OPERATING AND FINANCIAL REVIEW

For the three months ended March 31, 2017

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

OVERVIEW

KazMunaiGas Exploration Production ("the Company" or "KMG EP") is engaged in the exploration, development, production, processing, and export of hydrocarbons, as well as the acquisition of oil and gas assets. The Company has publicly listed Global Depositary Receipts ("GDR") and shares traded on the London Stock Exchange ("LSE") and Kazakhstan Stock Exchange ("KASE"). Its majority shareholder is JSC National Company KazMunaiGas ("NC KMG"), the wholly state-owned joint stock company, which represents the State's interests in the Kazakh oil and gas industry. The Company's core oil and gas assets are located in the Pre-Caspian, Mangistau and Southern Turgai basins. The following table represents the Company's principal oil and gas interests as of March 31, 2017:

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

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
2,904	3,021	-4%	Total production (ktonnes)*	2,904	3,043	-5%
2,026	2,084	-3%	OMG and EMG production (ktonnes)	2,026	2,089	-3%
2,271	55,853	-96%	Net Income (KZT million)	2,271	924	146%
0.03	0.82	-96%	Basic and diluted EPS (KZT thousand)	0.03	0.01	200%
68,298	83,454	n/a	EBITDA (KZT million)**	68,298	6,386	n/a
21%	34%	n/a	Operating margin (%)***	21%	-4%	n/a
34,634	59,728	n/a	Operating cash flow before working capital adjustments (KZT million)	34,634	(18,146)	n/a
1,143,145	1,171,982	-2%	Net cash position at the end of the period (KZT million)	1,143,145	1,050,936	9%

**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.*

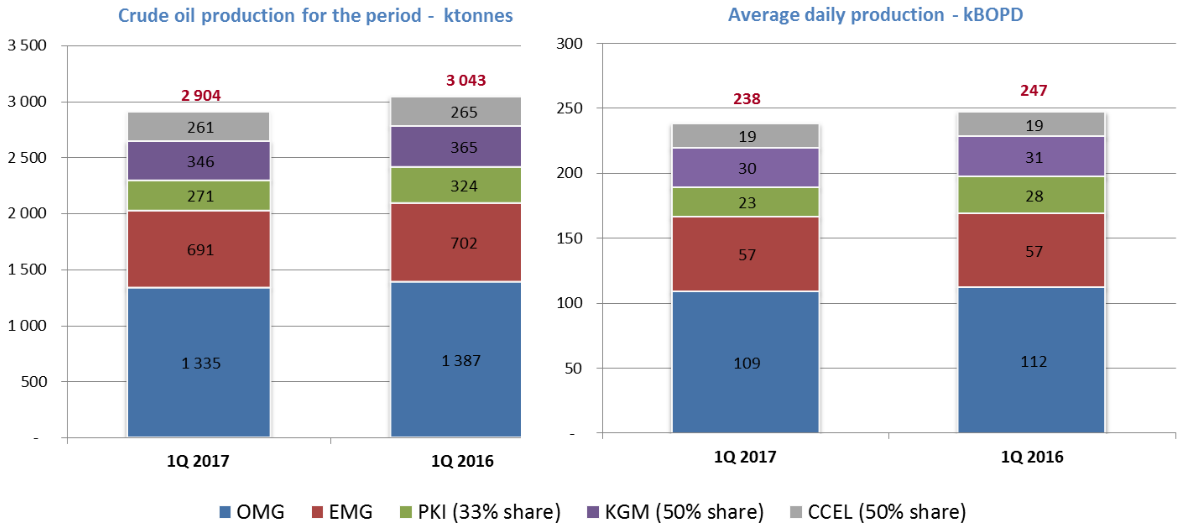
****Operating profit does not include share in results of equity accounted entities, CIT expenses, finance charges, impairment charges, foreign exchange gain/loss and other non-operating charges.*

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.

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
53.73	49.33	9%	Average Brent (DTD) (US$ / bbl)	53.73	33.94	58%
2.3%	2.9%	-21%	Kazakhstan inflation (%)	2.3%	3.0%	-23%
322,52	335,07	-4%	Average Tenge - US$ exchange rate	322,52	355,11	-9%
313,73	333,29	-6%	Tenge - US$ exchange rate at the reporting date	313,73	343,62	-9%

PRODUCTION ACTIVITY



The Company's total crude oil production in 1Q 2017, including the share of production from its joint ventures and associated company, amounted to 2,904 ktonnes or 238 kbopd. OMG and EMG produced 166 kbopd with a further 23 kbopd from PKI, 30 kbopd from KGM and 19 kbopd from CCEL.

Compared to 1Q 2016, OMG production declined by 4% or 52 ktonnes and EMG production decreased by less than 2% or 11 ktonnes, primarily due to less drilling and geological and technical measures performed.

The share in PKI's production declined by 16% or 53 ktonnes in 1Q 2017, compared to 1Q 2016, due to the natural decline of production at some of PKI's mature fields. The share in KGM's production decreased by 5% or 19 ktonnes in 1Q 2017, compared with 1Q 2016, due to less volumes of well workovers. The share in CCEL production decreased by less than 2% or 4 ktonnes in 1Q 2017, compared with 1Q 2016, due to most wells put into operation at the end of the reporting period. Total share in production volume of PKI, KGM and CCEL in 1Q 2017 was 878 ktonnes, which is 8% or 76 ktonnes less than in 1Q 2016.

