**Total production expenses**	**195,364**	**160,037**	**22%**

Production expenses in 9 months 2016 increased by KZT35.3 billion or 22% compared to 9 months 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 9 months 2016 increased compared to 9 months 2015, due to the Company's decision to switch to an oil processing scheme starting from April 2016. As the result, the Company sold 1,517 ktonnes of oil products in 9 months 2016 compared to 43 ktonnes in 9 months 2015.

Repairs and maintenance expenses in 9 months 2016 increased by 21% compared to 9 months 2015, mainly due to the increase of hydrofracturing expenses primarily as number of wells subject to hydrofracturing increased from 69 wells in 9 months 2015 to 82 wells in 9 months 2016.

Increase in energy expenses by 13% compared to 9 months 2015 is primarily related to the increase in tariffs of energy suppliers.

Employee benefit expenses in 9 months 2016 decreased by 5% compared to 9 months 2015, mainly due to a cut in the annual bonus for production personnel for 2016 and a decrease in employee benefit liabilities, which was 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.

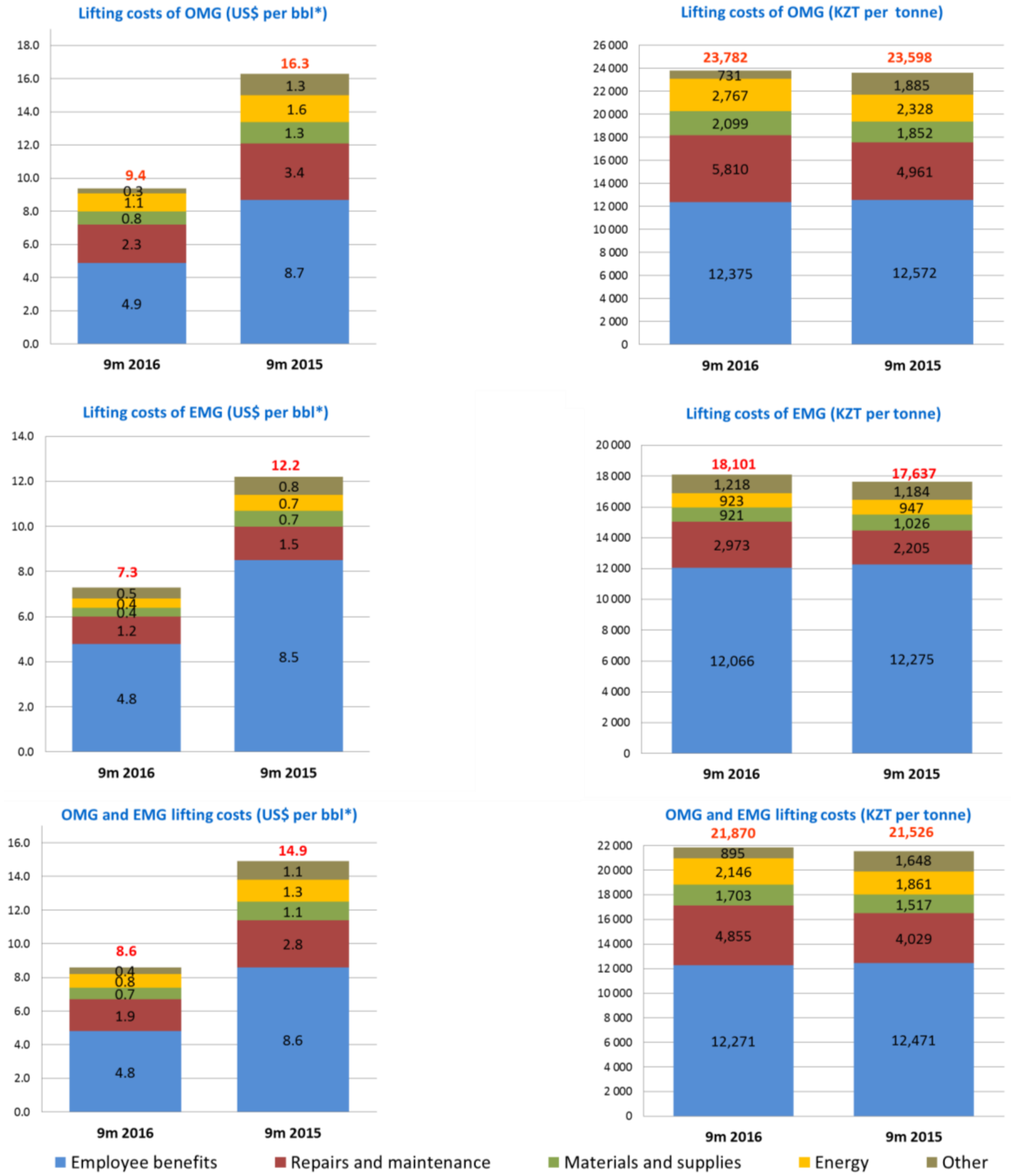
A decrease in asset retirement obligation in excess of capitalized asset in 9 months 2015 resulted mainly from the extension of EMG subsoil agreements.

