JSC “KazMunaiGas Exploration and Production”

November 2016

ҚазМұнайГаз
БАРЛАУ ӨНДІРУ АКЦИОНЕРЛІК ҚОҒАМЫ

Disclaimer

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 JSC KazMunaiGas Exploration Production (“Company”) intentions, beliefs and statements of current expectations concerning, amongst other things, the Company’s results of operations, financial condition, liquidity, prospects, growth, 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.

Cautionary Note to US Investors

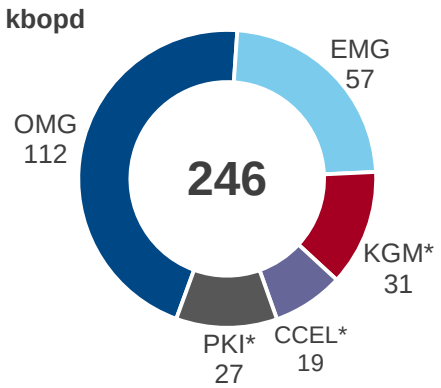
The US SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that the company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. The crude oil reserves of Company and its associates and joint ventures (“Company’s reserves”) within this document have been estimated by Gaffney, Cline & Associates (‘‘GCA’’) and Miller and Lents (“MLL”) according to standards established by the Society of Petroleum Engineers (‘‘SPE’’) and the World Petroleum Congresses (‘‘WPC’’) and thus proved reserves may differ from those estimated according to the definitions of the US SEC. Further, the Company uses certain terms in this document in referring to the Company’s reserves, such as ‘‘probable’’ or ‘‘possible’’ reserves, that the US SEC’s guidelines would prohibit it from including in filings with the US SEC if the Company were subject to reporting requirements under the US Exchange Act. Prospective investors should read reports of GCA and MLL on the Company’s reserves for more information on the Company’s reserves and the reserves definitions the Company uses.

KMG EP at a glance

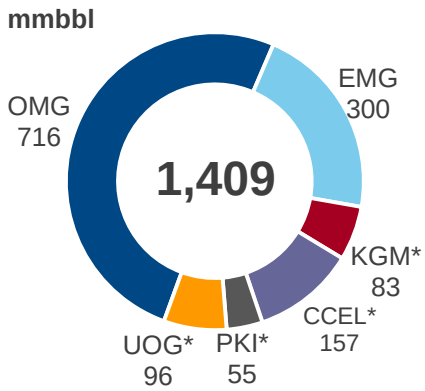
- Largest public exploration & production company in Central Asia.
- Switched to independent crude oil processing scheme in April 2016 to maximize value in current oil price environment.
- Maintained profitability and returned to positive FCF from 2Q 2016.
- Significant cash reserves to facilitate future growth.
- Minority shareholders' rights protected by Relationship Agreement and high standards of corporate governance.

US$ m	9M 2016	2015	2014
Revenue	1,496	2,384	4,722
EBITDA[1]	359	40	1,574
Net profit / (loss)	220	1,096	263[4]
Free cash flow[2]	187	(562)	869
Net cash	3,414	3,221	3,987

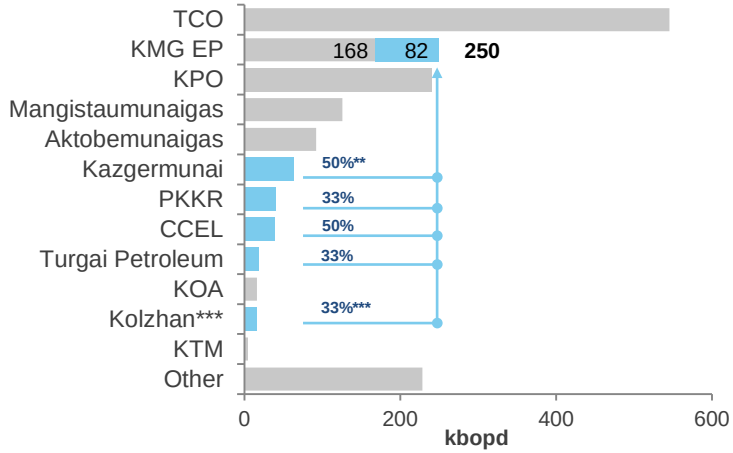
9M 2016 production



2P reserves[3] as at 2015 end



Production in Kazakhstan in 2015



[1] *EBITDA includes income from joint ventures and finance income*
[2] *Free Cash Flow calculated as CFO-Capex+Dividends received from JV's+Interest received+CCEL priority payment*
[3] *Incl. 2 mmbbl of KazGPZ 2P reserves*
[4] *Net profit in 2014 includes a one-off impairment charge of US$1,433m*

** KMG EP's share of production and reserves*
*** KMG EP has direct ownership of a 50% stake in KGM and a 16,5% stake via PKI as PKI owns a 50% stake in KGM.*
**** Kolzhan's gross production. PKI (KMG EP owns 33% in PKI) has a 100% stake in Kolzhan and 50% stake in Kolzhan SSM Oil.*

Recent Developments (1)

Corporate

- **Igor Goncharov** was elected **Chairman of the Board of Directors** (Sep'16).
- NC KMG's proposed amendments to the Relationship Agreement and KMG EP's Charter were rejected by 75.7% of independent shareholders (Aug'16).

Financial highlights

- The net cash position on 30 September 2016 was US$3.4bn, an uplift of US$200m from 31 December 2015 (Nov'16).
- **24.6bn Tenge of value added tax was successfully recovered** (out of the application for 57.4bn Tenge) following extensive work by KMG EP, facilitated and significantly aided by NC KMG, the Ministry of Energy and the Ministry of Finance (Oct'16).
- Capex is expected to total 103bn Tenge (US$286m) in 2016, up 5% compared to 2015. (Oct'16).
- MET rate for OMG will be temporarily reduced from 13% to 9% for 2016 should OMG record losses under tax accounting. The Company expects the maximum benefit to come in at approximately **17bn Tenge in 2016.** The effect of this reduction for 9M 2016 was 11.5bn Tenge and was included in 3Q 2016 financials (Sep'16).
- The Supreme Court of RK has **reduced the 2006-2008 tax charge by 4.1 billion Tenge** – recorded in 3Q 2016 financials. The tax charge is expected to be reduced by an additional 3.6bn Tenge (Aug'16).
- KMG EP **received payment of 44 bn Tenge (US$130m)** from KMG RM for crude oil supplied to the domestic market in 2015 (Jul'16).

Domestic supply

- KMG EP switched to an **independent crude oil processing scheme** for domestic supply. Under this framework, the company sells oil products after processing crude at ANPZ and PNHZ (Apr'16).
- Domestic supply is expected to total 3,372 th. tonnes (67 kbopd) in 2016, representing around 40% of OMG and EMG's total crude oil sales. This compares to 33% in 2015 and 25% in 2014.

Recent Developments (2)

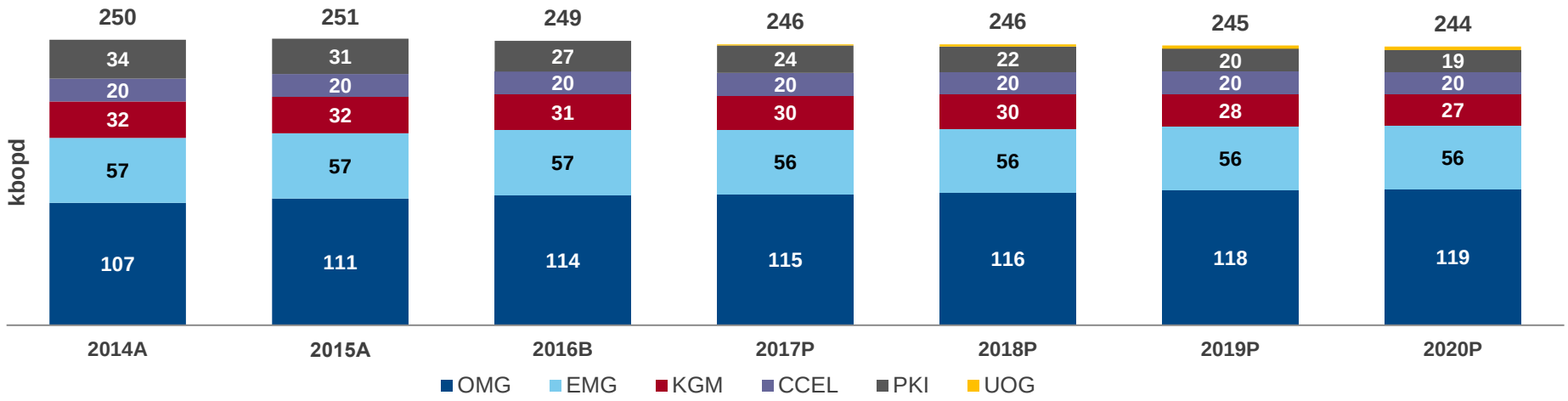
Production/ Exploration

- KMG EP, including its stakes in KGM, CCEL and PKI, produced 9,134 th. tonnes of crude oil (246 kbopd) for 9M 2016, down 1% yoy. (Oct'16)
- OMG produced 4,181 th. tonnes (112kbopd), up 2% yoy. EMG produced 2,122 th. tonnes (57kbopd), up 1% yoy. (Oct'16)
- Production from OMG and EMG is expected to be 8,467 th. tonnes (171 kbopd) for the full year, up 2% compared to 2015.
- During testing of the U-25 exploration well at Rozhkovskoye field ("Ural Oil and Gas"), drilled in 2016, an inflow of gas and condensate was obtained with an average flow rate of 111,000 m^3/day and 245 m^3/day (1,497 boepd), respectively. (Nov'16)
- While testing the productive Triassic reservoir of the directional NSV-1 well drilled in 2015 at the north-eastern flank of S. Nurzhanov field, the flow rate registered was of 130 tonnes of light crude oil per day (about 900 bopd). Plan to drill two appraisal wells in 2016-2017 to identify new deposits, estimate reserves and prepare for trial production. (Feb'16)

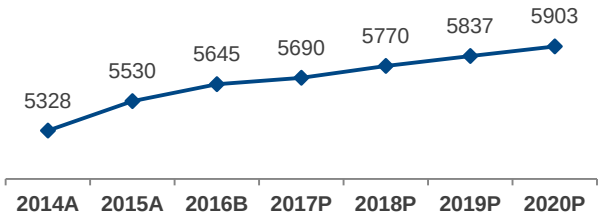
Technical initiatives

- Implemented "Smart fields" project at EMG's UAZ field in 2016.
- Initiated Block 3 project at OMG jointly with the Technical Institute aimed at identifying efficiency measures to increase production at OMG fields.
- Plans to replace sucker rod pumps with 26 electrical submersible pumps (ESPs) in 4Q 2016 at OMG.