Wells as of reporting date*	Drilled in 1Q 2017*	Drilled in 1Q 2016*		Well workovers 1Q 2017	Well workovers 1Q 2016	Well servicing 1Q 2017	Well servicing 1Q 2016
Number of wells				*Number of well workovers*		*Number of well servicing*	
5,176	37	63	OMG	181	255	3,572	3,327
2,656	0	6	EMG	0	19	774	833
1,733	7	0	PKI (100%)**	15	33	154	133
254	0	0	KGM (100%)**	1	5	18	30
3,687	31	13	CCEL (100%)**	23	16	1,044	869

**Development wells, including injection wells.*
*** Includes 100% of the number of well operations related to JVs and associated company.*

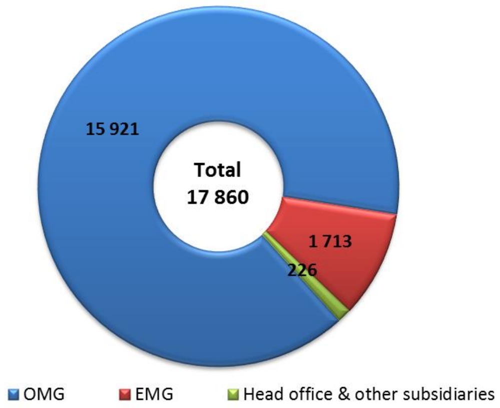
Oil production in the reporting period from the new wells at OMG amounted to 14 ktonnes compared to 48 ktonnes in 1Q 2016, as number of wells drilled in 1Q 2017 was lower than in 1Q 2016. OMG workovers of 181 wells provided an incremental production of 11 ktonnes, while 255 well workovers in 1Q 2016 provided incremental production of 38 ktonnes.

EMG drilling and well workovers start in 2Q 2017. In comparison, 1Q 2016 new wells were put into operation at the end of the reporting period and well workovers provided additional production of 2 ktonnes.

CAPITAL EXPENDITURE OVERVIEW

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

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



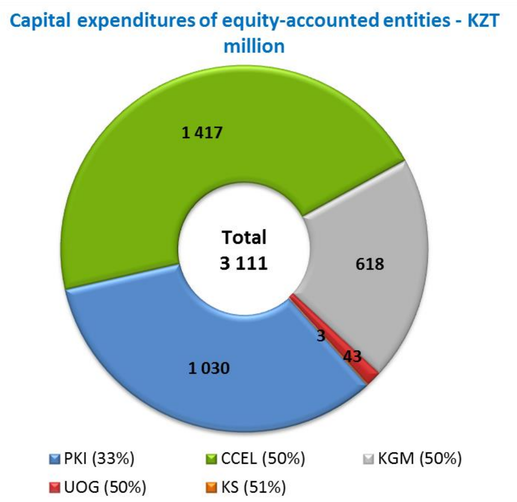
Capital expenditures of OMG, EMG, Head office and other KMG EP subsidiaries

In 1Q 2017, the Company's capital expenditures amounted to KZT17.9 billion or KZT10.4 billion less than in 1Q 2016. 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 1Q 2017 amounted to KZT15.9 billion, which is KZT4.5 billion less than in 1Q 2016, mainly due to decrease in drilling volumes, which was partially offset by project design documentation of production facilities prepared in advance.

EMG capital expenditures amounted to KZT1.71 billion in 1Q 2017, which is KZT5.7 billion less than in 1Q 2016, mainly due to lower volumes of drilling and construction works.

Head office and other subsidiaries' capital expenditures in 1Q 2017 amounted to KZT0.23 billion, which is KZT0.15 billion less than in 1Q 2016.



Capital expenditure of equity-accounted entities

PKI capital expenditures in 1Q 2017 amounted to KZT3.1 billion (KMG EP 33% share: KZT1.03 billion), which is KZT0.5 billion higher than in 1Q 2016, mainly due to increase in drilling volumes in the current period.

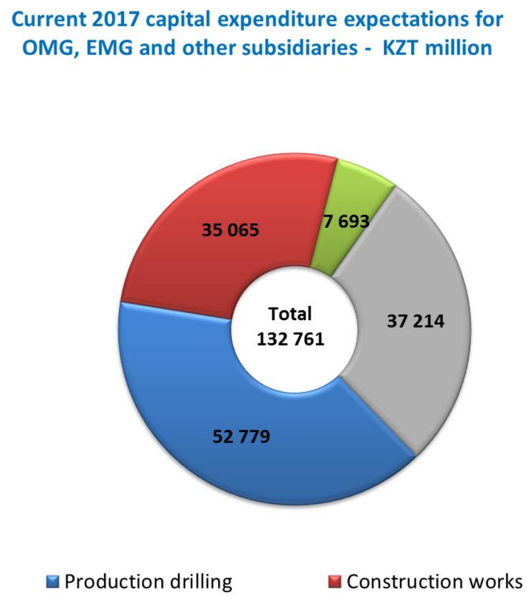
KGM capital expenditures for the period were KZT1.24 billion (KMG EP 50% share: KZT0.62 billion), which is KZT0.4 billion less than in 1Q 2016, mainly due to lower purchases of fixed assets.