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* and KZT/tonne:



**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 the OMG, EMG and KMG EP Head office operations:

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
22,826	22,078	13,814	65%	Transportation expenses	68,779	45,601	51%
3,960	4,138	5,011	-21%	Employee benefits	11,979	13,741	-13%
1,803	1,802	–	100%	Agency fee	3,605	–	100%
1,865	715	242	671%	Consulting and audit services	2,919	1,130	158%
377	1,080	257	47%	Sponsorship	1,528	445	243%
494	237	228	117%	Repairs and maintenance	901	603	49%
–	–	1,112	-100%	Management fees	–	3,338	-100%
(2,029)	811	14,762	-114%	(Reversal) /accrual of fines and penalties	(601)	22,345	-103%
2,621	1,420	1,642	60%	Other	5,404	3,915	38%
31,917	**32,281**	**37,068**	**-14%**	**Total SG&A expenses**	**94,514**	**91,118**	**4%**

Selling, general and administrative expenses in 9 months 2016 amounted to KZT94.5 billion which is 4% higher than in 9 months 2015. The increase is mainly due to a rise in transportation expenses and agency fee, which were partially offset by a decrease in fines and penalties, employee benefits and management fees.

The increase in transportation expenses in 9 months 2016 compared to 9 months 2015 resulted primarily from higher transportation costs for the 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 9 months 2016 compared to 9 months 2015 due to an increase in domestic sales volumes and transportation tariffs of JSC "KazTransOil" for domestic route by 21%.

Employee benefits in 9 months 2016 decreased by 13% compared to 9 months 2015, mainly due to a cut in annual bonus for 2016 for administrative personnel and a decrease in employee benefit liabilities, which was partially offset by a 7% indexation in basic salaries for administrative personnel from January 1, 2016.

The agency fee accrued in 9 months 2016 in the amount of KZT3.6 billion correspond to commissions paid to KMG RM for the sale of the Company's oil products.

In 9 months 2016, the Company reversed the accrual of tax provision related to ecology fine in the amount of KZT1.8 billion due to the positive court decision over Tax revision Act covering the period of 2006-2008. Additionally, in 9 months 2016 the Company accrued KZT1.0 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:

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
22,067	16,389	11,563	91%	Export customs duty	55,530	42,940	29%
7,394	17,349	25,414	-71%	Mineral extraction tax	39,661	51,046	-22%
3,768	9,643	9,423	-60%	Rent tax	13,411	31,385	-57%
1,704	1,643	1,725	-1%	Property tax	5,028	4,531	11%
1,560	91	886	76%	Other taxes	2,173	1,682	29%
36,493	**45,115**	**49,011**	**-26%**	**Total taxes other than on income**	**115,803**	**131,584**	**-12%**

Taxes other than on income in 9 months 2016 decreased by KZT15.8 billion or 12% compared to 9 months 2015, mainly due to the decrease in rent tax and mineral extraction tax, which were partially offset by the increase in export customs duty.

Rent tax decreased in 9 months 2016 compared to 9 months 2015 due to the average Brent price drop, which resulted in the reduction of tax rate to 0% in 1Q 2016, that was partially offset by the increase of average Tenge - US dollar exchange rate.

The decrease of MET in 9 months 2016 compared to 9 months 2015 mainly resulted from a drop in the average Brent price from US$55.3 per barrel in 9 months 2015 to US$41.9 per barrel in 9 months 2016, which was partially offset by an increase in production volumes and an increase in the average Tenge – US dollar exchange rate.

ECD expenses increased in 9 months 2016 compared to 9 months 2015 mainly due to the export of oil products as the result of the Company's decision to switch to an 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$66 per tonne of crude oil in 9 months 2015 to US$37 per tonne of crude oil in 9 months 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.

