OPERATING AND FINANCIAL REVIEW

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 audited 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 audited 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 December 31, 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

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
3,021	3,056	3,106	-3%	Total production (ktonnes)*	12,155	12,351	-2%
2,084	2,117	2,114	-1%	OMG and EMG production (ktonnes)	8,387	8,333	1%
55,853	58,474	105,896	-47%	Net Income (KZT million)	131,576	243,669	-46%
0.82	0.86	1.55	-47%	Basic and diluted EPS (KZT thousand)	1.93	3.57	-46%
83,454	67,581	28,199	n/a	EBITDA (KZT million)**	206,850	8,801	n/a
34%	26%	18%	n/a	Operating margin (%)***	22%	-3%	n/a
59,728	57,874	(9,052)	n/a	Operating cash flow before working capital adjustments (KZT million)	134,736	(33,590)	n/a
1,171,982	1,145,167	1,093,407	7%	Net cash position at the end of the period (KZT million)	1,171,982	1,093,407	7%

**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.*

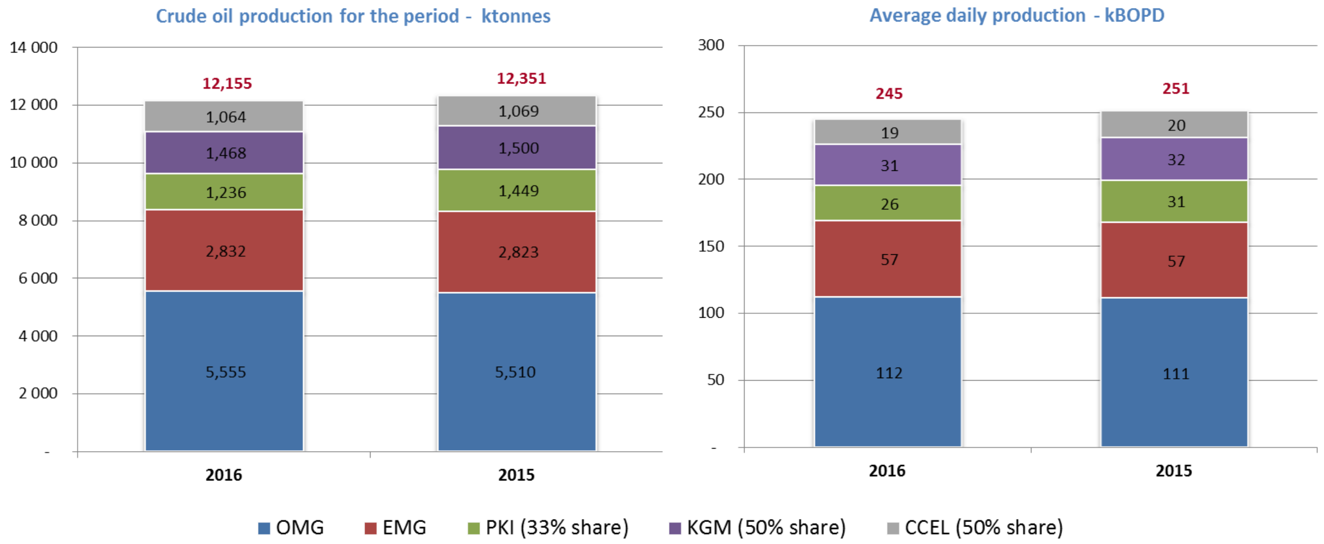
BUSINESS ENVIRONMENT

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.

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
49.33	45.86	43.76	13%	Average Brent (DTD) (US$ / bbl)	43.73	52.39	-17%
2.9%	1.0%	10.7%	-73%	Kazakhstan inflation (%)	8.5%	13.6%	-38%
335.07	341.34	300.44	12%	Average Tenge - US$ exchange rate	341.76	222.25	54%
333.29	335.46	339.47	-2%	Tenge - US$ exchange rate at the reporting date	333.29	339.47	-2%

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 2016, including the share of production from its joint ventures and associated company, amounted to 12,155 ktonnes or 245 kbopd. OMG and EMG produced 169 kbopd with a further 26 kbopd from PKI, 31 kbopd from KGM and 19 kbopd from CCEL.

Compared to 2015, OMG production increased by 1% or 45 ktonnes and EMG production increased by less than 1% or 9 ktonnes, primarily due to the geological and technical measures performed.

The share in PKI's production declined by 15% or 213 ktonnes in 2016, compared to 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 32 ktonnes in 2016, compared with 2015, due to the natural depletion and an increase of water cut of the KGM fields. The share in CCEL production decreased by less than 1% or 5 ktonnes in 2016, compared with 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 2016 was 3,768 ktonnes, which is 6% or 250 ktonnes less than in 2015.

Wells as of reporting date*	Drilled in 2016*	Drilled in 2015*		Well workovers 2016	Well workovers 2015	Well servicing 2016	Well servicing 2015
Number of wells				*Number of well workovers*		*Number of well servicing*	
5,141	169	229	OMG	949	921	13,512	14,335
2,652	47	54	EMG	246	248	3,398	3,541
1,309	19	84	PKI (100%)**	150	195	623	831
245	23	33	KGM (100%)**	62	56	114	101
3,657	51	112	CCEL (100%)**	59	20	3,794	3,370

**Development wells, including injection wells.*

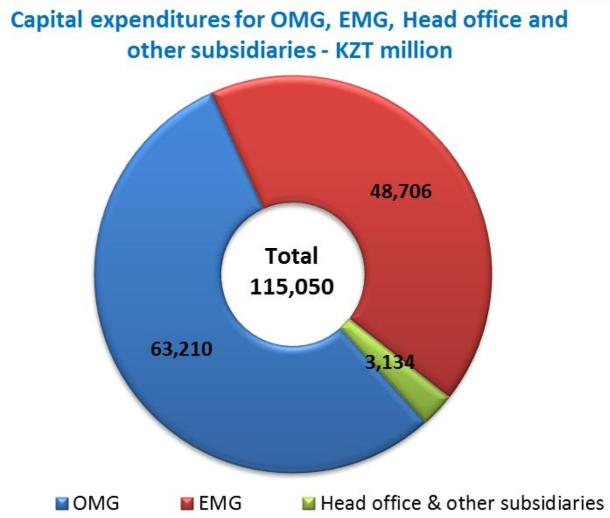
*** Includes 100% of the number of well operations related to JVs and associated company.*

Oil production in the reporting period from the new wells at OMG amounted to 485 ktonnes compared to 523 ktonnes in 2015, as number of wells drilled in 2016 was lower than in 2015. OMG workovers of 949 wells provided an incremental production of 403 ktonnes, while 921 well workovers in 2015 provided incremental production of 433 ktonnes.

Oil production for 2016 from the new wells at EMG amounted to 78 ktonnes compared to 66 ktonnes in 2015. EMG performed 246 well workovers in 2016, which provided an incremental production of 122 ktonnes, while 248 well workovers provided 97 ktonnes in 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.