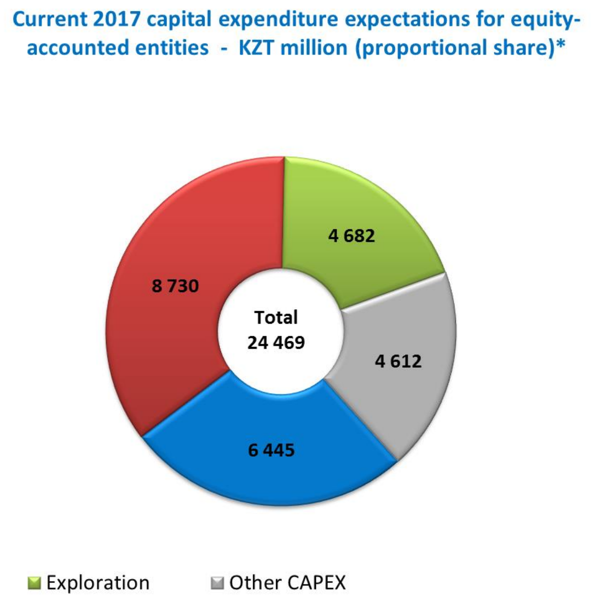
CCEL capital expenditures in 1Q 2017 were KZT2.8 billion (KMG EP 50% share: KZT1.4 billion), which is KZT0.8 billion higher than in 1Q 2016, primarily due to increase of drilling volumes partially offset by lower construction works in 1Q 2017.

UOG capital expenditures amounted to KZT86 million (KMG EP 50% share: KZT43 million), which is KZT35 million less than in 1Q 2016, mainly due to lower volumes of exploration drilling in 1Q 2017.

KS capital expenditures amounted to KZT6.6 million (KMG EP 51% share: KZT3.4 million), which is KZT3.6 million more than in 1Q 2016.

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

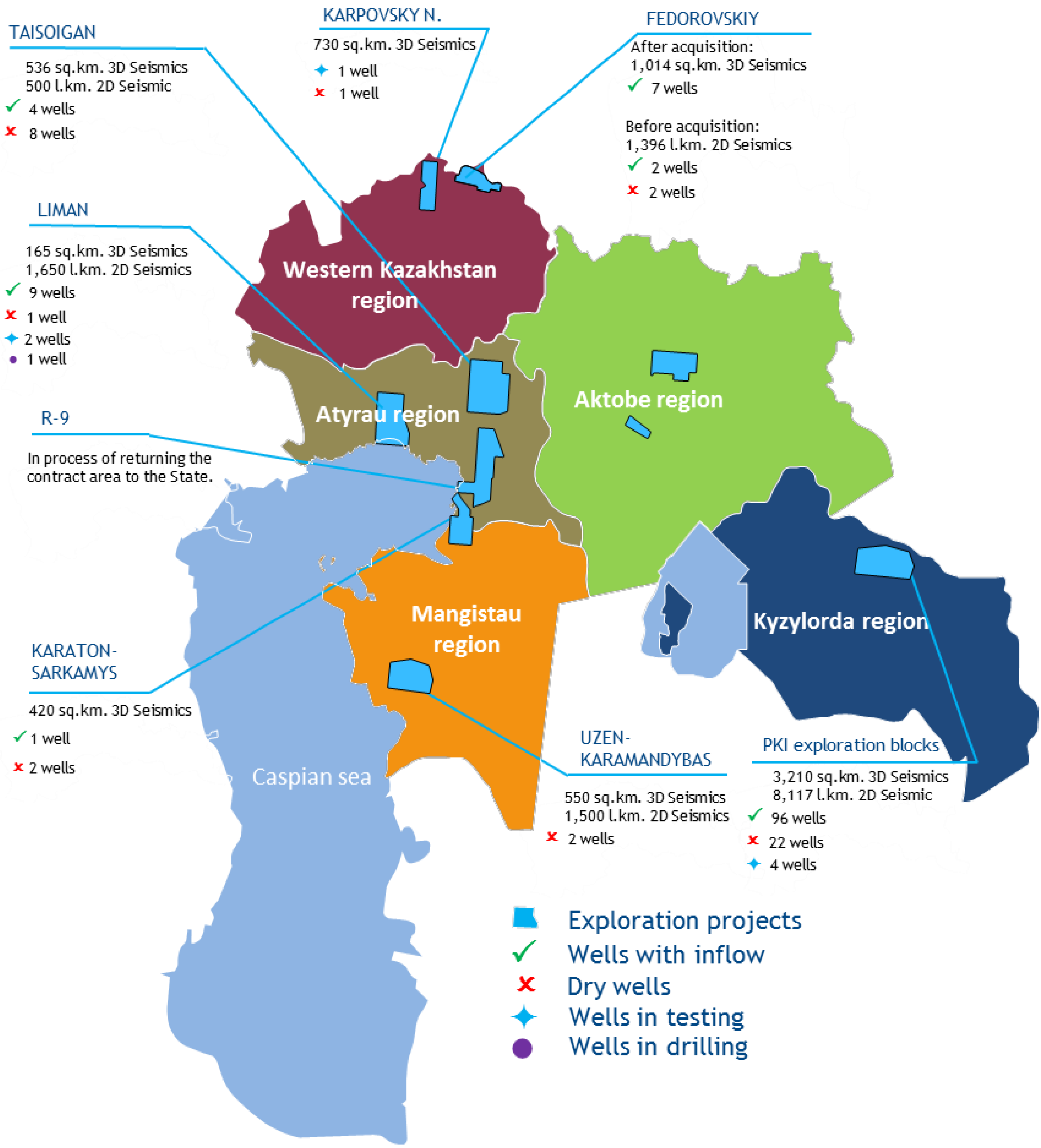




**Capital expenditure amounts for 2017 presented herein represent currently expected amounts based on the management's estimates as of date of issuance of this report. Amounts do not represent any formal commitments and are subject to changes in any direction.*

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 March 31, 2017.