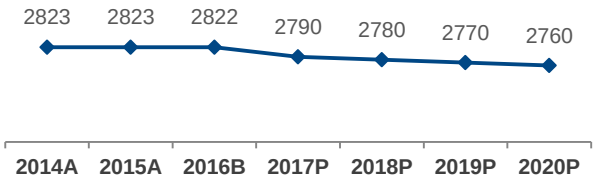
Consolidated Production Profile



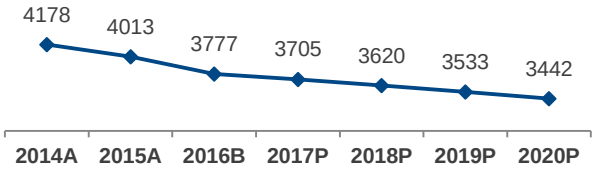
OMG production, th. tonnes



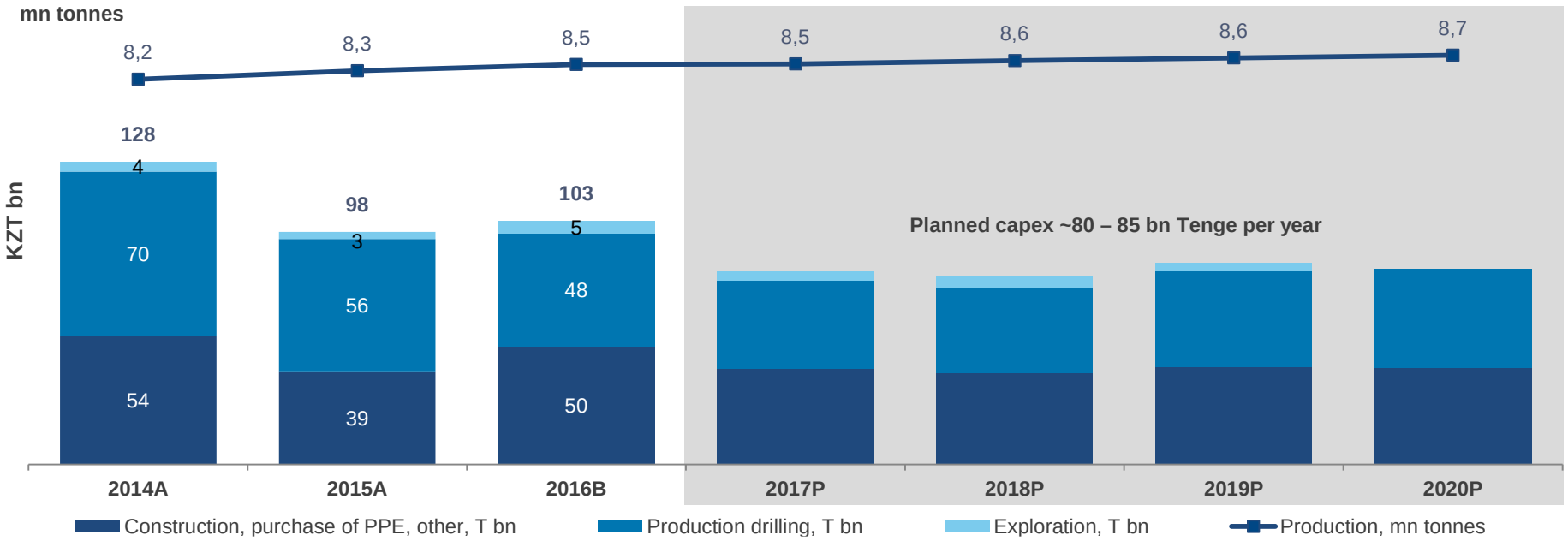
EMG production, th. tonnes



JVs' production, th. tonnes



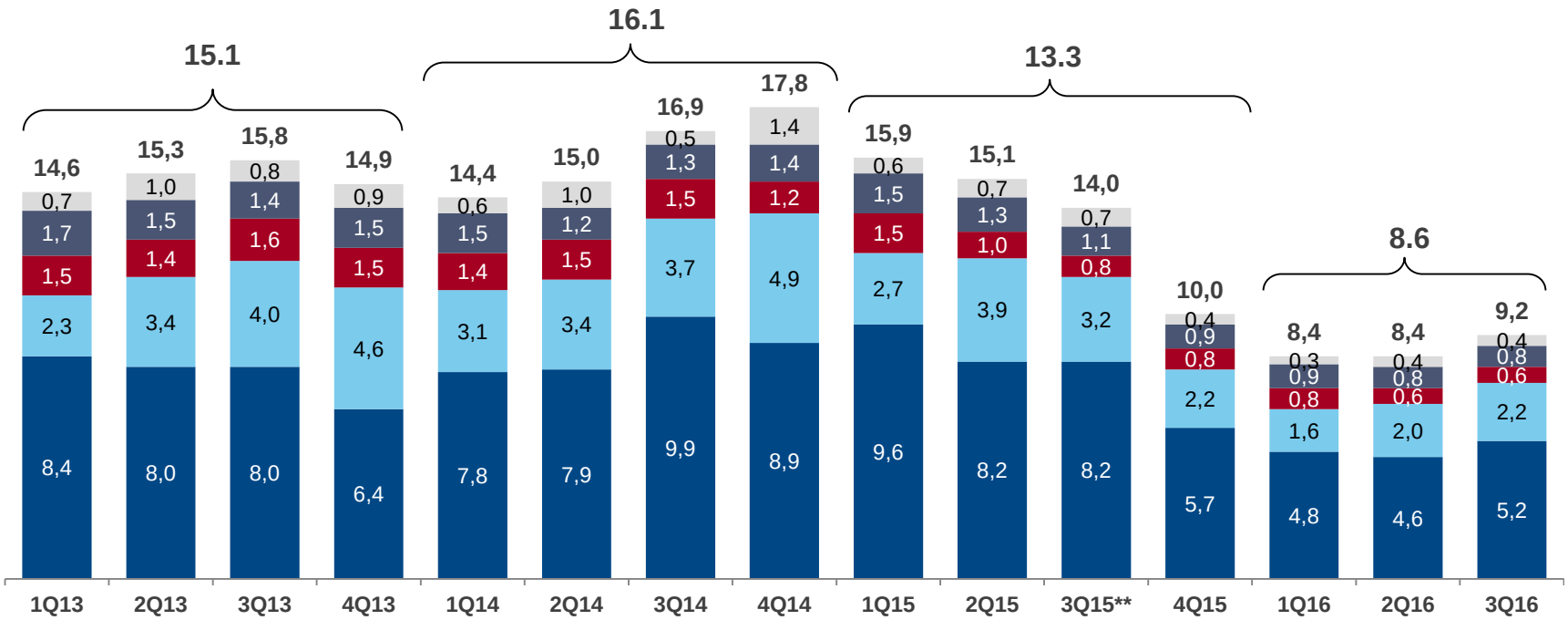
Capex profile of KMG EP*



Capex						
$11.9/bbl	$7.2/bbl	$4.6/bbl	~$4.2-4.5/bbl			
US$715m	US$443m	US$286m	~US$265-285m			
Production						
164kbopd	168kbopd	171kbopd	171kbopd	172kbopd	174kbopd	175kbopd

** Capital expenditure represents actual additions to property, plant and equipment and intangible assets. Capex includes investments n OMG, EMG, HO and other subsidiaries, excluding KGM, CCEL and PKI. Capex does not include investments in Karpovskiy and Fedorovskiy blocks, which are recognized as loans provided to JVs. KMG EP approves Capex in Tenge, amounts have been translated in US dollars solely for the convenience of the reader at 360 KZT/US$ budget rate for 2016 and 300 KZT/US$ budget rate for 2017-2020.*

Lifting Costs*, $/bbl (OMG and EMG)



	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15**	4Q15	1Q16	2Q16	3Q16
KZT/ USD	150.7	151.1	152.9	153.8	169.8	182.6	182.5	181.4	184.6	185.9	216.9	300.4	355.1	335.6	341.3

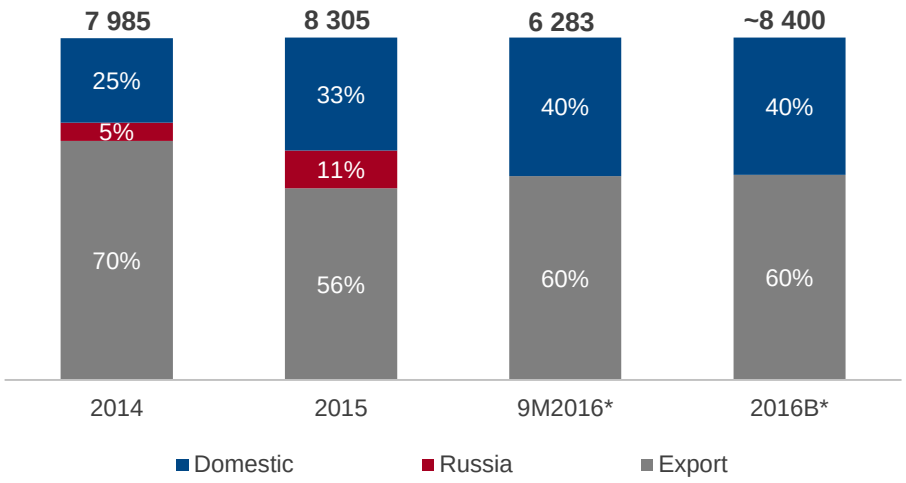
Lifting cost per barrel is calculated as production costs of OMG and EMG, including materials and supplies, production payroll, repairs and maintenance, and other production expenses. DD&A, taxes and contractual social obligations are excluded from lifting costs calculations. The methodology of lifting costs calculation was revised after reorganization of production branches into JSC OMG and JSC EMG in 2012. The Company excluded expenses not directly related to production from the calculation of lifting costs such as head-office and other administrative expenses.

Starting from 2014 the Company has revised its approach on lifting costs calculation by excluding actuarial costs, obligatory professional pension deductions and other expenses not directly related to the production process. The lifting costs starting from 1Q2014 have been restated accordingly.