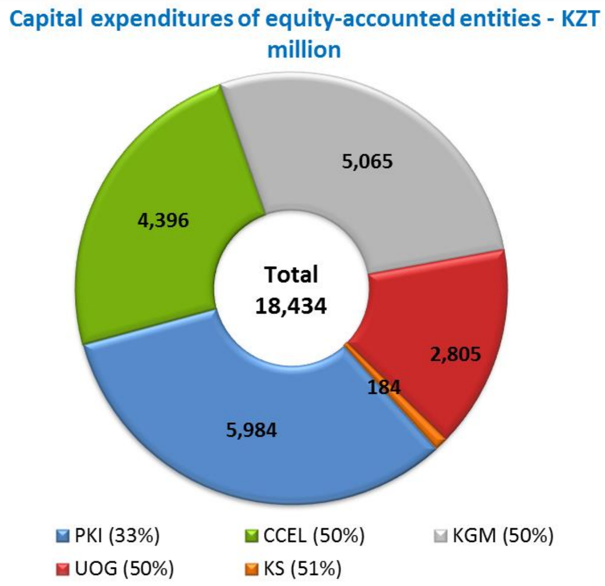
Capital expenditures of OMG, EMG, Head office and other KMG EP subsidiaries

In 2016, the Company's capital expenditures amounted to KZT115.1 billion or KZT16.6 billion more than in 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 2016 amounted to KZT63.2 billion, which is KZT5.3 billion less than in 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, which was partially offset by higher construction and modernization of production facilities compared to 2015 and higher fixed asset purchases in the reporting period.

EMG capital expenditures amounted to KZT48.7 billion in 2016, which is KZT23.3 billion more than in 2015, mainly due to a construction of a gas treatment unit for the Prorva group of fields, as well as an increase in exploration drilling in the reporting period compared to 2015.

Head office and other subsidiaries' capital expenditures in 2016 amounted to KZT3.1 billion, which is KZT1.4 billion less than in 2015, primarily due to the lower level of exploration drilling and fixed asset purchases in 2016.



Capital expenditure of equity-accounted entities

PKI capital expenditures in 2016 amounted to KZT18.1 billion (KMG EP 33% share: KZT6.0 billion), which is KZT14.6 billion less than in 2015, mainly due to the decrease in drilling volumes in the current period.

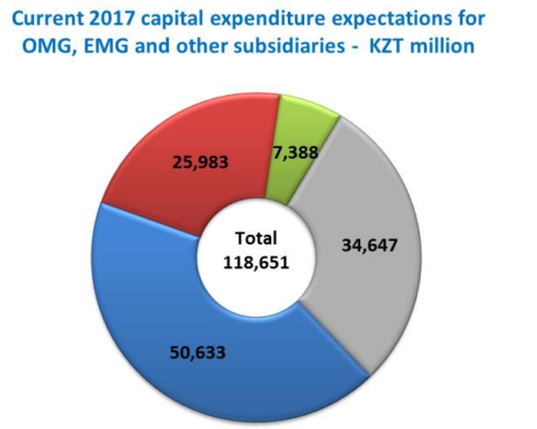
KGM capital expenditures for the period were KZT10.1 billion (KMG EP 50% share: KZT5.1 billion), which is KZT5.0 billion less than in 2015, mainly due to the lower construction and modernization of production facilities and production drilling in the reporting period, which was partially offset by the higher purchase of fixed assets in 2016 compared to 2015.

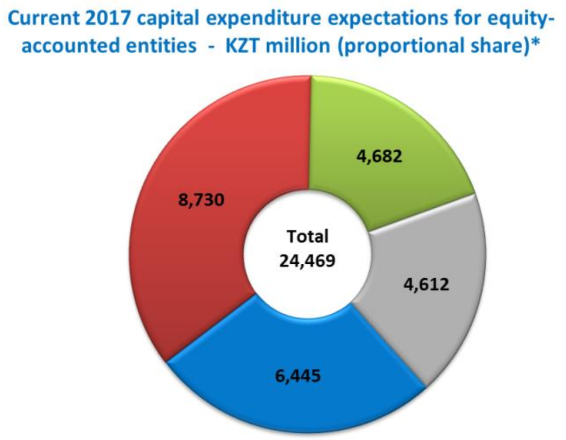
CCEL capital expenditures in 2016 were KZT8.8 billion (KMG EP 50% share: KZT4.4 billion), which is KZT1.8 billion less than in 2015, primarily due to the decrease in drilling volumes and fixed asset purchases in the current period.

UOG capital expenditures amounted to KZT5.6 billion (KMG EP 50% share: KZT2.8 billion), which is KZT1.4 billion more than in 2015, mainly due to an increase in exploration drilling in the reporting period.

KS capital expenditures amounted to KZT0.4 billion (KMG EP 51% share: KZT0.2 billion), which is KZT0.4 billion less than in 2015, as further operations on the oilfield are pending internal approval.

Below are current 2017 capital expenditure expectations for consolidated and equity accounted entities:



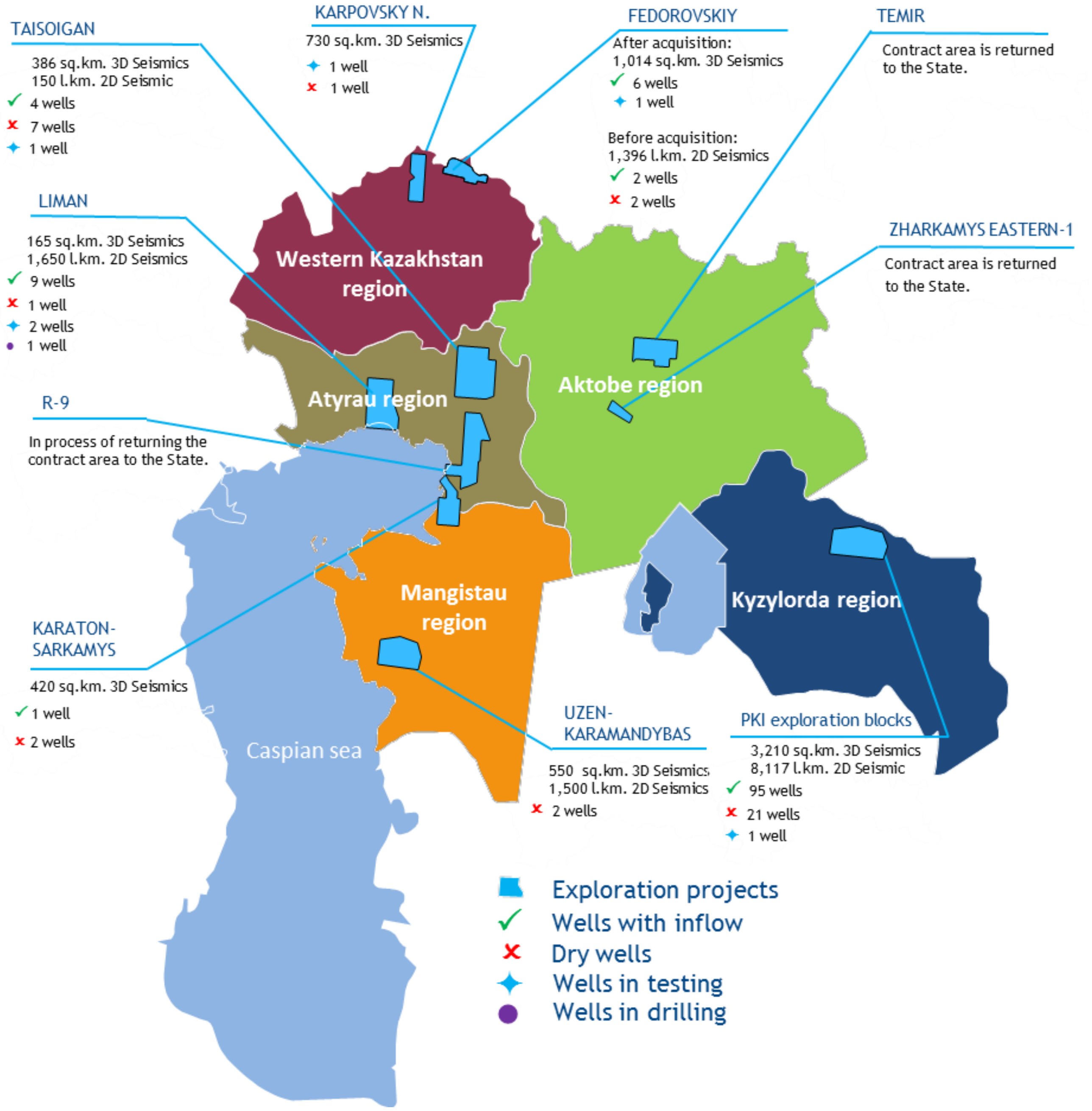


Production drilling   Construction works   Exploration   Other CAPEX

**Capital expenditure amounts for 2017 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 December 31, 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	Drilling period	Depth	Status as of reporting date
Liman (100%)	19.01.2006	Novobogat SE	PR-4 PR-5 PR-7	08.04.2016-21.08.2016 01.04.2016-29.09.2016 20.09.2016-in drilling.	2,262m. 2,500m. 2,060m.	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 – 2,060m.).
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				Received approval from the Ministry of Energy of the Republic of Kazakhstan on the extension of the exploration period of the contract until 2018. 3D-MOGT field works with the area of 550 l.km are underway.
Taisoigan (100%)	29.01.2004	Uaz	U-22 U-24	15.04.2016-11.05.2016 20.05.2016-22.06.2016	651m. 825m.	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 testing the U-24 well, the well is conserved. 2-D MOGT seismic field works on the Taisoigan block are completed. Completed processing of 2-D seismic field data on the Taisoigan block.
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	25.12.2014-20.07.2015	3,818m.	Processing and interpretation of 3D seismic data of the Birlestik cube is completed. 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	01.07.2013-18.08.2015	5,755m.	4 intervals of the well are in testing.
Fedorovskiy block (UOG-50%)	11.03.2011	Rozhkovskiy Pavlovskaya, Yanvartsevskaya	U-25	10.09.2015-01.08.2016	5,211.3m.	Completed drilling and testing the U-25 well. Completed geophysical exploration works. U-25 well is conserved. Processing and interpretation of 3-D seismic data on the block is completed.
Doszhan-Zhamansu (24.75% through PKI)	22.12.2009	South Doszhan, South-Eastern Doszhan, Zhamansu	Doszhan–48 Doszhan–64 South-Eastern Doszhan–50 South-Eastern Doszhan–51	08.07.2016-30.07.2016 09.11.2016-27.11.2016 26.11.2016-16.12.2016 22.10.2016-16.11.2016	1,527m. 850m. 1,550m. 1,500m.	Completed drilling of the Doszhan-48, Doszhan-64, South-Eastern Doszhan–50 and 51 exploration wells, the wells are with inflow.
Karaganda (PKI-33%)	22.12.2009	Karabulak, Buharsai	Northern Karabulak-3 Karabulak–19 Karabulak–31	14.07.2016-31.07.2016 24.05.2016-12.06.2016 26.09.2016-18.10.2016	1,475m. 1,350m. 1,377m.	Completed drilling the Northern Karabulak-3, Karabulak-19 and Karabulak-31 exploration wells. Northern Karabulak-3 well – dry. Karabulak-19 and Karabulak-31 wells - with inflow.
Karavanchi (PKI – 33%)	22.12.2009	Karavanchi	Karavanchi-28 Karavanchi-29 Karavanchi-30 Karavanchi-32	06.07.2016-27.07.2016 10.09.2016-24.09.2016 28.10.2016-14.11.2016 17.12.2016-31.12.2016	1,875m. 1,100m. 1,100m. 1,120m.	Completed drilling of the Karavanchi-28, Karavanchi-29, Karavanchi-30 and Karavanchi-32 exploration wells. Karavanchi-28 well – dry. Karavanchi-29 and Karavanchi-30 wells - with inflow. Karavanchi-32 well - in testing.
Western Tuzkol (PKI – 33%)	22.12.2009	Western Tuzkol	Ketekazgan-17 Ketekazgan-34 Western Tuzkol-93 Western Tuzkol-96 Zhanbyrshy-7	26.08.2016-16.09.2016 02.08.2016-21.08.2016 09.08.2016 -26.08.2016 24.11.2016-07.12.2016 29.09.2016-15.10.2016	1,943m. 1,504m. 910m. 1,191m. 802m.	Completed drilling of the Western Tuzkol-93, Western Tuzkol-96, Ketekazgan-17 exploration wells and Ketekazgan-34, Zhanbyrshy-7 appraisal wells. Zhanbyrshy-7 well - dry. The Western Tuzkol-96 well - with inflow. The Western Tuzkol-93 well – water well. Ketekazgan-34 and Ketekazgan-17 wells – with inflow.

RESULTS OF OPERATIONS

The following section is based on the Company's audited 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.

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
212,448	**201,340**	**180,475**	**18%**	**Revenue**	**727,154**	**529,812**	**37%**
(79,389)	(72,155)	(65,012)	22%	Production expenses	(274,753)	(225,049)	22%
(20,508)	(31,917)	(28,341)	-28%	SG&A	(115,022)	(118,601)	-3%
(29,628)	(36,493)	(49,917)	-41%	Taxes other than on income	(145,431)	(181,501)	-20%
(2,484)	(51)	(229)	985%	Exploration expenses	(2,535)	(1,892)	34%
(8,252)	(9,175)	(4,952)	67%	DD&A	(30,776)	(20,110)	53%
72,187	**51,549**	**32,024**	**125%**	**Operating profit / (loss)**	**158,637**	**(17,341)**	**-100%**
–	20,298	(46,753)	-100%	Net reversal / (allowance) for VAT recoverable	13,362	(46,753)	-129%
(4,997)	(893)	(16,576)	-70%	Share of results of associate and JVs	(12,600)	(20,062)	-37%
(1,518)	(250)	(3,689)	-59%	Loss on disposal of PP&E	(2,050)	(4,618)	-56%
4,872	6,914	9,540	-49%	Finance income / (costs), net	24,195	11,095	118%
(5,608)	(8,733)	187,206	-103%	Foreign exchange gain / (loss), net	(12,892)	448,869	-103%
(9,083)	(10,411)	(55,856)	-84%	Income tax expense	(37,076)	(127,521)	-71%
55,853	**58,474**	**105,896**	**-47%**	**Net income**	**131,576**	**243,669**	**-46%**

The decrease in net income for 2016 compared to 2015 is mainly due to a foreign exchange loss recognized in 2016 as compared to foreign exchange gain in 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 2016 compared to 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$52.4 per barrel in 2015 to US$43.7 per barrel in 2016. Net income also decreased in 2016 compared to 2015 due to an increase in production expenses as well as an increase in depreciation, depletion and amortization, which were partially offset by the decrease in share in loss of associate and joint ventures, the decrease in income tax expense, the decrease in selling, general and administrative expenses, 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. Also in September 2016 JSC Ozenmunaigas, a subsidiary of the Company, received the approval of its application for a temporary reduced rate of Mineral Extraction Tax ("MET") for the Uzen and Karamandybas fields in Mangystau oblast. The reduced MET rate is set at 9.0% (compared to 13.0% in 2015) for the whole of 2016 on the condition that in 2016 Uzen and Karamandybas fields record losses under tax accounting. The effect of this reduction equals to KZT14.9 billion, which was included in Company's financials, as management expects that JSC Ozenmunaigas will claim a taxable loss in its final 2016 tax filing.