Income Tax Expense

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
68,885	22,825	194,955	-65%	Profit before tax	103,716	209,438	-50%
69,778	25,845	200,348	-65%	Profit before tax (with adjustments*)	111,319	212,924	-48%
10,411	6,500	60,071	-83%	Income tax	27,993	71,665	-61%
10,411	7,430	60,071	-83%	Income tax (with adjustments*)	26,291	71,665	-63%
15%	28%	31%	-52%	Effective tax rate	27%	34%	-21%
15%	29%	30%	-50%	Effective tax rate (with adjustments*)	24%	34%	-29%

** 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 main reason for the lower income tax in 9 months 2016 compared to 9 months 2015 is the lower taxable profit from the decrease in the average Brent price and the recognition of the foreign exchange loss in 9 months 2016 compared to the foreign exchange gain in 9 months 2015.

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 interim condensed consolidated financial statements:

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
1,495	2,005	(108)	-100%	Share in income / (loss) from KGM	3,978	7,922	-50%
(2,135)	(4,553)	(6,142)	-65%	Share in loss from PKI	(10,566)	(11,377)	-7%
(253)	(472)	857	-130%	Share in income / (loss) from UOG	(1,015)	(31)	100%
(893)	**(3,020)**	**(5,393)**	**-83%**	**Share in income / (loss) in associate and JV's**	**(7,603)**	**(3,486)**	**118%**

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 9 months 2016 was 2,200 ktonnes (50% share is 1,100 ktonnes), which is 55 ktonnes or 2% lower than in 9 months 2015.

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

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
144,164	92,549	140,695	2%	Revenue	327,332	516,072	-37%
(95,661)	(72,488)	(80,370)	19%	Operating expenses	(244,126)	(318,092)	-23%
(4)	(895)	1	-100%	Finance income / (cost), net	(449)	(553)	-19%
(720)	(5,224)	(8,939)	-92%	Foreign exchange gain / (loss), net	(5,329)	(9,422)	-43%
(32,830)	3,953	(45,984)	-29%	Income tax (expense) / benefit	(35,588)	(103,924)	-66%
14,949	17,895	5,403	177%	Net income	41,840	84,081	-50%
741	729	752	-1%	Crude oil production, ktonnes	2,200	2,255	-2%

The decrease in 9m 2016 revenue mainly resulted from a decrease in the average export and domestic prices, as well as a lower domestic sales volume in comparison with 9m 2015.

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

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
	(ktonnes)					*(ktonnes)*	
425	619	595	-29%	Domestic market	1,483	1,550	-4%
317	105	151	110%	Export via KCP	711	686	4%
742	**724**	**746**	**-1%**	**Total crude oil sales, ktonnes**	**2,194**	**2,236**	**-2%**

A decrease in average export and domestic prices, as well as domestic sales volume, also resulted in a decrease in operating expenses, particularly transportation expenses (by US$20.0 million), rent tax (by US$19.5 million) and export customs duty (by US$17.1 million).

ECD expenses decreased by US$17.1 million due to the average ECD rate drop from US$66 per tonne of crude oil in 9 months 2015 to US$37 per tonne of crude oil in 9 months 2016, which was partially offset by the increase in export sales volume in 9 months 2016 compared to 9 months 2015. 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.

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

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
	(US$ per bbl sold)*					*(US$ per bbl sold*)*	
4.9	5.0	4.0	23%	DD&A	4.9	3.9	26%
2.7	1.6	2.6	4%	Transportation expenses	2.2	3.4	-35%
2.3	0.5	1.6	44%	Export customs duty	1.8	2.7	-33%
2.3	1.2	1.3	77%	Mineral extraction tax	1.7	2.1	-19%
0.8	0.7	1.0	-20%	Employee benefits	0.7	1.1	-36%
0.8	0.9	1.2	-33%	Repairs and maintenance	0.7	1.1	-36%
1.3	0.6	0.2	550%	Rent tax	0.6	1.8	-67%
0.4	0.4	0.6	-33%	Materials and supplies	0.4	0.6	-33%
0.5	0.1	–	100%	Fines and penalties	0.2	0.7	-71%
0.6	2.1	1.6	-63%	Other	1.1	1.2	-8%
16.6	**13.1**	**14.1**	**18%**	**Total operating expenses**	**14.3**	**18.6**	**-23%**

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

The share in KGM income, reflected in the interim condensed consolidated financial statements of the Company, represents a proportionate share of the results of KGM for 9 months 2016, adjusted for the impact of amortization of the fair value of the licenses, partially offset by related deferred tax benefit of KZT3.1 billion (KZT0.3 billion in 9 months 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 9 months 2016, PKI produced 2,842 ktonnes of oil (33% share: 938 ktonnes) which is 14% less than in 9 months 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:

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
	(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*	
184,521	159,940	236,364	-22%	Revenue	484,870	814,532	-40%
(160,262)	(137,620)	(235,718)	-32%	Operating expenses	(450,459)	(788,233)	-43%
(1,085)	(14,207)	(8,496)	-87%	Finance cost, net	(24,746)	(30,961)	-20%
(17,424)	(24,558)	(57,718)	-70%	Income tax expense	(28,975)	(96,958)	-70%
5,750	(16,445)	(65,568)	-109%	Net income / (loss)	(19,310)	(101,620)	-81%
917	944	1,103	-17%	Crude oil production, ktonnes	2,842	3,321	-14%

The decrease in revenue in 9 months 2016, in comparison with 9 months 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:

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
	(ktonnes)					(ktonnes)	
565	720	774	-27%	Domestic sales	1,851	2,077	-11%
125	101	160	-22%	Export via KCP (PKKR 100%)	418	596	-30%
159	53	75	112%	Export via KCP (KGM 50%)	356	343	4%
23	26	31	-26%	Export via KCP (Kolzhan 100% & PKVI 75%)	74	74	0%
23	29	–	100%	Export Uzbekistan (TP 50%)	52	–	100%
8	–	45	-82%	Export via KCP (TP 50%)	47	138	-66%
903	**929**	**1,085**	**-17%**	**Total crude oil sales, ktonnes**	**2,798**	**3,228**	**-13%**

Operating expenses decreased mainly due to lower export and domestic sales volume, and a drop in average export and domestic prices that primarily resulted in lower transportation expenses (by US$45.1 million), ECD (by US$39.1 million) and rent tax (by US$34.4 million).

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

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
	(US$ per bbl sold*)					(US$ per bbl sold*)	
9.8	8.4	9.2	7%	DD&A	8.6	9.4	-9%
2.7	2.3	3.6	-25%	Transportation expenses	2.7	4.1	-34%
2.0	0.6	2.1	-5%	Export customs duty	1.7	3.0	-43%
1.4	1.5	2.0	-30%	Repairs and maintenance	1.4	2.4	-42%
1.3	1.6	1.7	-24%	Employee benefits	1.3	2.0	-35%
1.6	1.0	1.4	14%	Mineral extraction tax	1.3	2.0	-35%
0.8	0.8	1.0	-20%	Materials and supplies	0.8	1.1	-27%
1.2	0.7	1.2	0%	Rent tax	0.6	1.9	-68%
0.6	(0.1)	(0.3)	-300%	Fines and penalties	0.1	0.6	-83%
1.6	2.2	6.3	-75%	Other	2.3	4.9	-53%
23.0	**19.0**	**28.2**	**-18%**	**Total operating expenses**	**20.8**	**31.4**	**-34%**

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

The share in PKI results reflected in the Company's interim condensed consolidated financial statements represents a proportionate share of the results of PKI in 9 months 2016 adjusted for the impact of amortization of the fair value of the licenses for the amount of KZT8.4 billion (KZT4.8 billion in 9 months 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 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 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 September 30, 2016 the Company had KZT33.4 billion (US$99.4 million) as a receivable from CCEL. The Company has accrued KZT3.6 billion (US$10.4 million) of interest income in 9 months 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 9 months 2016, CCEL produced around 1,588 ktonnes (50% share: 793 ktonnes) of crude oil, which decreased by 1% compared to 9 months 2015. CCEL's key financial and operational indicators (100%) are as follows:

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
139,268	149,299	139,950	0%	Revenue	410,054	469,665	-13%
(126,248)	(104,144)	(239,435)	-47%	Operating expenses	(349,157)	(600,105)	-42%
(5,227)	(5,199)	(6,279)	-17%	Finance cost, net	(15,522)	(20,283)	-23%
25	6,318	(770)	-103%	Income tax (expense) / benefit	6,343	13,557	-53%
7,818	46,274	(106,534)	-107%	Net income / (loss)	51,718	(137,166)	-138%
535	522	543	-1%	Crude oil production, ktonnes	1,588	1,604	-1%

The decrease in revenue in 9 months 2016 is mainly a result of a decrease in average export sales prices. CCEL crude oil sales split by routes is as follows:

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
(ktonnes)					*(ktonnes)*		
238	275	272	-13%	Export via Novorossiysk	825	675	22%
207	208	164	26%	Export via Ust'-Luga	668	449	49%
–	–	97	-100%	Domestic market	–	319	-100%
–	–	–	0%	Shipments of crude oil to Russia	–	139	-100%
445	**483**	**533**	**-8%**	**Total crude oil sales, ktonnes**	**1,493**	**1,582**	**-6%**

Total operating expenses in 9 months 2016 decreased by 42% compared to 9 months 2015 mainly due to the decrease in employee benefits, rent tax, repairs and maintenance, ECD and DD&A.