*** In 3Q 2015 production services were reclassified from 'other expenses' to 'repairs and maintenance' to match the presentation of lifting costs in other periods.*

Export and Domestic Sales (OMG and EMG)

Sales volumes, '000 tonnes



** Includes 830 th. tonnes of oil to domestic market in 1Q 2016. Starting from April 2016 KMG EP began to supply oil directly to the Atyrau and Pavlodar refineries for processing into oil products.*

9M 2016 Netbacks by routes, $ per bbl**

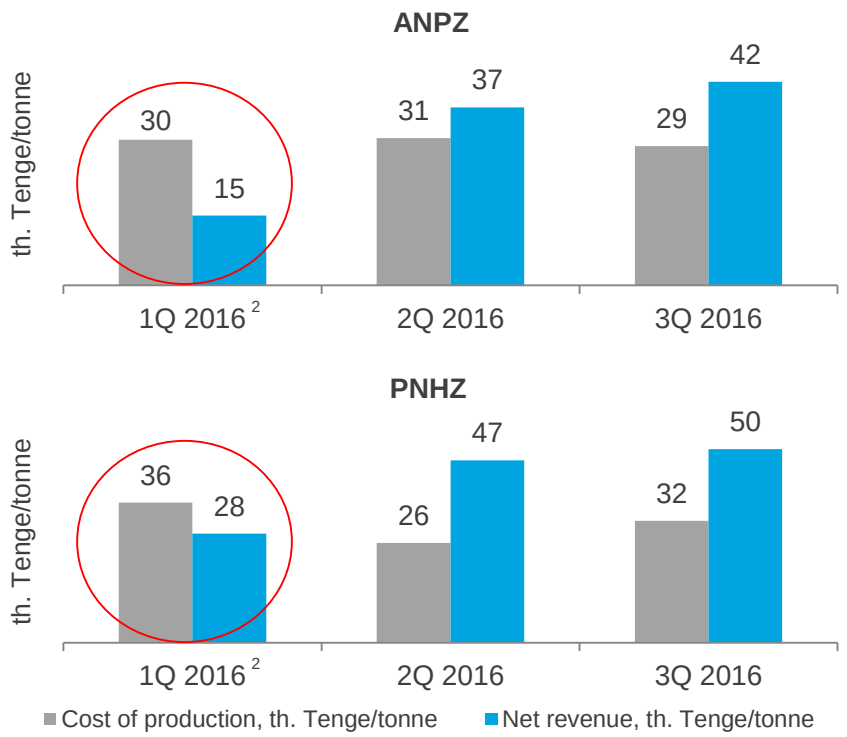
	9M2016		2Q-3Q2016**	
	UAS	CPC	ANPZ	PNHZ
Brent	41.9	41.9	-	-
Price diff, quality bank	(2.5)	(3.9)	-	-
Realized price	**39.4**	**38.0**	**16.3**	**19.8**
Rent tax	(2.2)	(0.5)	-	-
Transportation	(5.5)	(7.3)	(1.0)	(3.9)
Export customs duty	(5.2)	(5.2)	-	-
MET	(3.7)	(3.7)	(0.8)	(0.8)
Netback	**22.8**	**21.3**	**14.5**	**15.1**
Premium of bbl difference	-	3.9	-	-
Effective netback	**22.8**	**25.2**	**14.5**	**15.1**

***Converted at actual barrels per ton of crude oil.*

Domestic sales: Maximizing value through the new processing scheme

- KMG EP, as well as other Kazakh oil producers operating under non-PSA terms, have an obligation to supply oil to the domestic market. The Ministry of Energy sets quotas for the volumes of domestic supply. Only after fulfilling the requirement of domestic supplies, the producers may export oil.
- The share of domestic supply volumes in 2017 and onwards is expected to increase up to ~50% of OMG and EMG sales volumes.
- The terms of the Relationship Agreement relating to domestic supply volumes expired at end of 2015.
- To maximize value, starting from April 2016 KMG EP began to supply oil directly to the Atyrau and Pavlodar refineries for processing into oil products to be sold by KMG RM under the agency agreement.
- This new processing scheme eliminates the situation where KMG RM, having no pricing formula, sets the domestic price for KMG EP at its discretion for further refining and marketing of oil products.
- Upon completion of the on-going modernization programme at the Atyrau and Pavlodar refineries, the output of light oil products is expected to increase. This will also result in an increase in the processing fee.

Net realized price[1] exceeds cost of production from 2Q 2016



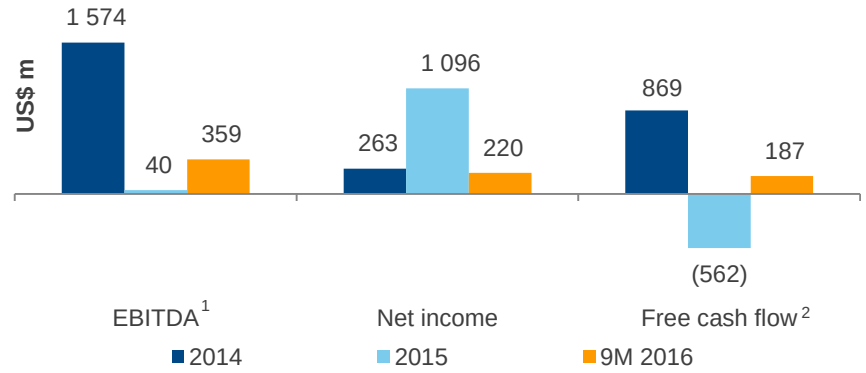
[1] *Net revenue achieved from the sale of all refined oil products (net of all processing and marketing costs) from 2Q16*
[2] *Domestic sales price in 1Q 2016.*

Net revenue from sales of oil products in April – September 2016

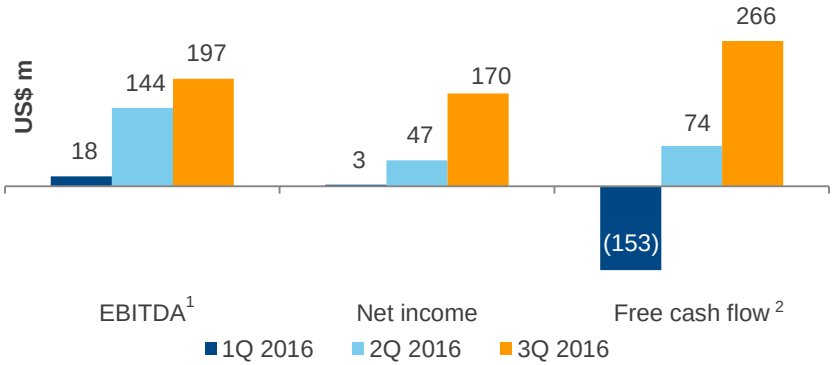
	ANPZ		PNHZ	
Tenge per tonne	**2Q 2016**	**3Q 2016**	**2Q 2016**	**3Q 2016**
Revenue	67,274	72,193	68,913	72,299
Less costs:	**(30,132)**	**(29,705)**	**(21,729)**	**(22,218)**
- Processing	(20,421)	(20,298)	(15,613)	(15,505)
- Additives	(126)	(267)	(622)	(1,169)
- Excise tax	(1,302)	(1,145)	(3,066)	(3,033)
- Export customs duty	(5,601)	(5,245)	-	-
- Selling and transportation expenses	(434)	(490)	(418)	(423)
- KMG RM commission fee	(2,249)	(2,259)	(2,018)	(2,089)
= Net revenue	**37,142**	**42,488**	**47,184**	**50,081**

Maintaining profitability and returning to positive FCF in 9M 2016

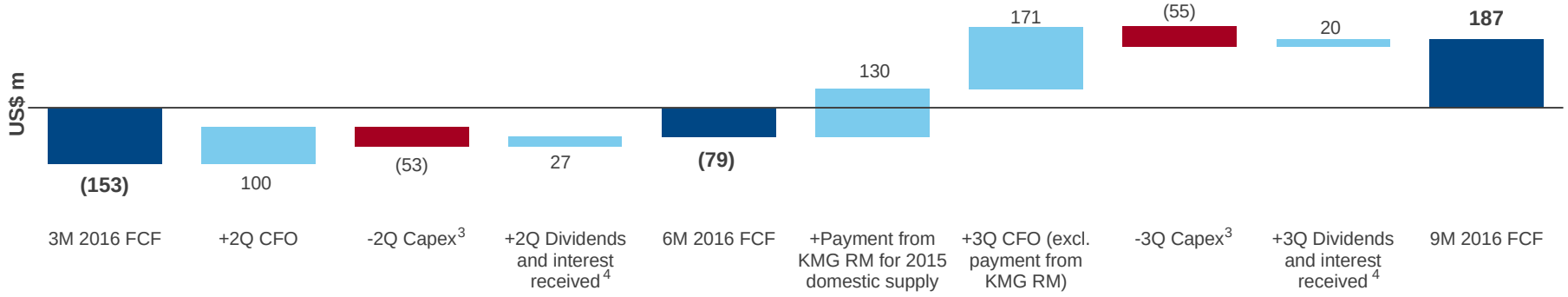
Financial indicators in 2014, 2015 and 9M 2016



Financial indicators by quarters in 9M 2016



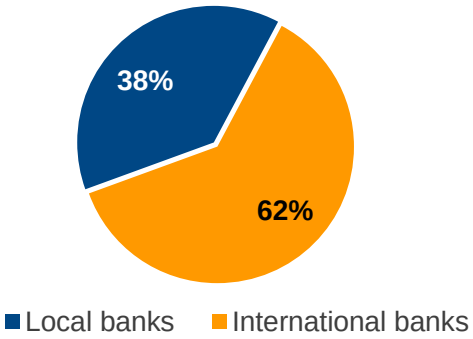
Free cash flow estimate[2] – 3M 2016 vs. 6M 2016 vs. 9M 2016



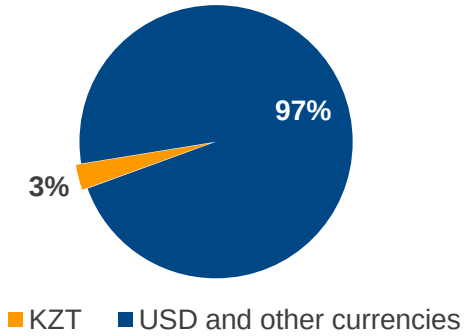
[1] EBITDA includes income from joint ventures and finance income
[2] Free Cash Flow is calculated as CFO-Capex (per CFS)+Dividends received from JV's+Interest received+CCEL priority payment
[3] Capital Expenditure per Cash Flow Statement represent purchases of Property, Plant and Equipment ('PPE') and intangible assets ('IA'), adjusted for the changes in related working capital accounts, such as advances prepaid and accounts payable for PPE and IA
[4] Dividends received include dividends from KGM