Revenue

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

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
				Export sales of crude oil			
				UAS pipeline			
80,803	76,507	66,583	21%	Net sales (KZT million)	282,054	213,635	32%
719	719	779	-8%	Volume (ktonnes)	2,797	2,797	0%
112,382	106,408	85,472	31%	Average price (KZT/tonne)	100,842	76,380	32%
46.39	43.12	39.35	18%	Average price (US$/bbl*)	40.81	47.53	-14%
				CPC pipeline			
58,529	62,182	53,759	9%	Net sales(KZT million)	230,645	150,849	53%
483	561	565	-15%	Volume (ktonnes)	2,149	1,850	16%
121,178	110,841	95,149	27%	Average price (KZT/tonne)	107,327	81,540	32%
50.02	44.91	43.80	14%	Average price (US$/bbl*)	43.44	50.74	-14%
139,332	138,689	120,342	16%	Total sales of crude oil-exported (KZT million)	512,699	364,484	41%
1,202	1,280	1,344	-11%	Total crude oil-exported (ktonnes)	4,946	4,647	6%
				Domestic sales of crude oil			
–	–	55,058	-100%	Net domestic sales (KZT million)	15,459	99,183	-84%
–	–	825	-100%	Volume (ktonnes)	830	2,680	-69%
–	–	66,737	-100%	Average price (KZT/tonne)	18,625	37,009	-50%
–	–	30.72	-100%	Average price (US$/bbl*)	7.54	23.03	-67%
				Shipments of crude oil to Russia			
–	–	–	0%	Net sales (KZT million)	–	46,102	-100%
–	–	–	0%	Volume (ktonnes)	–	916	-100%
–	–	–	0%	Average price (KZT/tonne)	–	50,330	-100%
–	–	–	0%	Average price (US$/bbl*)	–	31.32	-100%
				Total sales of crude oil			
139,332	138,689	175,400	-21%	Total net sales of crude oil (KZT million)	528,158	509,769	4%
1,202	1,280	2,169	-45%	Total volume (ktonnes)	5,776	8,243	-30%
115,917	108,351	80,867	43%	Average price (KZT/tonne)	91,440	61,843	48%
47.85	43.90	37.23	29%	Average price (US$/bbl*)	37.01	38.49	-4%
				Sales of oil products			
68,371	57,662	332	100%	Net sales (KZT million)	181,409	1,393	100%
798	753	19	100%	Volume (ktonnes)	2,315	62	100%
85,678	76,576	17,474	390%	Average price (KZT/tonne)	78,362	22,468	249%
255.70	224.34	58.16	340%	Average price (US$/tonne)	229.29	101.09	127%
4,745	4,989	4,743	0%	Other sales (KZT million)	17,587	18,650	-6%
212,448	**201,340**	**180,475**	**18%**	**Total revenue (KZT million)**	**727,154**	**529,812**	**37%**

* *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). In 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 2016.

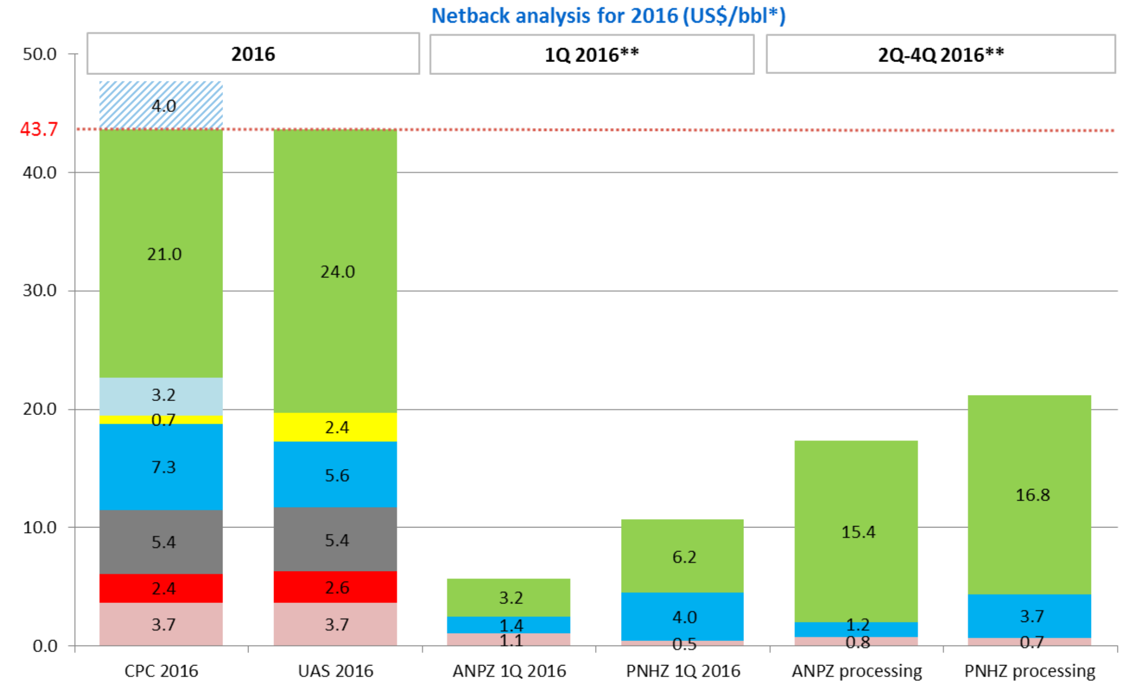
Prior to April 2016 the Company sold a portion of produced crude oil to KazMunaiGas Refining and Marketing JSC ("KMG RM"), a related party, in order to meet its domestic supply obligation. KMG RM further processed this crude oil and sold refined products. Starting from April 2016 the Company ceased sales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

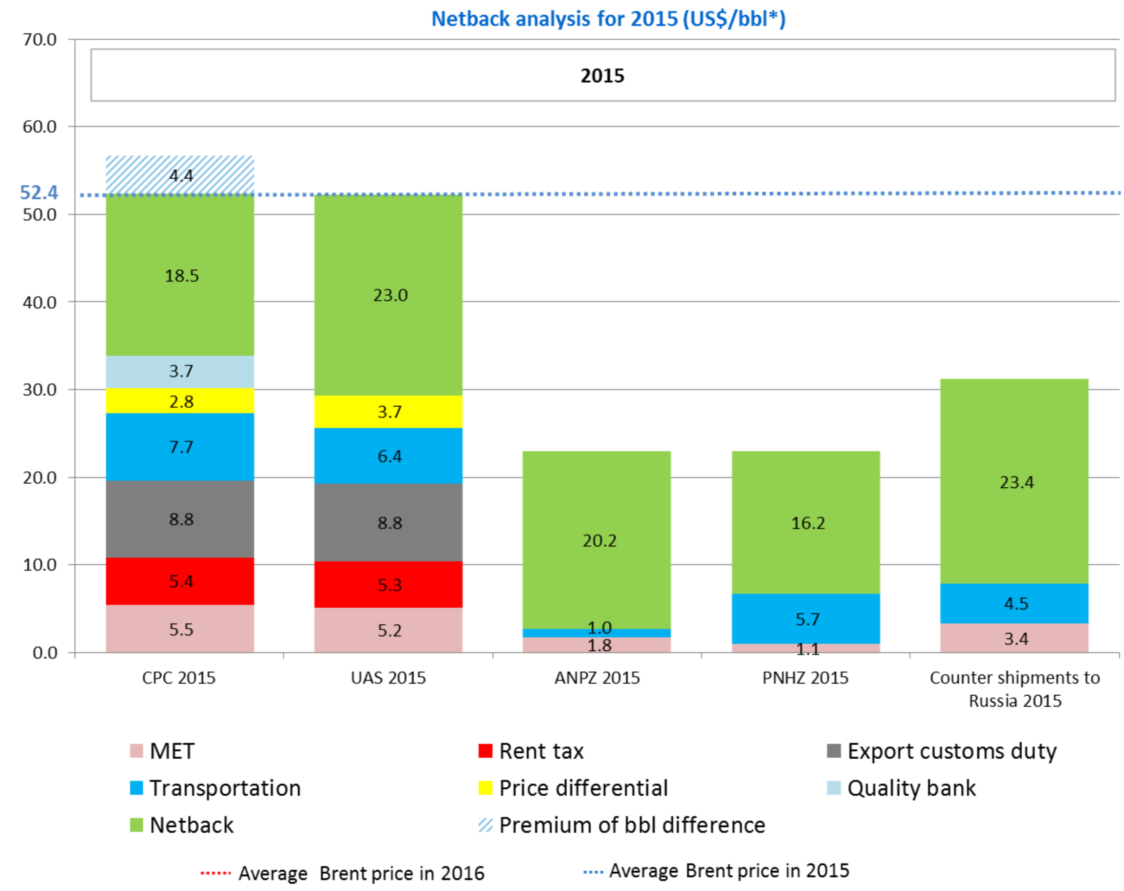
Statement of Net Revenue from sales of Refined Products (Atyrau Refinery and Pavlodar Refinery)