Rent tax decreased in 9 months 2016 compared to 9 months 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 9 months 2016 compared to 9 months 2015.

Employee benefits, as well as repairs and maintenance costs decreased in 9 months 2016 compared to 9 months 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 the cost of well servicing and well workovers in the reporting period compared to 9 months 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:

3Q 2016	2Q 2016	3Q 2015	Change		9m 2016	9m 2015	Change
(US$ per bbl sold)*					*(US$ per bbl sold*)*		
8.7	6.6	7.2	21%	Transportation expenses	7.0	7.1	-1%
5.9	7.0	13.3	-56%	Employee benefits	6.5	11.4	-43%
6.9	4.5	7.1	-3%	Export customs duty	5.6	6.9	-19%
3.8	3.7	3.5	9%	Energy	3.9	4.3	-9%
3.6	3.4	6.1	-41%	DD&A	3.2	7.1	-55%
3.5	3.1	5.1	-31%	Rent tax	2.1	4.9	-57%
1.8	2.2	3.1	-42%	Repairs and maintenance	1.9	4.1	-54%
0.8	0.9	1.0	-20%	Materials and supplies	0.7	1.0	-30%
0.3	0.6	0.3	0%	Mineral extraction tax	0.3	0.3	0%
7.0	0.3	20.6	-66%	Other	3.8	9.7	-61%
42.3	**32.3**	**67.3**	**-37%**	**Total operating expenses**	**35.0**	**56.8**	**-38%**

** 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 JVs and associated company

Lifting costs of producing JVs and associate is represented as follows:

	KGM	PKI	CCEL
		(US$ thousand, unless otherwise stated)	
Employee benefits	8,457	17,978	64,884
Materials	7,249	17,175	7,296
Repair and maintenance	5,167	17,363	18,698
Energy	7,012	12,629	38,712
Other	1,904	12,476	35,800
Total lifting expenses (US$ thousand)	**29,789**	**77,621**	**165,390**
Production (ktonnes)	**2,200**	**2,842**	**1,588**
Lifting cost US$ per bbl*	**1.8**	**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 JVs and associate is represented as follows:

	KGM	PKI	CCEL
		(US$ per bbl sold*, unless otherwise stated)	
Benchmark end-market quote (Brent)	41.9	41.9	41.9
Price differential and premium of bbl difference, net	(8.0)	(8.4)	(4.1)
Average realized price	**33.9**	**33.5**	**37.8**
Rent tax	(2.0)	(1.9)	(1.9)
Export customs duty	(5.4)	(5.1)	(5.2)
Transportation expenses	(3.7)	(4.9)	(6.6)
MET	(4.2)	(2.2)	(0.2)
Netback price	**18.6**	**19.4**	**23.9**

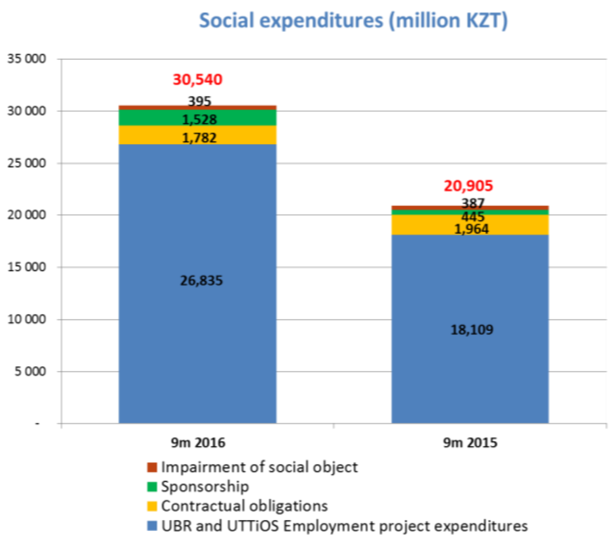
**Following average tonne / bbl conversion factors were used KGM 7.7, PKI 7.75, CCEL 6.68.*