Cash and financial assets US$3.4bn as at 30/09/2016

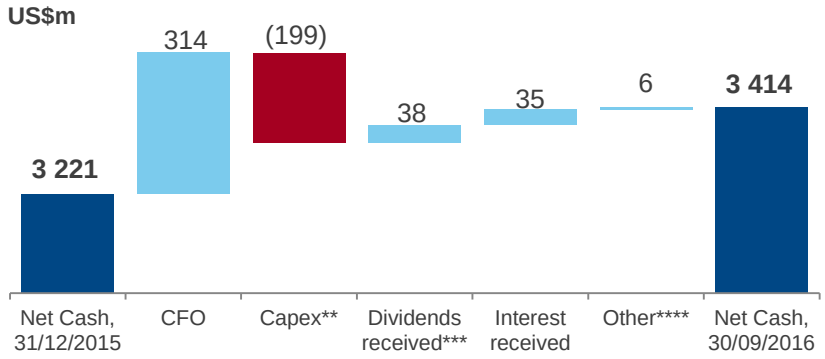
Cash and financial assets by banks as at 31/12/2015



Cash and financial assets by currency as at 30/09/2016



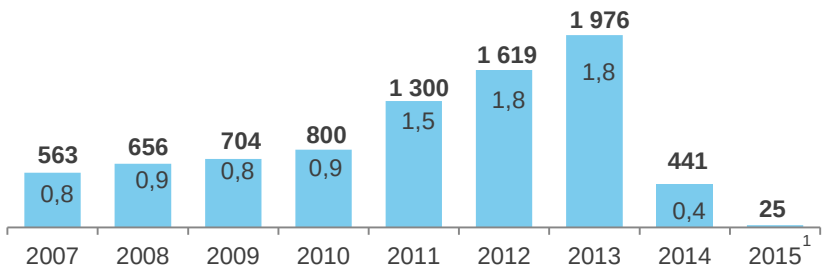
Net Cash* of US$3,414mn as at 30/09/2016



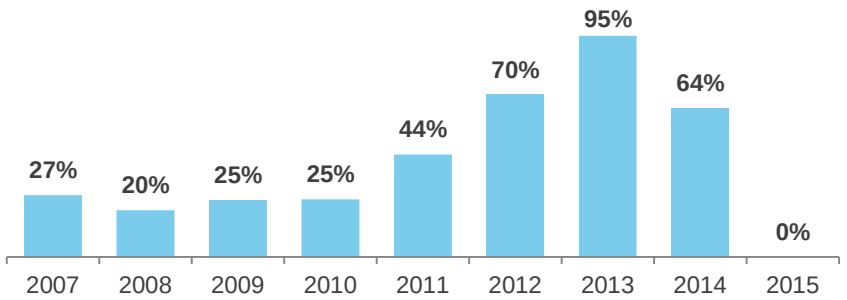
** Cash and financial assets less borrowings of US$30m*
*** Capital Expenditure per Cash Flow Statement represent purchases of Property, Plant and Equipment ('PPE') and intangible assets ('IA'), adjusted for the changes in related working capital accounts, such as advances prepaid and accounts payable for PPE and IA*
**** Dividends received include dividends from KGM*
***** Other includes other cash flow from investing and financing activities*

Dividend Distribution for Shareholders

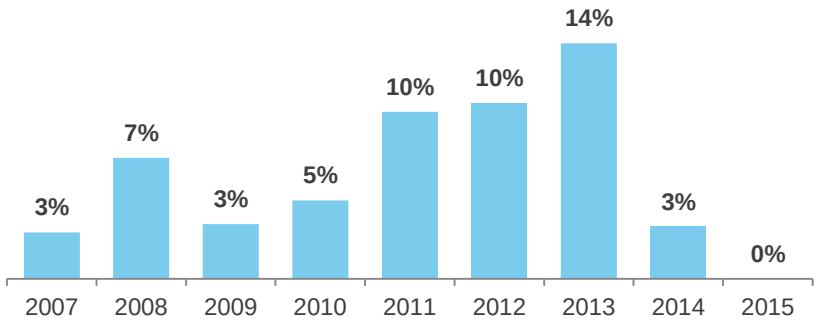
Declared dividends, Tenge/share ($/GDR)



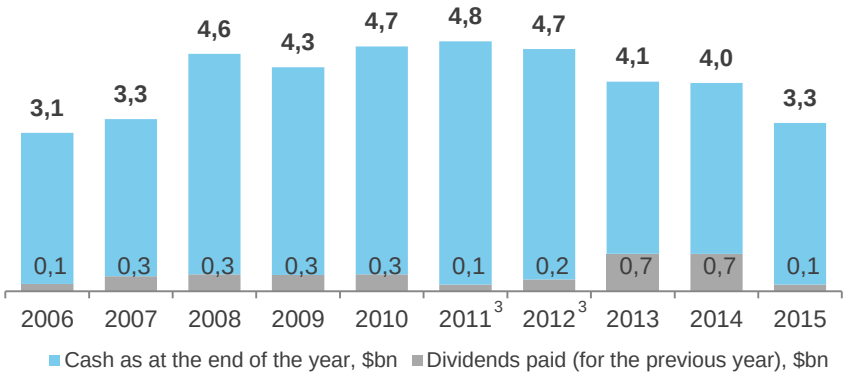
Payout ratio, %



Dividend yield[2], %



Cash balance at end of year, US$ bn



[1] 25 Tenge per share was paid on preferred shares in accordance with KMG EP's Charter
[2] Calculated based on share prices as at the end of corresponding periods
[3] Dividend payments per CFS. Dividend payments in 2011-2012 with respect to a non-cash offset of the declared dividends payable to KMG NC against part of the NC KMG bond

Appendix

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БАРЛАУ ӨНДІРУ АКЦИОНЕРЛІК ҚОҒАМЫ

Our portfolio

Refinery — Pipeline

*Preliminary plan for 2016
Starting from April 2016 KMG EP began to supply oil directly to the Atyrau and Pavlodar refineries for processing into oil products to be sold by KMG RM under the agency agreement.

Efficiency measures

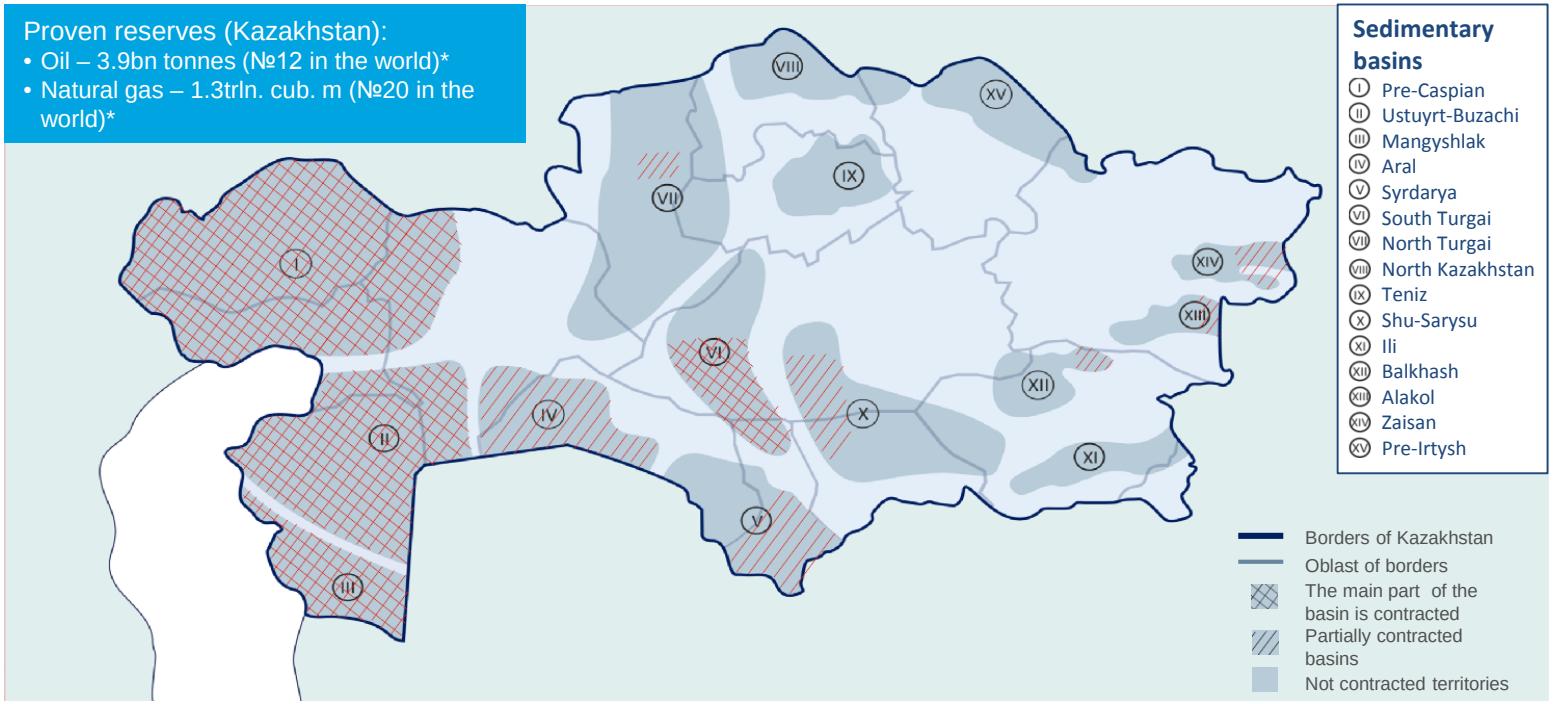
- **Implemented “Smart fields” project at Uaz field at EMG in 2016.**
  - ✓ Installed telemetric system for production control at Uaz field.
  - ✓ As of end of Q3 2016 production at Uaz field increased by 10.9 tonnes per day (~2% of Uaz production).
  - ✓ Achieved energy saving at Uaz field ~34%.
  - ✓ Optimization of production costs.