Atyrau Refinery 2Q	Pavlodar Refinery 2Q	Atyrau Refinery 3Q	Pavlodar Refinery 3Q	Atyrau Refinery 4Q	Pavlodar Refinery 4Q		Atyrau Refinery April-December 2016	Pavlodar Refinery April-December 2016
(KZT million, unless otherwise stated)							*(KZT million, unless otherwise stated)*	
45,415	9,703	50,379	7,812	46,301	22,726	Revenue	142,095	40,241
(20,342)	(3,060)	(20,729)	(2,400)	(18,321)	(6,819)	Costs, including:	(59,392)	(12,279)
(13,786)	(2,197)	(14,164)	(1,675)	(11,997)	(4,742)	Processing	(39,947)	(8,614)
(85)	(88)	(186)	(126)	(320)	(301)	Additives	(591)	(515)
(879)	(432)	(799)	(327)	(1,095)	(1,019)	Excise tax	(2,773)	(1,778)
(3,781)	–	(3,660)	–	(3,327)	–	Export customs duty	(10,768)	–
(293)	(59)	(343)	(46)	(364)	(173)	Selling and transportation expenses	(1,000)	(278)
(1,518)	(284)	(1,577)	(226)	(1,218)	(584)	KMG Refinery and Marketing commission fee	(4,313)	(1,094)
25,073	**6,643**	**29,650**	**5,412**	**27,980**	**15,907**	**Net revenue**	**82,703**	**27,962**

635.3	125.9	661.4	96.6	544.2	260.2	Volume of oil products sold, thousands of tonnes	1,840.9	482.7
39.7	14.9	36.5	11.5	35.0	31.3	Processing losses, thousands of tonnes	111.2	57.7
675.0	**140.8**	**697.9**	**108.1**	**579.2**	**291.5**	Total volume of crude oil processed and sold, thousands of tonnes	**1,952.1**	**540.4**
37,145	**47,180**	**42,485**	**50,065**	**48,308**	**54,569**	**Net revenue Tenge per tonne of crude oil**	**42,366**	**51,743**

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





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

*** The Company switched to oil processing scheme starting from April 2016, as the result the Company shipped OMG and EMG crude oil for processing to ANPZ and PNHZ in 2Q-4Q 2016. Netbacks of ANPZ and PNHZ for 2Q-4Q 2016 are based on the net revenue tenge per tonne of crude oil shipped to ANPZ and PNHZ for oil processing reflected in the Statement of Net Revenue from sales of Refined Products.*

Export netbacks in 2016 increased compared to 2015, primarily due to a decrease in the rent tax, MET and ECD, which was partially offset by a decrease in the average Brent price from US$52.4 per barrel in 2015 to US$43.7 per barrel in 2016.

Domestic market netbacks decreased in 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. On October 3, 2016 the Company has contractually agreed prices for 1Q 2016 at levels close to those that were unilaterally set by KMG RM and recognized revenue for the sale of crude oil in 1Q 2016 at contractually agreed prices.

Production expenses

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

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
44,328	37,734	40,017	11%	Employee benefits	152,422	153,928	-1%
16,725	15,853	554	100%	Refinery processing costs	48,548	1,109	100%
7,472	7,180	6,200	21%	Repairs and maintenance	24,434	20,206	21%
5,424	5,113	4,647	17%	Energy	20,958	18,389	14%
6,862	4,052	4,601	49%	Materials and supplies	20,003	18,357	9%
1,535	1,446	1,455	5%	Transportation services	5,435	5,345	2%
1,722	(1,505)	3,159	-45%	Change in crude oil balance	1,303	3,356	-61%
(3,463)	–	(346)	901%	Change in estimate of environmental remediation obligation	(3,463)	127	-100%
(3,790)	–	2,313	-264%	Movement in asset retirement obligation	(3,790)	(1,686)	125%
2,574	2,282	2,412	7%	Other	8,903	5,918	50%
79,389	**72,155**	**65,012**	**22%**	**Total production expenses**	**274,753**	**225,049**	**22%**

Production expenses in 2016 increased by KZT49.1 billion or 22% compared to 2015, primarily due to an increase in refinery processing costs, repairs and maintenance expenses and energy expenses. This was partially offset by a change in estimate of environmental remediation obligation, a change in estimate of asset retirement obligation in excess of capitalized asset, a change in crude oil balance and a decrease in employee benefits.

Refinery processing costs in 2016 increased compared to 2015, due to the Company's decision to switch to an oil processing scheme starting from April 2016. As a result, the Company sold 2,315 ktonnes of oil products in 2016 compared to 62 ktonnes in 2015.

Repairs and maintenance expenses in 2016 increased by 21% compared to 2015, mainly due to the increase of hydrofracturing expenses primarily as the number of wells subject to hydrofracturing increased from 80 wells in 2015 to 105 wells in 2016.

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

Employee benefit expenses in 2016 decreased by 1% compared to 2015, mainly due to a decrease in actuary obligations by KZT7.3 billion, 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.

In 4Q 2016, the Company changed its estimate of the environmental remediation provision, which relates to certain soil contamination and oil waste disposal, and recognized reversal of the related provision in the amount of KZT3.5 billion as the result of an increase in interest rate used for discounting assets and obligations from 7.93% to 10.0%.