The following table shows exploration activity of the Company and its equity accounted entities during the 1Q 2017:

Block (interest)	Date of acquisition	Prospect	Well	Drilling period	Depth	Status as of reporting date
Liman (100%)	19.01.2006	Novobogat SE	PR-4	08.04.2016-21.08.2016	2,262m.	PR-4 and PR-7 are in testing. PR-5 is preparing for testing.
			PR-5	01.04.2016-29.09.2016	2,500m.	
			PR-7	20.09.2016-27.01.2017	2,290m.	
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 completed. Further works are under consideration.
Taisoigan (100%)	29.01.2004	Uaz				U-22 and U-24 drilled in 2016 are with inflow. 2-D MOGT seismic field works on the Taisoigan block are completed. Completed processing of 2-D seismic field data on the Taisoigan block. Further exploration works are under consideration.
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				Re-processing and interpretation of 3D seismic data of the Birlestik cube is completed. Further geological works are under consideration. Received approval from the Ministry of Energy of the Republic of Kazakhstan on the extension of the exploration period of the contract until 2018. NSV-1 tested in 2016 is with inflow, further exploration drilling is under consideration.
Karpovskiy Severniy (KS-51%)	18.10.2011	Orlovskaya Central	SK-2	01.07.2013-18.08.2015	5,755m.	The well is in testing.
Fedorovskiy block (UOG-50%)	11.03.2011	Rozhkovskiy Pavlovskaya, Yanvartsevskaya				U-25 drilled and tested during 2016 is with inflow. Processing and interpretation of 3-D seismic data on the block is completed. Further works are under consideration.
Doszhan-Zhamansu (24.75% through PKI)	22.12.2009	South Doszhan, South-Eastern Doszhan, Zhamansu	Doszhan–48	08.07.2016-30.07.2016	1,527m.	Completed drilling of the Doszhan-48, Doszhan-64, South-Eastern Doszhan–50 and 51 exploration wells in 2016, the wells are with inflow. Further works are under consideration.
			Doszhan–64	09.11.2016-27.11.2016	850m.	
			South-Eastern Doszhan–50	26.11.2016-16.12.2016	1,550m.	
			South-Eastern Doszhan–51	22.10.2016-16.11.2016	1,500m.	
Karaganda (PKI-33%)	22.12.2009	Karabulak, Buharsai	Northern Karabulak-3	14.07.2016-31.07.2016	1,475m.	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. Further works are under consideration.
			Karabulak–19	24.05.2016-12.06.2016	1,350m.	
			Karabulak–31	26.09.2016-18.10.2016	1,377m.	
Western Tuzkol (PKI – 33%)	22.12.2009	Western Tuzkol	Ketekazgan-18	11.11.2016-24.02.2017	3,180m.	Exploration wells were tested: Ketekazgan-18 - with inflow of gas, Western Tuzkol-130 is dry. Appraisal wells are in testing: Western Tuzkol-234 is low-productive, Western Tuzkol-237 is highly watered.
			Western Tuzkol-130	01.02.2017-14.02.2017	1,300m.	
			Western Tuzkol-234	07.02.2017-25.02.2017	1,365m.	
			Western Tuzkol-237	13.03.2017-26.03.2017	1,257m.	
Karavanchi (PKI – 33%)	22.12.2009	Karavanchi	Karavanchi-31	09.02.2017-12.03.2017	1,136m.	Per geological studies Karavanchi-31 is low-productive, to be further tested. Karavanchi-32 tested in 4Q 2016 - with inflow.

RESULTS OF OPERATIONS

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

1Q 2017	4Q 2016	Change	*(KZT million, unless otherwise stated)*	1Q 2017	1Q 2016	Change
213,726	212,448	1%	**Revenue**	213,726	121,190	76%
(70,079)	(79,389)	-12%	Production expenses	(70,079)	(54,618)	28%
(25,432)	(20,508)	24%	SG&A	(25,432)	(30,316)	-16%
(65,595)	(29,628)	121%	Taxes other than on income	(65,595)	(34,195)	92%
(48)	(2,484)	-98%	Exploration expenses	(48)	-	100%
(8 356)	(8,252)	1%	DD&A	(8 356)	(6,621)	26%
44,216	**72,187**	**-39%**	**Operating profit / (loss)**	**44,216**	**(4 560)**	**-1070%**
8,406	(4,997)	-268%	Share of results of associate and JVs	8,406	(3,690)	-328%
397	(1,518)	-126%	Gain/(loss) on disposal of PP&E	397	(131)	-403%
6,051	4,872	24%	Finance income, net	6,051	7,074	-14%
(58,653)	(5,608)	946%	Foreign exchange gain / (loss), net	(58,653)	13,313	-541%
1,854	(9,083)	-120%	Income tax expense	1,854	(11,082)	-117%
2,271	**55,853**	**-96%**	**Net income**	**2,271**	**924**	**146%**

The increase in net income for 1Q 2017 compared to 1Q 2016 is mainly due to an increase in average Brent price from 33.94 US dollar per barrel in 1Q 2016 to 53.73 US dollar per barrel in 1Q 2017. Particularly, net income increased in 1Q 2017 compared to 1Q 2016 due to higher revenues from export sales, increase of share in income of associate and joint ventures, as well as an increase of revenue from oil products sales due to the Company's switch to an independent oil processing scheme starting from April, 2016. These effects were partially offset by foreign exchange loss due to the drop in US dollar-Tenge exchange rates, increase in taxes other than on income, DD&A expenses and oil refinery costs in 1Q 2017. The rates of subsoil user taxes such as MET, rent tax and ECD were higher in 1Q 2017 due to increased Brent prices. DD&A expenses increased in 1Q 2017 due to 2016 CAPEX additions.