Netback of domestic sales at major producing JVs and associate is represented as follows:

	KGM	PKI	CCEL
		(US$ per bbl sold*, unless otherwise stated)	
Realized price	**12.3**	**16.5**	–
Transportation expenses	(1.4)	(1.3)	–
MET	(0.4)	(0.7)	–
Netback price	**10.5**	**14.5**	–

**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 9 months 2016, the Company incurred KZT26.8 billion of operating expenses at UBR and UTTiOS, including KZT14.6 billion of employee benefit expenses and KZT12.2 billion for materials, supplies and other expenses.

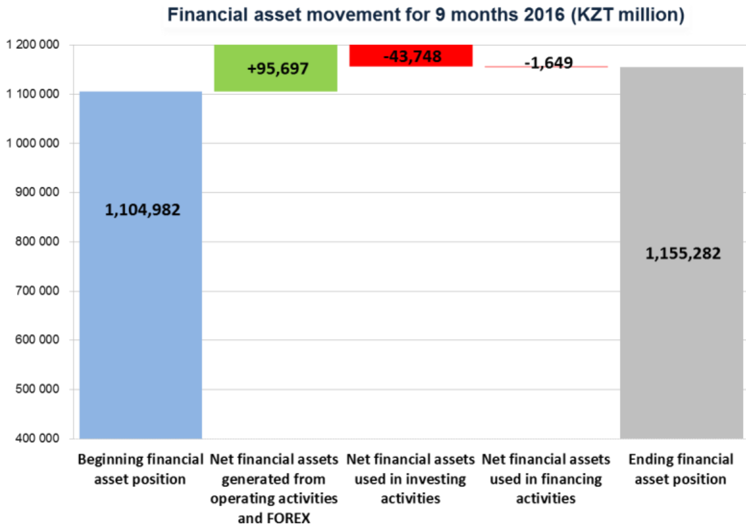
The Company has invested approximately KZT23 million for the purchase of equipment to support the operations at UBR and UTTiOS. Expenses for the financing of UTTiOS were partially offset by income from third parties in 9 months 2016, which totalled KZT3.5 billion (KZT4.0 billion in 9 months 2015).

In 9 months 2016 the Company spent KZT1.5 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 9 months 2016, the Company's social expenses related to the execution of contractual obligations amounted to KZT1.8 billion, including the social programs and ecology fund that amounted to KZT1.2 billion as well as the training of local specialists which amounted to KZT0.6 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 9 months 2016, net financial assets inflow from operating activities and FOREX amounted to KZT95.7 billion or KZT197.8 billion less than in 9 months 2015. The decrease is primarily attributable to lower exchange gain recognition in 9 months 2016 compared to 9 months 2015.

Net financial assets outflow from investing activities in 9 months 2016 was KZT43.7 billion versus an outflow of KZT50.2 billion in 9 months 2015. The decrease in net outflows primarily resulted from lower capital expenditures (KZT5.5 billion less) and higher interest received from financial instruments (KZT4.2 billion more), which was partially offset by lower loan repayments received from related parties (KZT2.5 billion less) and lower dividends received from joint ventures and associate (KZT0.7 billion less).

Net financial asset outflow from financing activities in 9 months 2016 was KZT1.6 billion (outflow of KZT29.7 billion in 9 months 2015). The decrease in outflows is mainly associated with the lower dividends paid to the Company's shareholders in 9 months 2016 compared to 9 months 2015 (KZT28.7 billion less), which was partially offset by the higher repayment of borrowings made in 9 months 2016 compared to 9 months 2015 (KZT0.6 billion more).

Net cash position

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

	As at September 30, 2016	As at December 31, 2015	As at September 30, 2015	Change
	(KZT million, unless otherwise stated)			%
Current portion	5,519	5,585	4,548	-1%
Non-current portion	4,596	5,990	5,151	-23%
Total borrowings	**10,115**	**11,575**	**9,699**	**-13%**
Cash and cash equivalents	213,357	237,310	140,859	-10%
Other current financial assets	905,952	833,912	779,585	9%
Non-current financial assets	35,973	33,760	27,509	7%
Total financial assets	**1,155,282**	**1,104,982**	**947,953**	**5%**
Foreign currency denominated cash and financial assets, %	**97%**	**99%**	**96%**	
Net cash	**1,145,167**	**1,093,407**	**938,254**	**5%**

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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.