- **Initiated Block 3 project at OMG jointly with the Technical Institute in 2H 2016.**
  - ✓ Aimed to identify efficiency measures to increase oil production at Block 3 of the Uzen field.
  - ✓ Cut production cost per unit of oil per tonne as a result of improved efficiency of the development of Block 3 of the Uzen field, including through the use of cost-effective and well-reasoned methods and technology.
  - ✓ Improve management processes, monitor and control field development in real time (digital oil field).
  - ✓ Based on the results achieved, introduce similar practices and methods at other fields within the KMG EP group.

- **Plan to replace sucker rod pumps with 26 electrical submersible pumps (ESPs) in 4Q 2016 at OMG.**

Exploration potential

- ✓ Based on assessment of Kazakhstan's resources at 15 oil and gas basins, the main reserves are located in the Caspian basin at a depth of 5 – 9 km (Devonian).
- ✓ Developed infrastructure in most parts of oil and gas basins.
- ✓ Opportunity for strategic partnership(s) on the terms of carry financing of exploration and appraisal costs to mitigate risks.
- ✓ Additional exploration and appraisal at existing fields and adjunct territories.



Development of oil servicing companies

❑ **Key objectives for 2017 – 2018**

- ✓ Implementation of unified reporting, business planning, tariff setting and data sharing for all oil servicing companies within KMG EP group.
- ✓ Mobility in using of labor and material resources.
- ✓ Optimization of management procedures.
- ✓ Transparency and compliance to corporate governance standards.

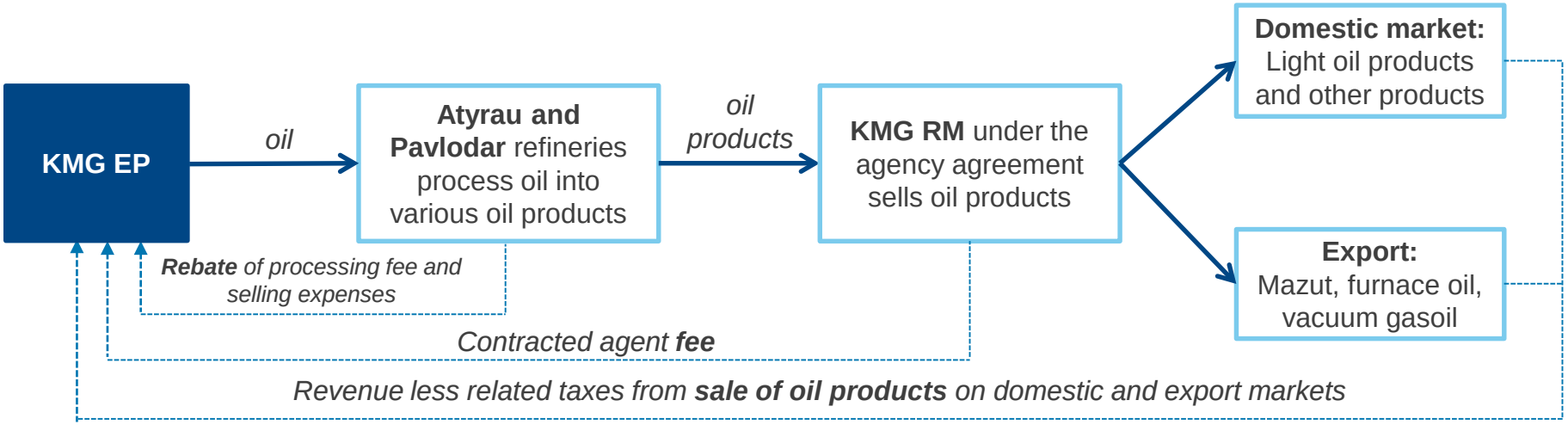
Oil servicing assets of KMG EP group*

- UDTV LLP
- OzenMunaiService LLP
  - KRUZ LLP
  - Zhondeu LLP
- KKS LLP
- ATS LLP
- KMG EP Catering LLP
- TMS LLP
- 47 workshops
- UTTiOS LLP

Total ~15,000 employees

**incl. KGM and CCEL*

Switch to processing scheme from April 2016



Source: KMG RM

Petroleum products: prices and output in April – September 2016

Oil product	ANPZ Output[1] %	ANPZ Price[2] KZT'000/ton	PNHZ Output[1] %	PNHZ Price[2] KZT'000/ton
Petrol Normal AI-80	1%	86.9	4%	87.8
Petrol Regular AI-92	8%	124.6	20%	124.8
Petrol Premium AI-95	1%	129.7	3%	130.3
Diesel	33%	87.6	37%	86.2
Jet fuel	0%	120.6	0%	Na
Total light oil products	**43%**	**95.4**	**64%**	**100.4**
Vacuum gasoil	17%	75.2	0%	na
Mazut export	29%	45.3	10%	15.8
Bitum	0%	na	9%	39.8
Total dark oil products	**46%**	**56.4**	**19%**	**27.2**
Liquid gas	0%	15.1	2%	13.6
Furnace oil	1%	63.7	0%	na
Coke calcinated	1%	54.3	0%	na
Coke crude	1%	22.1	1%	13.4
Other	0%	na	4%	12.8
Total other oil products	**5%**	**42.6**	**6%**	**13.1**
Losses	6%	na	11%	na
Total	**100%**	**68.9**	**100%**	**70.3**

- Light oil products are mainly sold in the domestic market. Dark oil products and other products are mainly exported.
- Retail prices of Petrol Normal (AI-80) are regulated by the government.
- In September 2016 diesel price increased by 8% following price deregulation in August 2016.
- Oil products produced at PNHZ were sold only to the domestic market from April to September 2016.
- The prices for the oil products sold in Kazakhstan are within market levels, based on data published by Argus Media. Export prices are Platts quoted prices less differential.

[1] As a percentage of total crude oil refined in April - September 2016
[2] Average prices for April - September 2016 excluding VAT of 12%; Source: Argus Media and Platts

Financial summary (US$ million)

US$m unless otherwise indicated	2011	2012	2013	2014	2015	1Q16*	2Q16*	3Q16*	9M 2016
Production at Core assets (kbopd)	159	156	162	164	168	169	170	169	169
Revenue	4,919	5,346	5,368	4,722	2,384	341	566	589	1,496
Total operating costs	(3,761)	(3,806)	(4,117)	(3,932)	(2,481)	(354)	(452)	(439)	(1,245)
Operating profit	1,157	1,540	1,251	790	(98)	(13)	114	150	251
Impairment of property, plant and equipment	(11)	(516)	(395)	(1,433)	0	0	0	0	0
Finance income costs	147	183	82	66	50	20	16	21	56
Foreign exchange gain (loss)	18	64	74	609	2,020	37	(33)	(25)	(21)
Share of results of associates and JVs	575	452	334	336	(90)	(10)	(9)	(3)	(22)
Other non-operating income/expense[1]	(28)	(21)	(29)	(24)	(211)	0	(21)	58	37
Income tax expense	(434)	(623)	(385)	(81)	(574)	(31)	(20)	(30)	(81)
Profit / (loss) for the period	1,425	1,079	932	263	1,096	3	47	170	220
Cash flows from operations	1,011	1,039	647	1,096	(316)	(87)	100	301	314
Capex (from Cash Flow Statement)[2]	(716)	(725)	(980)	(749)	(405)	(92)	(53)	(55)	(199)
Average Brent, US$/bbl	111.3	111.7	108.7	99.0	52.4	33.9	45.6	45.9	41.9
Average exchange rate	146.6	149.1	152.1	179.1	222.3	355.11	335.6	341.3	344.0

1. Including loss on disposal of fixed assets and allowance for VAT recoverable

2.Capital Expenditure per Cash Flow Statement represent purchases of Property, Plant and Equipment ('PPE') and intangible assets ('IA'), adjusted for the changes in related working capital accounts, such as advances prepaid and accounts payable for PPE and IA

** Quarterly results in US$ terms are calculated as the difference in US$ amounts between 6M and 3M for 2Q, 9M and 6M for 3Q*

Financial summary (Tenge billion)

KZT bn unless otherwise indicated	2011	2012	2013	2014	2015	1Q16*	2Q16*	3Q16*	9M 2016
Production at Core assets (th. tonnes)	7 900	7 766	8 049	8 151	8 333	2 089	2 097	2 117	6 303
Revenue	721	797	817	846	530	121	192	201	515
Total operating costs	(552)	(567)	(626)	(704)	(552)	(126)	(153)	(150)	(428)
Operating profit	170	230	190	141	(22)	(5)	39	52	86
Impairment of property, plant and equipment	(2)	(77)	(60)	(257)	0	0	0	0	0
Finance income costs	22	27	13	12	11	7	5	7	19
Foreign exchange gain (loss)	3	10	11	109	449	13	(12)	(9)	(7)
Share of results of associates and JVs	84	67	51	60	(20)	(4)	(3)	(1)	(8)
Other non-operating income/expense[1]	(4)	(3)	(5)	(4)	(47)	0	(7)	20	13
Income tax expense	(64)	(93)	(59)	(15)	(128)	(11)	(7)	(10)	(28)
Profit / (loss) for the period	209	161	142	47	244	0.9	16	58	76
Cash flows from operations	148	155	98	196	(70)	(31)	35	103	108
Capex (from Cash Flow Statement)[2]	(105)	(108)	(149)	(134)	(90)	(33)	(17)	(19)	(69)
Average Brent, US$/bbl	111,3	111,7	108,7	99,0	52,4	33,9	45,6	45,9	41,9
Average exchange rate	146,6	149,1	152,1	179,1	222,3	355,1	335,6	341,3	344,0

1. Including loss on disposal of fixed assets and allowance for VAT recoverable

2.Capital Expenditure per Cash Flow Statement represent purchases of Property, Plant and Equipment ('PPE') and intangible assets ('IA'), adjusted for the changes in related working capital accounts, such as advances prepaid and accounts payable for PPE and IA

** Quarterly results in US$ terms are calculated as the difference in US$ amounts between 6M and 3M for 2Q, 9M and 6M for 3Q*

Summary of JVs' financial and operating results

KGM 100%, US$mn	2011	2012	2013	2014	2015	1Q16	2Q16	3Q16	9M16
Production, th. tonnes	3,000	3,124	3,107	3,000	3,000	730	729	741	2,200
Revenue	2,354	2,310	2,448	1,400	628	91	92	144	327
Operating expenses	(1,343)	(1,225)	(1,487)	(636)	(399)	(76)	(74)	(96)	(246)
Income taxes	(375)	(470)	(355)	(289)	(219)	(7)	(3)	(33)	(36)
Profit for the period	**629**	**613**	**605**	**506**	**36**	**9**	**18**	**15**	**42**
Capex*	74	62	99	101	68	5	8	7	19