Revenue

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

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
			Export sales of crude oil			
			UAS pipeline			
84,351	80,803	4%	Net sales (KZT million)	84,351	50,069	68%
719	719	0%	Volume (ktonnes)	719	639	13%
117,317	112,382	4%	Average price (KZT/tonne)	117,317	78,355	50%
50.31	46.39	8%	Average price (US$/bbl*)	50.31	30.52	65%
			CPC pipeline			
67,270	58,529	15%	Net sales(KZT million)	67,270	51,271	31%
565	483	17%	Volume (ktonnes)	565	581	-3%
119,062	121,178	-2%	Average price (KZT/tonne)	119,062	88,246	35%
51.06	50.02	2%	Average price (US$/bbl*)	51.06	34.37	49%
151,621	139,332	9%	Total sales of crude oil-exported (KZT million)	151,621	101,340	50%
1,284	1,202	7%	Total crude oil-exported (ktonnes)	1,284	1,220	5%
			Total sales of crude oil			
151,621	139,332	9%	Total net sales of crude oil (KZT million)**	151,621	117,010	30%
1,284	1,202	7%	Total volume (ktonnes)	1,284	2,053	-37%
118,083	115,917	2%	Average price (KZT/tonne)	118,083	56,995	107%
50.64	47.85	6%	Average price (US$/bbl*)	50.64	22.20	128%
			Sales of oil products			
57,604	68,371	-16%	Net sales (KZT million)	57,604	n/a	n/a
637	798	-20%	Volume (ktonnes)	637	n/a	n/a
90,394	85,678	6%	Average price (KZT/tonne)	90,394	n/a	n/a
280.27	255.70	10%	Average price (US$/tonne)	280.27	n/a	n/a
4,501	4,745	-5%	Other sales** (KZT million)	4,501	4,180	8%
213,726	**212,448**	**1%**	**Total revenue (KZT million)**	**213,726**	**121,190**	**76%**

** Converted at 7.23 barrels per tonne of crude oil.*
***Total net sales in 1Q 2016 include domestic sales of crude oil to KMG RM (833 thous. tonnes amounted 15 670 mln. tenge).*

The Company exports crude oil using two principal routes: via the pipeline owned by the Caspian Pipeline Consortium ("CPC") and via the Uzen-Atyrau-Samara pipeline ("UAS") owned by KazTransOil JSC (in Kazakhstan).

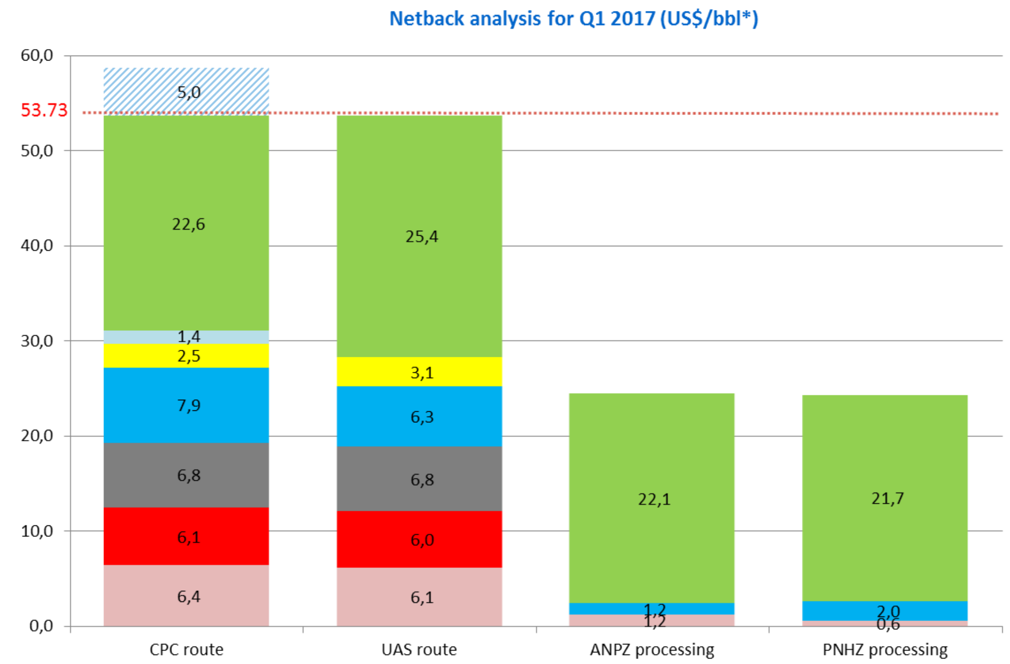
The relative profitability of the two export routes depends on the quality of crude oil in the pipeline, the prevailing international market prices and the relevant pipeline tariffs. It should be noted that the volume of crude oil that can be shipped through the pipelines has to be agreed with the Ministry 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.