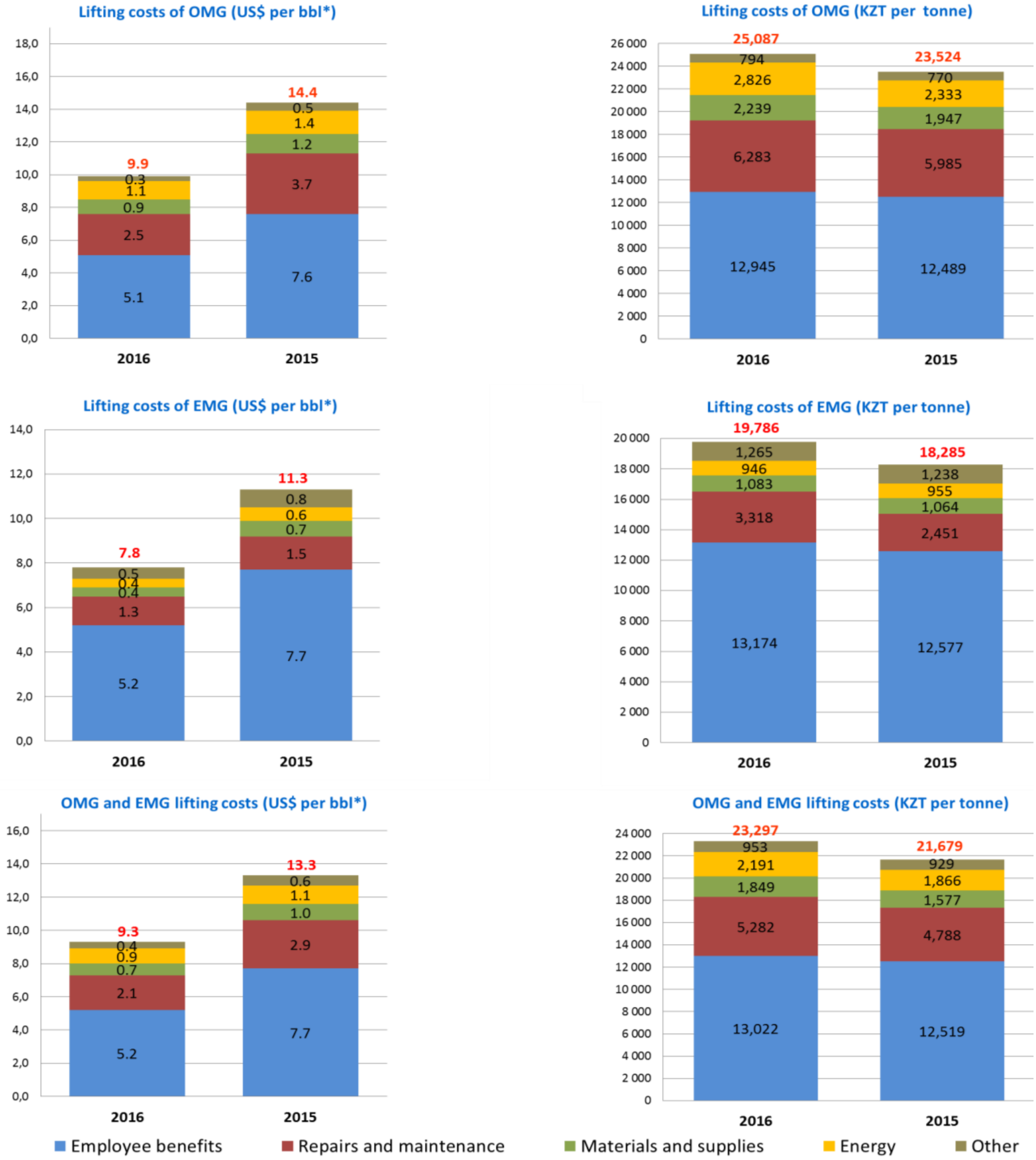
A decrease in asset retirement obligation in excess of capitalized asset in 2016 resulted mainly from a change in estimate of asset retirement obligation due to the increase in interest rate used for discounting assets and obligations from 7.93% to 10.0%.

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:

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
23,072	22,826	21,036	10%	Transportation expenses	91,851	66,637	38%
6,352	3,960	5,623	13%	Employee benefits	18,331	19,364	-5%
1,802	1,803	–	100%	Agency fee	5,407	–	100%
319	1,865	759	-58%	Consulting and audit services	3,238	1,889	71%
565	377	281	101%	Sponsorship	2,093	726	188%
311	494	423	-26%	Repairs and maintenance	1,212	1,026	18%
–	–	(3,338)	-100%	Management fees	–	–	0%
(13,516)	(2,029)	2,392	-665%	Net (reversal) / accrual of fines and penalties	(14,117)	24,737	-157%
1,603	2,621	1,165	38%	Other	7,007	4,222	66%
20,508	**31,917**	**28,341**	**-28%**	**Total SG&A expenses**	**115,022**	**118,601**	**-3%**

Selling, general and administrative expenses in 2016 amounted to KZT115.0 billion which is 3% lower than in 2015. The decrease is mainly due to a reversal of previously accrued expenses for fines and penalties as well as a decrease in employee benefits, which were partially offset by an increase in transportation expenses and agency fee.

The increase in transportation expenses in 2016 compared to 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 as well as an increase in volume of export by CPC route. Moreover, transportation costs for domestic route increased in 2016 compared to 2015 due to an increase in domestic sales volumes and transportation tariffs of JSC "KazTransOil" for domestic route by 10%.

Employee benefits in 2016 decreased by 5% compared to 2015, mainly due to a decrease in actuary obligations by KZT1.4 billion, which was partially offset by a 7% indexation in basic salaries for administrative personnel from January 1, 2016.

The agency fee accrued in 2016 in the amount of KZT5.4 billion corresponds to commissions paid to KMG RM for the sale of the Company's oil products.

In 2016, the Company reversed the administrative fine in the amount of KZT3.6 billion and penalty in the amount of KZT1.7 billion related to CIT and EPT according to the positive court decision over Tax revision Act covering the period of 2006-2008. Additionally, in 2016 the Company reversed KZT9.6 billion of penalties related to CIT, EPT and MET provisions based on the decision of the Committee of State Revenue to reduce the tax principle and penalty on the results of the 2009-2012 Comprehensive tax audit.

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:

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
20,881	22,067	22,648	-8%	Export customs duty	76,411	65,588	17%
(473)	7,394	16,114	-103%	Mineral extraction tax	39,188	67,160	-42%
4,753	3,768	8,453	-44%	Rent tax	18,164	39,838	-54%
1,671	1,704	1,734	-4%	Property tax	6,699	6,265	7%
2,796	1,560	968	189%	Other taxes	4,969	2,650	88%
29,628	**36,493**	**49,917**	**-41%**	**Total taxes other than on income**	**145,431**	**181,501**	**-20%**

Taxes other than on income in 2016 decreased by KZT36.1 billion or 20% compared to 2015, mainly due to the decrease in mineral extraction tax and rent tax, which were partially offset by the increase in export customs duty.

The decrease of MET in 2016 compared to 2015 mainly resulted from applying a reduced MET rate for JSC Ozenmunaigas for the Uzen and Karamandybas fields in Mangystau oblast as the result of approval of request for MET relief by the Kazakh Government as well as the drop in the average Brent price from US$52.4 per barrel in 2015 to US$43.7 per barrel in 2016. The reduced MET rate is set at 9.0% (compared to 13.0% in 2015) for the whole of 2016 on the condition that in 2016 Uzen and Karamandybas fields record losses under tax accounting. Additionally, the Company reversed KZT6.6 billion of MET liabilities related to 2012 based on the decision of the Committee of State Revenue to reduce the tax principle and penalty on the results of the 2009-2012 Comprehensive tax audit. The MET liabilities were reversed as the result of applying MET rates for 2012 for OMG and EMG, corresponding to the production volume of each company. Moreover, the Company reversed KZT6.1 billion of MET provision based on the decision of the Committee of State Revenue to reduce the tax principle and penalty on the results of the 2009-2012 Comprehensive tax audit. This was partially offset by an increase in production volumes and an increase in the average Tenge – US dollar exchange rate.

Rent tax decreased in 2016 compared to 2015 mainly as the result of reduction in the Company's tax payable by the amount of KZT11.7 billion, which was the amount of the reduction in rent tax using the new revised rates for 2012-2015. In 2016 changes into the tax legislation were introduced in relation to methodology of rent tax calculation. On the basis of these changes along with correspondence with the tax authorities the Company has refiled its rent tax declarations for 2012-2015. Additionally rent tax decreased 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 and export volumes.