CCEL 100%, US$mn	2011	2012	2013	2014	2015	1Q16	2Q16	3Q16	9M16
Production, th. tonnes	1,981	2,037	2,052	2,132	2,138	531	522	533	1,586
Revenue	1,367	1,466	1,440	1,172	569	121	149	139	410
Operating expenses	(1,025)	(1,104)	(1,170)	(904)	(763)	(119)	(104)	(126)	(349)
Income taxes	(121)	(87)	(57)	(69)	(8)	0	(6)	0	6
Profit for the period	**214**	**256**	**191**	**173**	**(230)**	**(2)**	**46**	**8**	**52**
Capex*	103	57	114	100	48	6	5	4	15

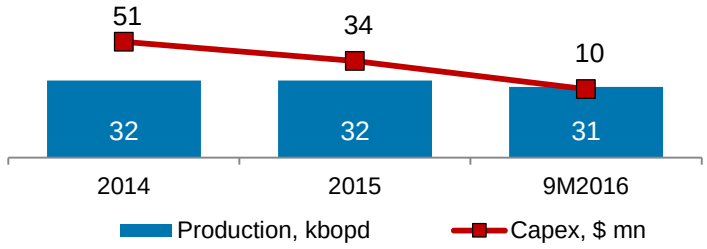
PKI 100%, US$mn	2011	2012	2013	2014	2015	1Q16	2Q16	3Q16	9M16
Production, th. tonnes	5,913	5,589	5,331	4,882	4,388	981	946	915	2,842
Revenue	4,965	3,992	3,725	2,469	985	141	160	185	485
Operating expenses	(3,076)	(2,309)	(2,591)	(1,473)	(1,013)	(153)	(138)	(160)	(450)
Income taxes	(686)	(767)	(573)	(454)	(125)	13	(25)	(17)	(29)
Profit for the period	**1,184**	**891**	**536**	**517**	**(194)**	**(9)**	**(16)**	**6**	**(19)**
Capex*	373	312	390	241	147	7	11	14	33

** Capital expenditure represents actual additions to property, plant and equipment and intangible assets.*

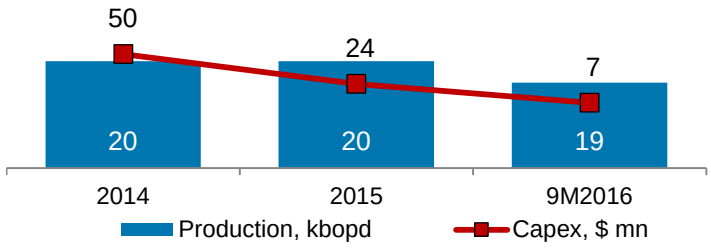
Summary of JVs' financials and operations

Capex and production profile

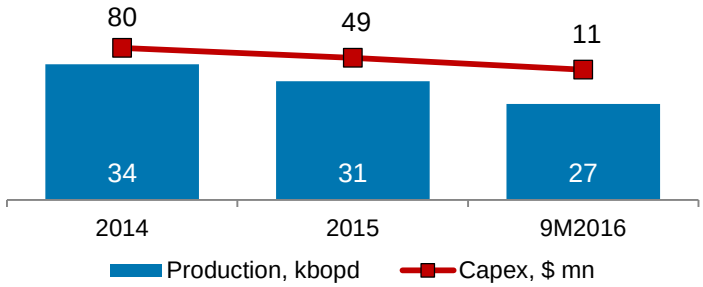
KGM, 50%



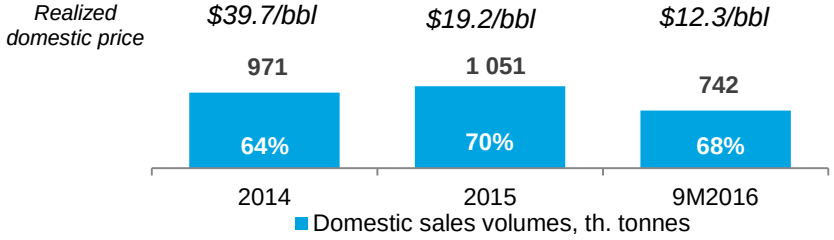
CCEL, 50%

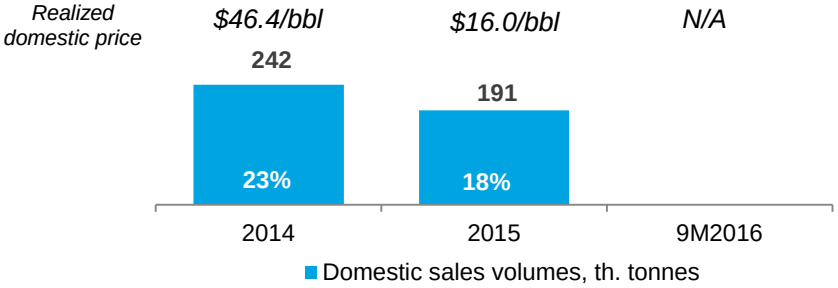


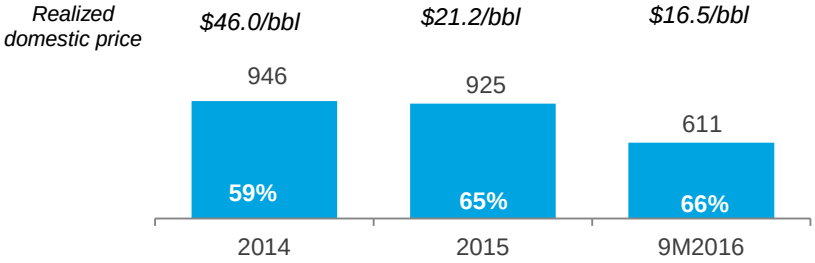
PKI, 33%



Domestic supply

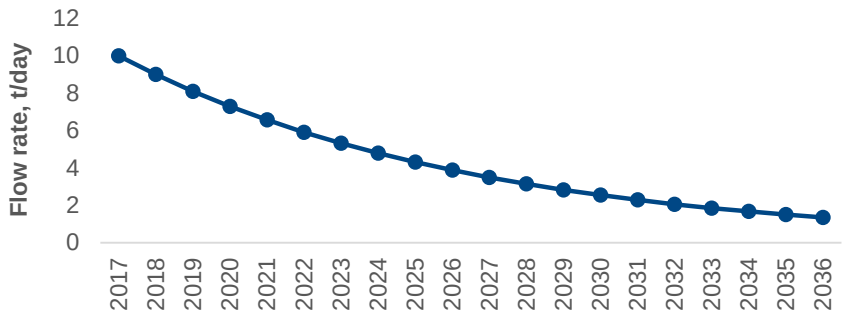




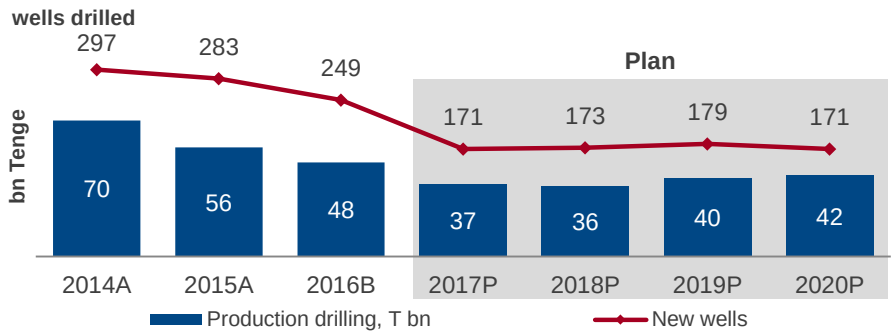


Drilling economics at Uzen field

New well flow rate at OMG, tonnes per day



Capex on production drilling at OMG and EMG



New wells drilling at OMG

227	229	200	131	145	145	140

Assumptions
Brent – $45-50-50-60/bbl in 2017-18-19-20 and onwards
Domestic price – T33,400/tonne
Share of domestic sales – 40%
Capex ~ US$630 th. per well

	Brent, $/bbl (in 2020-2036)		
	40	**50**	**60**
NPV 10%, $ mn	0,67	0,84	1,02

	Initial flow rate, t/day		
	8	**9**	**10**
NPV 10%, $ mn	0,56	0,79	1,02

Positive tax developments

Tax issue	Amount, bn Tenge		Status
Tax audit for 2006 – 2008	4.1 bn Tenge	**Recovered 35 bn Tenge**	Received 4.1bn Tenge refund after the Supreme Court decided to reduce the initial claim of 16.9bn Tenge by 52%. Total tax claim is expected to be reduced by an additional 3.6bn Tenge.
VAT recoverability	24.6 bn Tenge		Received 24.6 bn Tenge refund on VAT following an application for 57.4bn Tenge. Working on the recoverability of the remaining amount.
Rent tax for 2012-2013[1]	6.3 bn Tenge		As a result of the extensive work with the tax authorities in relation of rent tax calculation methodology, the tax declarations for 2012-2013 were reviewed, resulting in a decrease in the previous liabilities by 6.3bn Tenge.
MET rate reduction for 2016	17.0 bn Tenge[2]		Temporary reduction of MET rate from 13% to 9% for 2016. The effect of this reduction for 9M 2016 was 11.5bn Tenge and was included in 3Q 2016 financials.
Tax audit for 2009 – 2012	na		Currently in the process of appealing the claim of 37.6 bn Tenge with the tax authorities. Aiming to achieve similar percentage reduction as of the 2006-2008 audit.

- Starting from 1 January 2016 OMG and EMG received the status of “large taxpayer”
  - ✓ Simplified procedure for VAT refund (70% of the application)
  - ✓ Possibility of no compulsory and comprehensive tax audits with the participation in horizontal monitoring
  - ✓ Relationship established between Company and authorities based on transparency, trust and mutually beneficial cooperation
- Change in KMG EP’s tax team
- Consistent approach to the tax calculation process.

[1]Total recalculated rent tax for 2012 – 2015 amount to 11bn Tenge
[2]The maximum benefit available should JSC “Ozenmunaigas” have a taxable loss for 2016

Positive devaluation effect on KMG EP economics

Devaluation effect on financial indicators

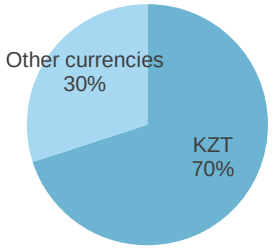
- Foreign exchange gain in 2015 of ~ KZT449bn as a result of the Tenge devaluation.
- Over 93% of cash and financial assets denominated in foreign currencies as at August 2015.
- Cost control after 2015 Tenge devaluation.