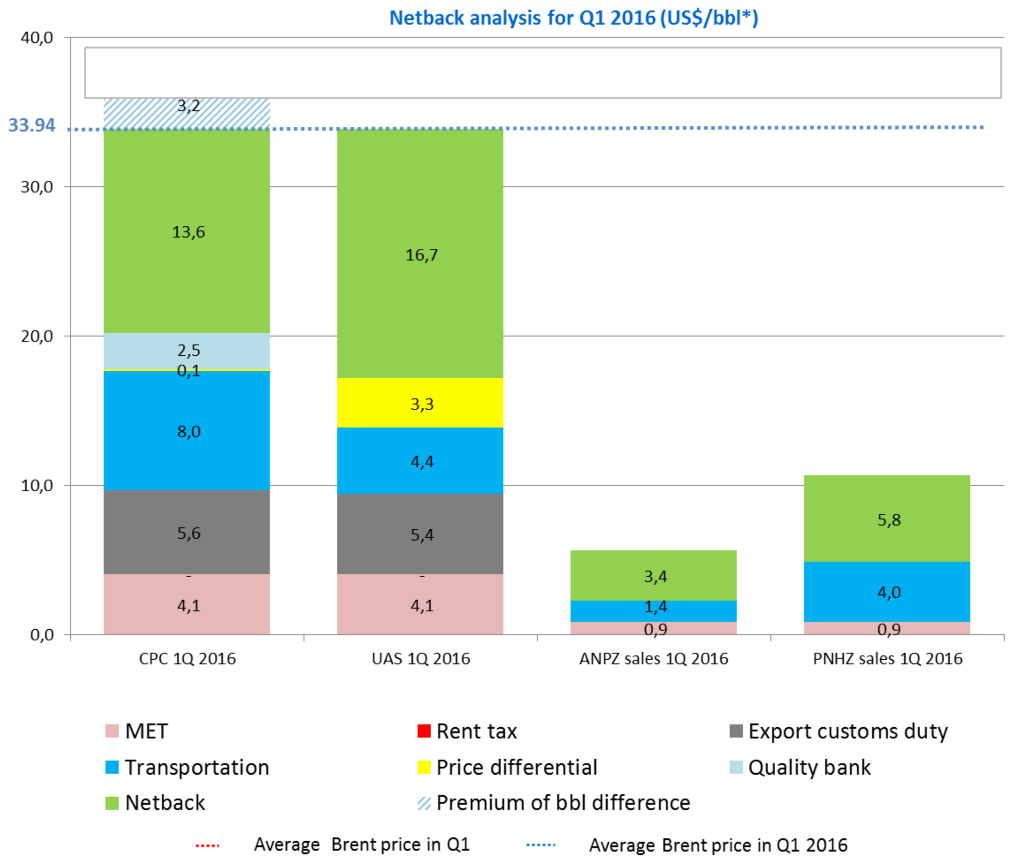
Prior to April 2016, the Company sold a portion of produced crude oil to KazMunaiGas Refining and Marketing JSC ("KMG RM"), a related party, in order to meet its domestic supply obligation. KMG RM further processed this crude oil and sold refined products. Starting from April 2016 the Company ceased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

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

Atyrau Refinery 4Q 2016	Pavlodar Refinery 4Q 2016	*(KZT million, unless otherwise stated)*	Atyrau Refinery 1Q 2017	Pavlodar Refinery 1Q 2017
46,301	22,726	Revenue	45,171	12,856
(18,321)	(6,819)	Costs, including:	(15,403)	(3,123)
(11,997)	(4,742)	Processing	(10,673)	(2,286)
(320)	(301)	Additives	(324)	(197)
(1,095)	(1,019)	Excise tax	(850)	(520)
(3,327)	–	Export customs duty	(3,188)	–
(364)	(173)	Selling and transportation expenses	(368)	(120)
(1,218)	(584)	KMG Refinery and Marketing commission fee	–	–
27,980	15,907	**Net revenue**	**29,768**	**9,733**
544.2	260.2	Volume of oil products sold, thousands of tonnes	487.35	153.16
35.0	31.3	Processing losses, thousands of tonnes	33.11	18.81
579.2	291.5	Total volume of crude oil processed and sold, thousands of tonnes	**520.46**	**171.97**
48,308	**54,569**	**Net revenue Tenge per tonne of crude oil**	**57,196**	**56,596**

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 ships OMG and EMG crude oil for processing to ANPZ and PNHZ. Netbacks of ANPZ and PNHZ for 1Q 2017are 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 Q1 2017 increased compared to 1Q 2016, primarily due to higher Brent prices in 1Q 2017 partially offset by increase in Rent tax, MET and ECD.

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.

Production expenses

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

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(KZT million, unless otherwise stated)				*(KZT million, unless otherwise stated)*		
41,374	44,328	-7%	Employee benefits	41,374	37,172	11%
5,632	5,424	4%	Energy	5,632	5,478	3%
5,266	6,862	-23%	Materials and supplies	5,266	4,883	8%
(3,577)	1,722	-308%	Change in crude oil balance	(3,577)	(303)	1081%
4,364	7,472	-42%	Repairs and maintenance	4,364	4,459	-2%
1,453	1,535	-5%	Transportation services	1,453	1,178	23%
12,960	16,725	-23%	Refinery processing costs	12,960	0	100%
(423)	(7,253)	-94%	Movement in asset retirement obligation and in estimate of environmental remediation obligation	(423)	0	-100%
3,030	2,574	-18%	Other	3,030	1,751	73%
70,079	79,389	-12%	**Total production expenses**	70,079	54,618	28%

Production expenses in 1Q 2017 increased by KZT15.46 billion or 28% compared to 1Q 2016, primarily due to an increase in oil refinery costs, employee benefits, materials and supplies and other expenses. This was partially offset by a change in crude oil balance.