ECD expenses increased in 2016 compared to 2015 mainly due to the increase in export volumes and export of oil products as the result of the Company's decision to switch to an oil processing scheme starting from April 2016 as well as 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 2015 to US$39 per tonne of crude oil in 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

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
64,936	68,885	161,752	-60%	Profit before tax	168,652	371,190	-55%
69,933	69,778	181,828	-62%	Profit before tax (with adjustments*)	181,252	395,610	-54%
9,083	10,411	55,856	-84%	Income tax	37,076	127,521	-71%
9,083	10,411	55,856	-84%	Income tax (with adjustments*)	35,374	127,521	-72%
14%	15%	35%	-60%	Effective tax rate	22%	34%	-35%
13%	15%	31%	-58%	Effective tax rate (with adjustments*)	20%	32%	-38%

** 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 2016 compared to 2015 is the lower taxable profit from the decrease in the average Brent price and the recognition of the foreign exchange loss in 2016 compared to the foreign exchange gain in 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 audited condensed consolidated financial statements:

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
334	1,495	(5,296)	-106%	Share in income / (loss) from KGM	4,312	2,626	64%
(4,768)	(2,135)	(6,395)	-25%	Share in loss from PKI	(15,334)	(17,772)	-14%
(563)	(253)	(4,885)	-88%	Share in loss from UOG	(1,578)	(4,916)	-68%
(4,997)	**(893)**	**(16,576)**	**-70%**	**Share in loss in associate and JVs**	**(12,600)**	**(20,062)**	**-37%**

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 2016 was 2,936 ktonnes (50% share is 1,468 ktonnes), which is 64 ktonnes or 2% lower than in 2015.

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

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
128,059	144,164	112,082	14%	Revenue	455,391	628,154	-28%
(95,602)	(95,661)	(80,605)	19%	Operating expenses	(339,728)	(398,697)	-15%
(386)	(4)	(237)	63%	Finance income / (cost), net	(835)	(790)	6%
(1,130)	(720)	35,329	-103%	Foreign exchange gain / (loss), net	(6,459)	25,907	-125%
(22,560)	(32,830)	(114,608)	-80%	Income tax (expense) / benefit	(58,148)	(218,532)	-73%
8,381	14,949	(48,039)	-117%	Net income	50,221	36,042	39%
736	741	745	-1%	Crude oil production, ktonnes	2,936	3,000	-2%

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

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

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(ktonnes)					*(ktonnes)*		
578	425	552	5%	Domestic market	2,061	2,102	-2%
156	317	194	-20%	Export via KCP	867	880	-1%
734	**742**	**746**	**-2%**	**Total crude oil sales, ktonnes**	**2,928**	**2,982**	**-2%**

A decrease in average export and domestic prices, as well as domestic and export sales volume, also resulted in a decrease in operating expenses, particularly transportation expenses (by US$26.0 million), export customs duty (by US$23.3 million) and rent tax (by US$18.9 million).

ECD expenses decreased by US$23.3 million due to the average ECD rate drop from US$66 per tonne of crude oil in 2015 to US$39 per tonne of crude oil in 2016 and decrease in export sales volume in 2016 compared to 2015.

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

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(US$ per bbl sold)*					*(US$ per bbl sold*)*		
4.2	4.9	3.0	40%	DD&A	4.7	3.7	27%
2.1	2.7	3.1	-32%	Transportation expenses	2.2	3.3	-33%
1.1	2.3	2.2	-50%	Export customs duty	1.6	2.6	-38%
1.5	2.3	1.1	36%	Mineral extraction tax	1.6	1.8	-11%
1.2	0.8	1.1	9%	Repairs and maintenance	0.9	1.2	-25%
1.1	0.8	1.0	10%	Employee benefits	0.8	1.1	-27%
0.7	1.3	0.6	17%	Rent tax	0.7	1.5	-53%
0.9	0.4	0.7	29%	Materials and supplies	0.5	0.6	-17%
–	0.5	(0.4)	-100%	Fines and penalties	0.2	0.4	-50%
4.2	0.6	1.7	147%	Other	1.9	1.2	58%
17.0	**16.6**	**14.1**	**21%**	**Total operating expenses**	**15.1**	**17.4**	**-13%**

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

The share in KGM income, reflected in the audited consolidated financial statements of the Company, represents a proportionate share of the results of KGM for 2016, adjusted for the impact of amortization of the fair value of the licenses, partially offset by related deferred tax benefit of KZT4.2 billion (KZT1.4 billion in 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 2016, PKI produced 3,747 ktonnes of oil (33% share: 1,236 ktonnes) which is 15% less than in 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:

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(US$ thousand, unless otherwise stated)					(US$ thousand, unless otherwise stated)		
197,487	184,521	170,411	16%	Revenue	682,357	984,943	-31%
(222,496)	(160,262)	(224,710)	-1%	Operating expenses	(672,955)	(1,012,943)	-34%
5,027	(1,085)	(10,835)	-146%	Finance cost, net	(19,719)	(41,796)	-53%
1,761	(17,424)	(27,725)	-106%	Income tax expense	(27,214)	(124,683)	-78%
(18,221)	5,750	(92,859)	-80%	Net income / (loss)	(37,531)	(194,479)	-81%
905	917	1,069	-15%	Crude oil production, ktonnes	3,747	4,390	-15%

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

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

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(ktonnes)					(ktonnes)		
554	565	727	-24%	Domestic sales	2,405	2,804	-14%
198	125	166	19%	Export via KCP (PKKR 100%)	616	762	-19%
77	159	97	-21%	Export via KCP (KGM 50%)	433	440	-2%
28	23	31	-10%	Export via KCP (Kolzhan 100% & PKVI 75%)	102	105	-3%
20	23	–	100%	Export Uzbekistan (TP 50%)	72	–	100%
14	8	43	-67%	Export via KCP (TP 50%)	61	181	-66%
891	**903**	**1,064**	**-16%**	**Total crude oil sales, ktonnes**	**3,689**	**4,292**	**-14%**

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$50.0 million), ECD (by US$43.7 million) and rent tax (by US$32.6 million).

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

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(US$ per bbl sold*)					(US$ per bbl sold*)		
4.5	9.8	5.2	-13%	DD&A	7.6	8.4	-10%
2.9	2.7	3.0	-3%	Transportation expenses	2.7	3.8	-29%
2.1	2.0	2.3	-9%	Export customs duty	1.8	2.9	-38%
1.4	1.4	1.1	27%	Repairs and maintenance	1.4	2.1	-33%
1.6	1.3	1.4	14%	Employee benefits	1.4	1.9	-26%
1.5	1.6	1.2	25%	Mineral extraction tax	1.4	1.8	-22%
1.1	0.8	1.1	0%	Materials and supplies	0.9	1.1	-18%
1.3	1.2	0.9	44%	Rent tax	0.8	1.7	-53%
0.1	0.6	2.7	-96%	Fines and penalties	0.1	1.1	-91%
15.7	1.6	8.4	87%	Other	5.5	5.8	-5%
32.2	**23.0**	**27.3**	**18%**	**Total operating expenses**	**23.6**	**30.6**	**-23%**

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

The share in PKI results reflected in the Company's audited consolidated financial statements represents a proportionate share of the results of PKI in 2016 adjusted for the impact of amortization of the fair value of the licenses for the amount of KZT11.1 billion (KZT7.3 billion in 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 audited 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 audited 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 December 31, 2016 the Company had KZT34.3 billion (US$103.0 million) as a receivable from CCEL. The Company has accrued KZT4.6 billion (US$13.4 million) of interest income in 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 2016, CCEL produced around 2,127 ktonnes (50% share: 1,064 ktonnes) of crude oil, which decreased by 1% compared to 2015. CCEL's key financial and operational indicators (100%) are as follows:

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
155,263	139,268	99,734	56%	Revenue	565,317	569,399	-1%
(139,177)	(126,248)	(163,330)	-15%	Operating expenses	(488,334)	(763,435)	-36%
4,217	(5,227)	(8,220)	-151%	Finance cost, net	(11,305)	(28,503)	-60%
(11,109)	25	(21,264)	-48%	Income tax (expense) / benefit	(4,766)	(7,707)	-38%
9,194	7,818	(93,080)	-110%	Net income / (loss)	60,912	(230,246)	-126%
539	535	534	1%	Crude oil production, ktonnes	2,127	2,138	-1%

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

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(ktonnes)					*(ktonnes)*		
280	238	210	33%	Export via Novorossiysk	1,105	885	25%
175	207	217	-19%	Export via Ust'-Luga	843	666	27%
38	–	63	-40%	Domestic market	38	382	-90%
–	–	–	0%	Shipments of crude oil to Russia	–	139	-100%
493	**445**	**490**	**1%**	**Total crude oil sales, ktonnes**	**1,986**	**2,072**	**-4%**

Total operating expenses in 2016 decreased by 36% compared to 2015 mainly due to the decrease in employee benefits, repairs and maintenance, rent tax, ECD and DD&A.