Expenses denominated in Tenge

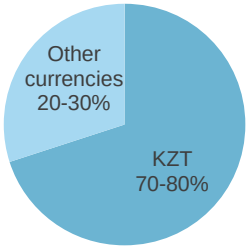
Operating expenses linked to foreign currencies:

- Operating taxes (MET, Rent tax, ECD)
- Part of transportation costs
- Some of materials and supplies

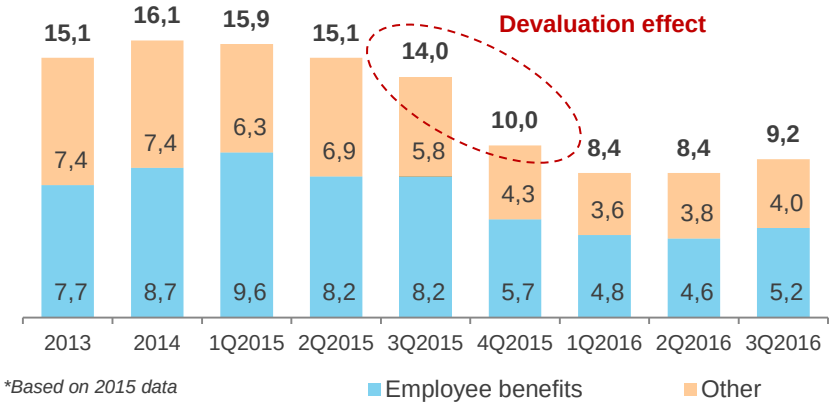
Operating expenses



Capex

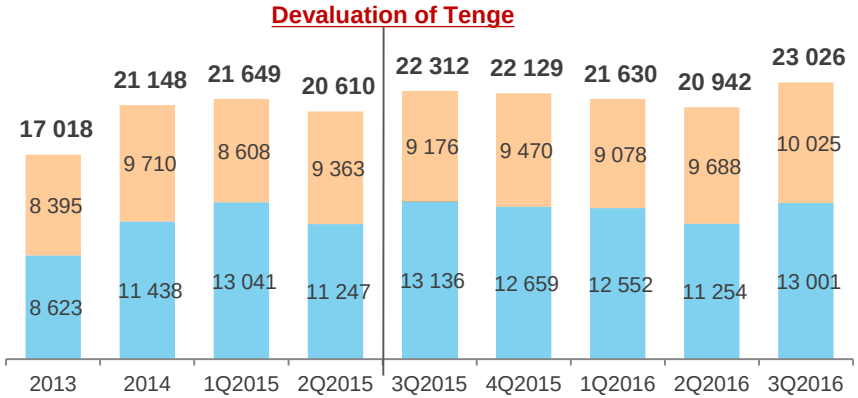


Lifting expenses, OMG and EMG, $/bbl

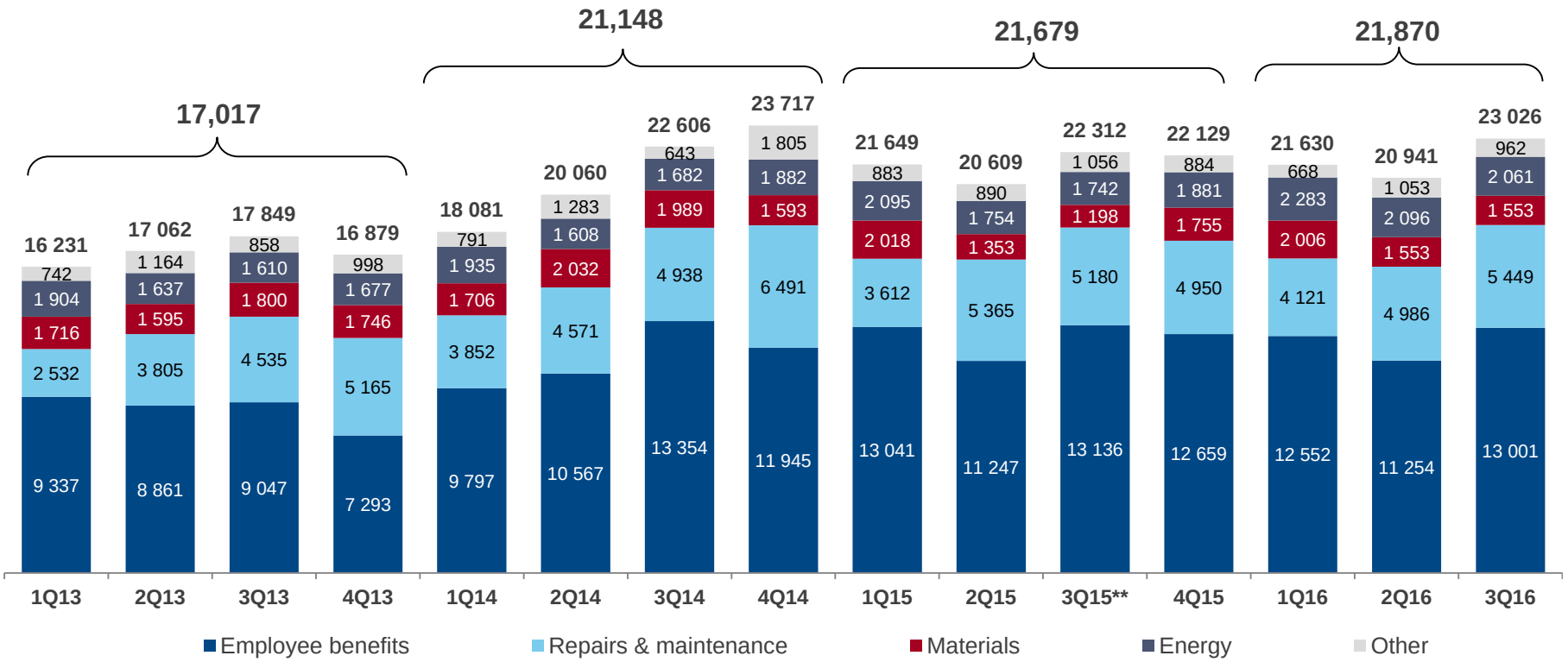


*Based on 2015 data

Lifting expenses, OMG and EMG, KZT/tonne



Lifting Costs*, Tenge/tonne (OMG and EMG)



	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15**	4Q15	1Q16	2Q16	3Q16
$/bbl	14.6	15.3	15.8	14.9	14.4	15.0	16.9	17.8	15.9	15.1	14.0	10.0	8.4	8.4	9.2

** Lifting cost per barrel is calculated as production costs of OMG and EMG, including materials and supplies, production payroll, repairs and maintenance, and other production expenses. DD&A, taxes and contractual social obligations are excluded from lifting costs calculations. The methodology of lifting costs calculation was revised after reorganization of production branches into JSC OMG and JSC EMG in 2012. The Company excluded expenses not directly related to production from the calculation of lifting costs such as head-office and other administrative expenses.*

Starting from 2014 the Company has revised its approach on lifting costs calculation by excluding actuarial costs, obligatory professional pension deductions and other expenses not directly related to the production process. The lifting costs starting from 1Q2014 have been restated accordingly.

*** In 3Q 2015 production services were reclassified from 'other expenses' to 'repairs and maintenance' to match the presentation of lifting costs in other periods.*

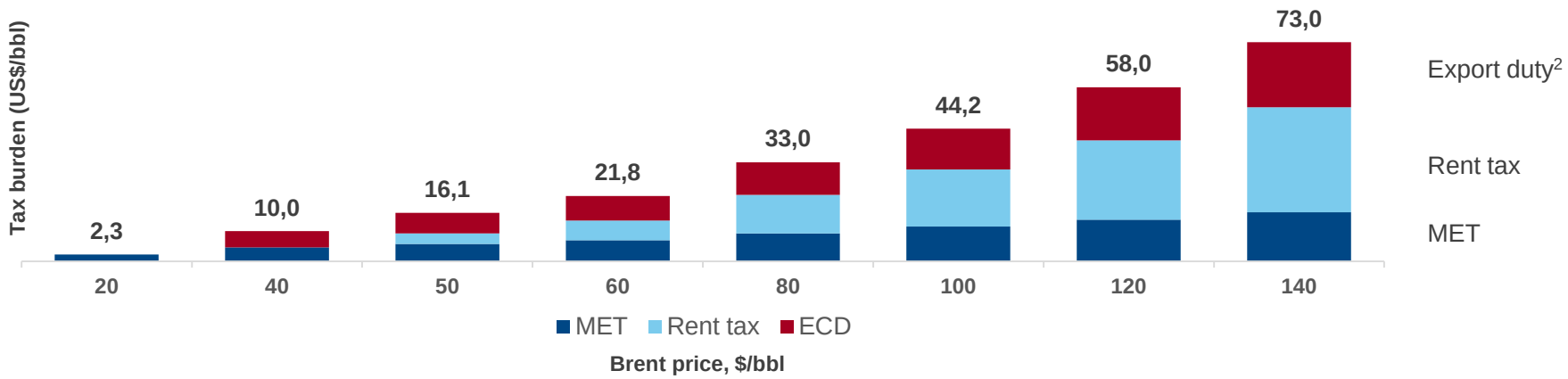
Chronology of cash distributions to shareholders

		Cumulative dividend/shareholder return
2007	May 2007 (AGM): dividend of US$303m	US$303m
2008	May 2008 (AGM): dividend of US$346m	US$649m
	Oct 2008 (BoD): 12 month buyback program, 110,632 ordinary shares and 8,699,697 GDRs bought back for about US$148m	US$797m
2009	May 2009 (AGM): dividend of US$321m	US$1,118m
2010	Feb 2010 (BoD): listing of preferred shares with further buy-back program, up to 100% of issued preferred shares	US$1,118m
	May 2010 (AGM): dividend of US$346m	US$1,464m
2011	May 2011 (AGM): dividend of US$389m	US$1,853m
	Preferred shares buyback program: 50.1% bought back (2.1mn shares) for US$252m	US$2,105m
2012	May 2012 (AGM): dividend of US$615m	US$2,720m
	Ordinary shares buyback program till 31 Dec 2012: 19,461 ordinary shares and 14,386,605 GDRs bought back for about US$263m	US$2,983m
2013	May 2013 (AGM): Shareholders approved dividend of US$740m	US$3,723m
2014	May 2014 (AGM): Shareholders approved dividends of $730m	US$4,453m
2015	May 2015 (AGM): Shareholders approved dividends of $162m	US$4,615m
2016	May 2016 (AGM): No dividend paid on ordinary shares, US$152th. paid on preferred shares in accordance with KMG EP's Charter	**US$4,615m**