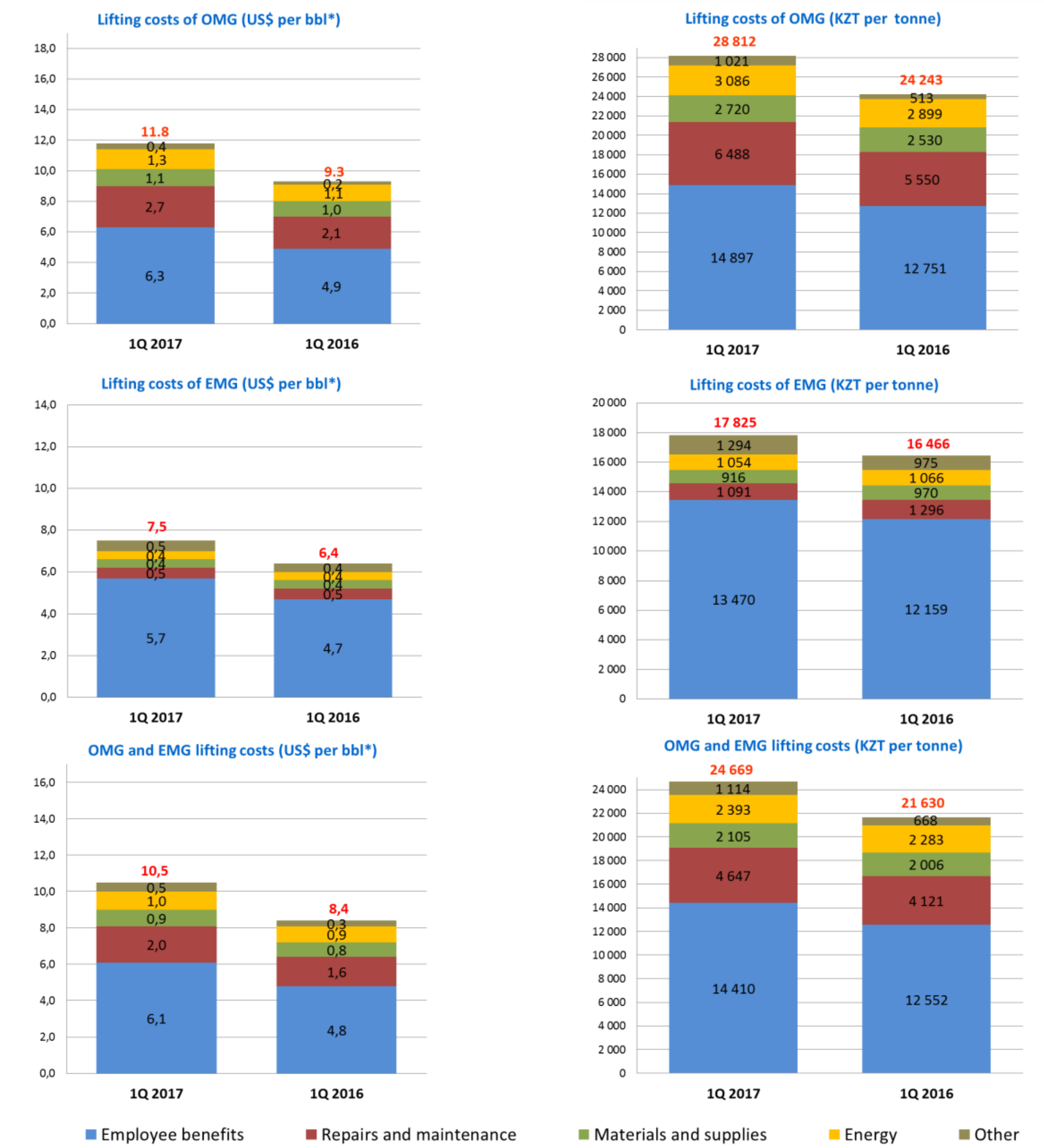
Oil refinery costs incurred in 1Q 2017 compared to 1Q 2016, due to the Company's switch to an independent oil processing scheme starting from April 2016. As a result, the Company sold 637 ktonnes of oil products in 1Q 2017.

Employee benefit expenses in 1Q 2017 increased by 11% compared to 1Q 2016 or KZT4.2 billion, mainly due to 7% basic salary indexation for production personnel from January 1, 2017 according to the terms of the collective agreement and reversal of annual bonus provision in 1Q 2016.

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.

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:

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(KZT million, unless otherwise stated)				(KZT million, unless otherwise stated)		
23,713	23,072	3%	Transportation expenses	23,713	23,875	-1%
4,139	6,352	-35%	Employee benefits	4,139	3,881	7%
(3,935)	(13,516)	-71%	Fines and penalties	(3,935)	617	-738%
459	319	44%	Consulting and audit services	459	339	35%
228	311	-27%	Repairs and maintenance	228	170	34%
64	565	-89%	Sponsorship	64	71	-10%
–	1,802	-100%	Agency fees	–	–	0%
764	1,603	-52%	Other	764	1,363	-44%
25,432	**20,508**	**42%**	**Total SG&A expenses**	**25,432**	**30,316**	**-16%**

Selling, general and administrative expenses in 1Q 2017 amounted to KZT25.4 billion, which is 16% less than in 1Q 2016. The decrease is mainly due to a reversal of previously accrued expenses for fines and penalties in 1Q 2017 and accrual of bad debt allowance in 1Q 2016 in other expenses which is partially offset by an increase of employee benefits and consulting and audit services expenses in 1Q 2017.

Employee benefit expenses increased in 1Q 2017 due to 7% basic salary indexation for administrative personnel from January 1, 2017 according to the terms of the collective agreement and reversal of annual bonus provision in 1Q 2016.

In 1Q 2017 the Company appealed the remaining amount of KZT13.5 billion of 2009-2012 Comprehensive tax audit claims to the appropriate courts. As per the decision of Administrative Court of Astana the principal amount of claim was further reduced to KZT3.3 billion. Fines and penalties related to reduced income taxes were accordingly reversed in 1Q 2017.

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:

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(KZT million, unless otherwise stated)				(KZT million, unless otherwise stated)		
23,468	20,881	12%	Export customs duty	23,468	17,074	37%
21,426	(473)	-4630%	MET	21,426	14,918	44%
17,724	4,753	273%	Rent tax	17,724	-	100%
1,465	1,671	-12%	Property tax	1,465	1,681	-13%
1,512	2,796	-46%	Other taxes	1,512	522	190%
65,595	**29,628**	**121%**	**Total taxes other than on income**	**65,595**	**34,195**	**92%**

Taxes other than on income in 1Q 2017 increased by KZT31.4 billion or 92% compared to 1Q 2016, mainly due to increase in rent tax, MET, ECD and other taxes.