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

Employee benefits, as well as repairs and maintenance costs decreased in 2016 compared to 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 in 2016 compared to 2015, which was partially offset by the increase in volume of well servicing.

Operating expenses on per barrel sold basis are as follows:

4Q 2016	3Q 2016	4Q 2015	Change		2016	2015	Change
(US$ per bbl sold)*					*(US$ per bbl sold*)*		
8.6	5.9	10.1	-15%	Employee benefits	7.9	11.1	-37%
7.5	8.7	7.5	0%	Transportation expenses	7.2	7.1	1%
6.4	6.9	8.7	-26%	Export customs duty	5.8	7.4	-22%
3.7	3.8	2.8	32%	Energy	3.8	3.9	-3%
3.2	3.6	(2.3)	-239%	DD&A	3.2	4.9	-35%
3.6	3.5	2.5	44%	Rent tax	2.4	4.3	-44%
1.2	1.8	2.9	-59%	Repairs and maintenance	1.7	3.8	-55%
1.0	0.8	0.6	67%	Materials and supplies	0.8	0.9	-11%
0.3	0.3	0.2	50%	Mineral extraction tax	0.3	0.3	0%
6.9	7.0	16.9	-59%	Other	3.7	11.4	-60%
42.4	**42.3**	**49.9**	**-15%**	**Total operating expenses**	**36.8**	**55.1**	**-33%**

** 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	12,555	25,230	93,164
Materials	12,055	24,877	10,435
Repair and maintenance	9,387	22,721	22,706
Energy	9,515	16,357	50,981
Other	2,695	17,114	49,679
Total lifting expenses (US$ thousand)	**46,207**	**106,299**	**226,965**
Production (ktonnes)	**2,936**	**3,747**	**2,127**
Lifting cost US$ per bbl*	**2.0**	**3.7**	**16.0**

**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)	43.7	43.7	43.7
Price differential and premium of bbl difference, net	(8.2)	(8.0)	(4.1)
Average realized price	**35.5**	**35.7**	**39.6**
Rent tax	(2.2)	(2.3)	(2.3)
Export customs duty	(5.4)	(5.2)	(5.5)
Transportation expenses	(3.7)	(5.0)	(6.7)
MET	(4.3)	(2.7)	(0.2)
Netback price	**19.9**	**20.5**	**24.9**

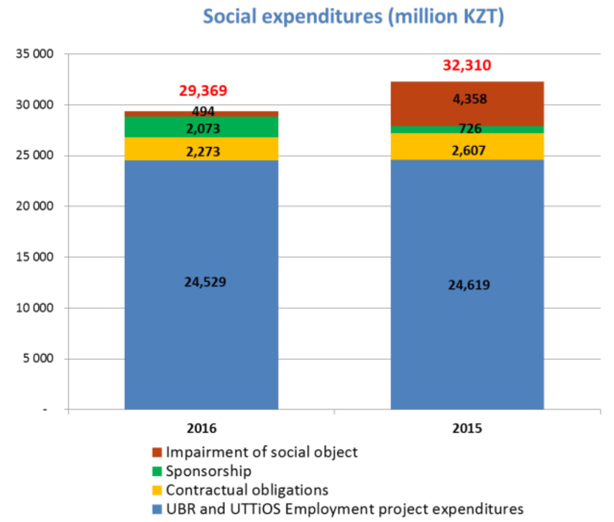
**Following average tonne / bbl conversion factors were used KGM 7.7, PKI 7.75, CCEL 6.68.*

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	**13.6**	**17.3**	**13.9**
Transportation expenses	(1.4)	(1.3)	(1.4)
MET	(0.4)	(0.5)	(0.1)
Netback price	**11.8**	**15.5**	**12.4**

**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.

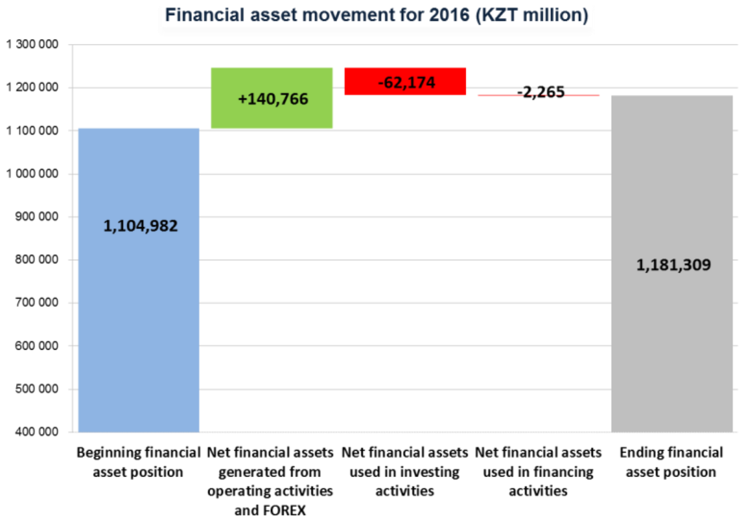
In 2012, two service units – UBR and UTTiOS - were created to employ approximately 2,000 people in the Mangistau region. In 2016, the Company incurred KZT24.3 billion of operating expenses at UBR and UTTiOS, including KZT19.9 billion of employee benefit expenses and KZT4.4 billion for materials, supplies and other expenses. The Company has invested approximately KZT0.2 billion 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 2016, which totalled KZT4.8 billion (KZT5.3 billion in 2015).

In 2016 the Company spent KZT2.1 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 2016, the Company's social expenses related to the execution of contractual obligations amounted to KZT2.3 billion, including the social programs and ecology fund that amounted to KZT1.5 billion as well as the training of local specialists which amounted to KZT0.8 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 2016, net financial assets inflow from operating activities and FOREX amounted to KZT140.8 billion or KZT316.8 billion less than in 2015. The decrease is primarily attributable to lower exchange gain recognition in 2016 compared to 2015.

Net financial assets outflow from investing activities in 2016 was KZT62.2 billion versus an outflow of KZT56.7 billion in 2015. The increase in net outflows primarily resulted from higher capital expenditures (KZT13.1 billion more) and lower loan repayments received from related parties (KZT6.8 billion less), which was partially offset by higher dividends received from joint ventures and associate (KZT13.7 billion more).

Net financial asset outflow from financing activities in 2016 was KZT2.3 billion (outflow of KZT30.2 billion in 2015). The decrease in outflows is mainly associated with the lower dividends paid to the Company's shareholders in 2016 compared to 2015 (KZT28.9 billion less), which was partially offset by the higher repayment of borrowings made in 2016 compared to 2015 (KZT0.9 billion more).

Net cash position

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

	As at December 31, 2016	As at December 31, 2015	Change
	(KZT million, unless otherwise stated)		%
Current portion	5,483	5,585	-2%
Non-current portion	3,844	5,990	-36%
Total borrowings	**9,327**	**11,575**	**-19%**
Cash and cash equivalents	162,091	237,310	-32%
Other current financial assets	983,257	833,912	18%
Non-current financial assets	35,961	33,760	7%
Total financial assets	**1,181,309**	**1 104,982**	**7%**
Foreign currency denominated cash and financial assets, %	**97%**	**99%**	
Net cash	**1,171,982**	**1,093,407**	**7%**

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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.