Approximately US$4.6bn was returned to the shareholders since IPO

Tax sensitivity

Hypothetical estimated tax take[1] at different oil prices



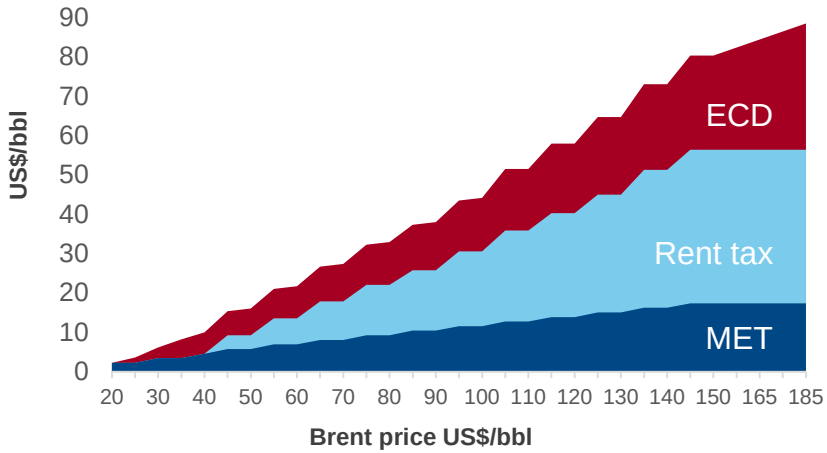
Notes:
(1) Estimated tax take for barrel of exported oil. Calculations exclude CIT, EPT and other taxes
(2) Export duty rate pegged to Brent and Urals prices.

Actual tax take in 2009-9M 2016

	2009	2010	2011	2012	2013	2014	2015	9M2016
Brent, $/bbl	60.7	76.8	111.3	111.7	108.7	99.0	52.4	41.9
Tax burden, $/bbl	19.1	31.9	56.0	55.0	54.9	46.7	40.7	15.2

Tax regime since 2009

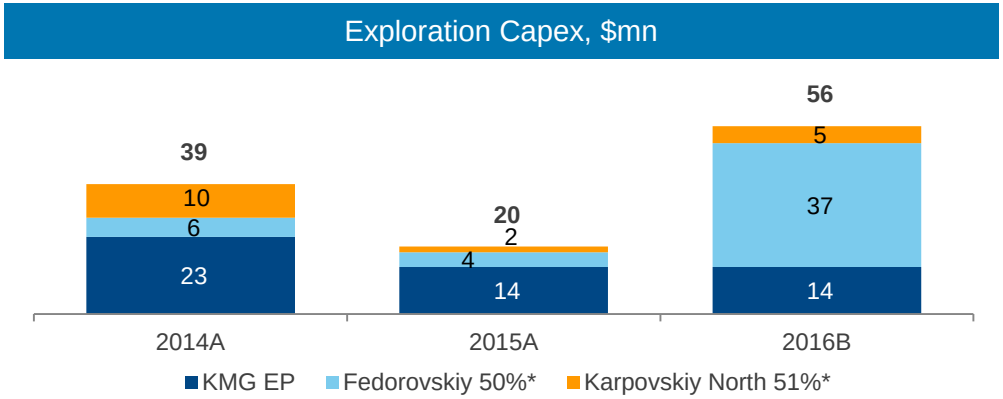
Rent tax and MET are linked to oil price

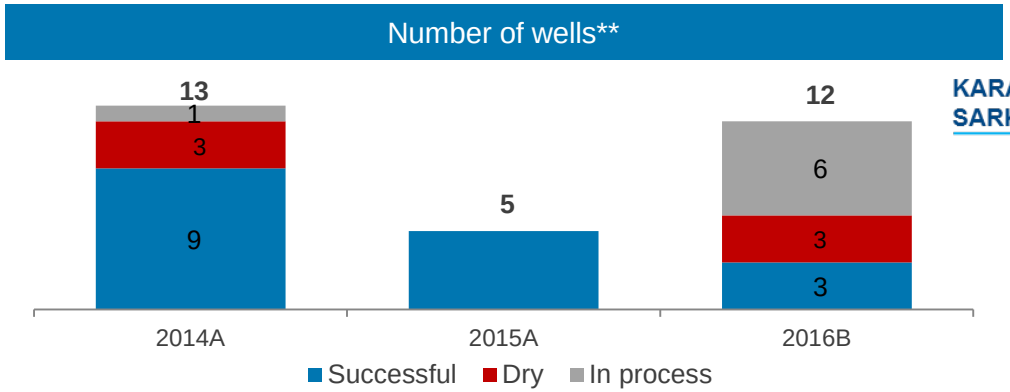


Export customs duty rate, $/bbl

- Rent tax applies to crude oil exports, zero rate below US$40/bbl Brent, then progressive scale from 7% to 32%.
- Mineral Extraction Tax (MET) rate depends on production level by field, ~10% for KMG EP legacy assets. Tax benefits for volumes supplied to domestic market.
- Corporate Income Tax (CIT) of 20% since 1 January 2009 (reduced from 30%).
- Excess Profit Tax (EPT): applies to profits exceeding 25% of relevant expenses, becomes significant only in a high oil price environment.
- Export customs duty (ECD) is regulated by the Government. The ECD rate was fixed until March 2016. A floating ECD rate was introduced on 1 March 2016 (pegged to Brent and Urals prices).

Existing exploration assets

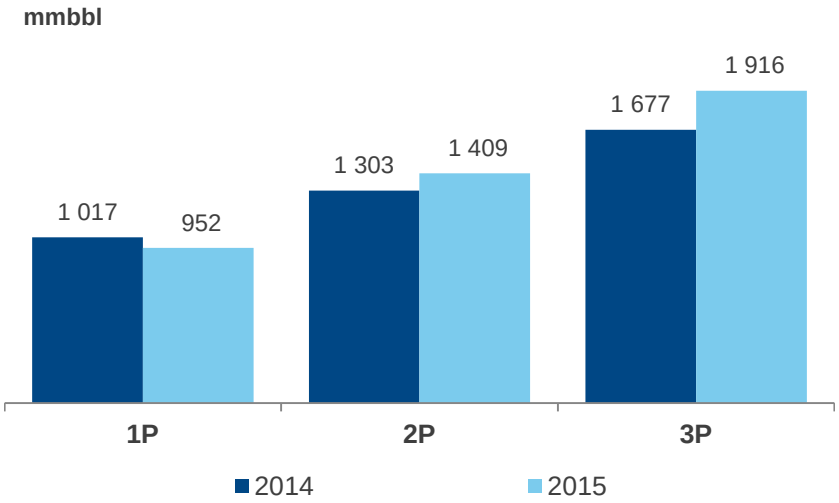




** KMG EP share in exploration Capex. Investments in Karpovskiy North and Fedorovskiy blocks are recognized as loans provided to JVs*
*** Including exploration and appraisal wells*

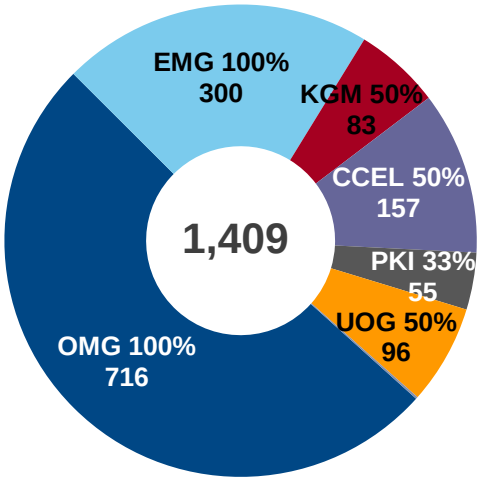
KMG EP reserves

Consolidated reserves*



mn tonnes					
138	130	178	193	228	262

Consolidated 2P reserves as at 2015 end



mn tonnes

OMG 100%	EMG 100%	KGM 50%	CCEL 50%	PKI 33%	UOG 50%
99	42	10	23	7	11

** KMG EP's reserves auditor as at 2014 end was made by Miller&Lents and as at 2015 end was DeGolyer and MacNaughton. The reserves audit of JVs was conducted by other independent consultants (Miller&Lents, McDaniel and Associates, Ryder Scott)*

Abbreviations list

AGM – Annual General Meeting of shareholders
bbl – barrel
mmbbl – million barrels
bn bbl – billion barrels
bopd – barrels per day
boepd - barrels of oil equivalent per day
EGM – Extraordinary General Meeting of shareholders
kbopd – thousand barrels per day
US$ m – million US dollars
US$ bn – billion US dollars
KZT bn – billion Tenge
NC KMG – National Company KazMunaiGas JSC
KMG EP – KazMunaiGas Exploration Production JSC
KMG RM – KazMunaiGas Refining and Marketing JSC
OMG – JSC OzenMunaiGas
EMG – JSC EmbaMunaiGas
KGM – JV Kazgermunai LLP
CCEL – CITIC Canada Energy Limited (holds 94% in JSC Karazhanbasmunai)
PKI – KMG PKI Finance BV (holds 33% in PetroKazakhstan Inc.)
UOG – Ural Oil and Gas
PKKR – PetroKazakhstan Kumkol Resources
ANPZ – Atyrau Refinery
PNHZ – Pavlodar Refinery
CIT – Corporate Income Tax
EPT – Excess Profit Tax
MET – Mineral Extraction Tax
ECD – Export Customs Duty
Conversion factors: OMG, EMG production -7.36 bbl/ton, sales -7.23 bbl/ton; KGM - 7.7; KBM - 6.68; PKI – 7.75; others - 7.33

Reference Information

Share information, 30/09/2016		
	Total	**Treasury**
Number of ordinary shares	70,220,935	3,913,768
Number of preferred shares	4,136,107	2,073,147
GDRs per one ordinary share		6

Tickers			
LSE	KMG	Reuters	KMGq.L
KASE	RDGZ	Bloomberg	KMG LI

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ҚазМұнайГаз
БАРЛАУ ӨНДІРУ АКЦИОНЕРЛІК ҚОҒАМЫ