Mainly, increase of subsoil user taxes and payments to the budget such as MET, rent tax and ECD is due to higher export sales and higher average Brent price in 1Q 2017 as 53.73 USD per barrel in comparison with 33.94 USD per barrel 1Q 2016 and, the effect of which was offset by lower average US dollar-Tenge exchange rate in 1Q 2017.

Higher other taxes in 1Q 2017 is due to excise tax on oil products sold since the Company's switch to an independent processing scheme.

Income Tax Expense

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(KZT million, unless otherwise stated)				*(KZT million, unless otherwise stated)*		
416	64,936	-99%	Profit / (loss) before tax	416	12,006	-97%
(7,990)	69,933	-111%	Profit / (loss) before tax (with adjustments*)	(7,990)	15,696	-151%
1,854	9,083	-80%	Income tax	1,854	11,082	-83%
1,854	9,083	-80%	Income tax (with adjustments*)	1,854	8,450	-78%
446%	14%	3086%	Effective tax rate	446%	92%	385%
-23%	13%	-277%	Effective tax rate (with adjustments*)	-23%	54%	-143%

** Profit before tax and income tax expense without share in results of JV's and associated company and impairment charges.*

The drop in profit before tax in 1Q 2017 is due to lower US dollar-Tenge exchange rates in 1Q 2017 resulted in significant foreign exchange losses, mainly at HO level. 1Q 2017 income tax benefit is due to reversal of income tax provisions resulted from the further reduced claims of 2009-2012 Comprehensive tax audit.

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:

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(KZT million, unless otherwise stated)				*(KZT million, unless otherwise stated)*		
7,315	334	2090%	Share in income / (loss) from KGM	7,315	478	1430%
1,508	(4,768)	-132%	Share in loss from PKI	1,508	(3,878)	-139%
(417)	(563)	-26%	Share in loss from UOG	(417)	(290)	44%
8,406	**(4,997)**	**-268%**	**Share in income / (loss) in associate and JV's**	**8,406**	**(3,690)**	**328%**

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 1Q 2017 was 692 ktonnes (50% share is 346 ktonnes), which is 38 ktonnes or 5% lower than in 1Q 2016.

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

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(US$ thousand, unless otherwise stated)				*(US$ thousand, unless otherwise stated)*		
140,832	128,059	10%	Revenue	140,832	90,619	55%
(66,086)	(95,602)	-31%	Operating expenses	(66,086)	(75,977)	-13%
769	(386)	-299%	Finance income / (cost), net	769	450	71%
(4,617)	(1,130)	309%	Foreign exchange gain / (loss), net	(4,617)	615	-851%
(21,488)	(22,560)	-5%	Income tax expense	(21,488)	(6,711)	220%
49,410	8,381	490%	Net income / (loss)	49,410	8,996	449%
692	736	-6%	Crude oil production, ktonnes	692	730	-5%

The increase in 1Q 2017 revenue mainly resulted from higher Brent prices and increase of domestic sales prices in comparison with 1Q 2016.

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

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(ktonnes)				*(ktonnes)*		
133	156	-15%	Export via KCP	133	289	-54%
557	578	-4%	Domestic market	557	439	27%
690	**734**	**-6%**	**Total crude oil sales, ktonnes**	**690**	**728**	**-5%**

Operating expenses decreased due to lower transportation, MET and ECD expenses resulted from lower export sales in 1Q 2017. This effect was partially offset by incurred Rent tax expenses in Q1 2017 due to higher average Brent price. Moreover, increase of employee benefits and repairs and maintenance costs due to lower average US dollar-Tenge exchange conversion rate in 1Q 2017.

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

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(US$ per bbl sold)*				*(US$ per bbl sold*)*		
4.2	4.2	0%	DD&A	4.2	4.8	-13%
2.3	2.1	10%	Transportation expenses	2.3	2.4	-4%
1.2	1.1	9%	Export customs duty	1.2	2.4	-50%
1.5	1.5	0%	Mineral extraction tax	1.5	1.6	-6%
0.9	1.1	-18%	Employee benefits	0.9	0.7	29%
0.7	1.2	-42%	Repairs and maintenance	0.7	0.5	40%
0.3	0.9	-67%	Materials and supplies	0.3	0.5	-40%
1.2	0.7	71%	Rent tax	1.2	-	100%
0.6	4.2	-86%	Other	0.6	0.6	0%
12.9	**17.0**	**-24%**	**Total operating expenses**	**12.9**	**13.5**	**-4%**

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

The share in KGM income, reflected in the interim condensed consolidated financial statements of the Company, represents a proportionate share of the results of KGM for 1Q 2017, adjusted for the impact of amortization of the fair value of the licenses, partially offset by related deferred tax benefit of KZT0.65 billion (KZT1 billion in 1Q 2016).

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 1Q 2017, PKI produced 821 ktonnes of oil (33% share: 271 ktonnes) which is 16% less than in 1Q 2016. The decline in production was due to the reserve depletion of some of PKI's mature fields. PKI's key financial and operational indicators (100%) are shown below:

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(US$ thousand, unless otherwise stated)				*(US$ thousand, unless otherwise stated)*		
198,751	197,487	1%	Revenue	198,751	140,409	42%
(139 ,545)	(222,496)	-37%	Operating expenses	(139,545)	(152,577)	-9%
(2,448)	5,027	-149%	Finance cost, net	(2,448)	(9,454)	-74%
(27,513)	1,761	-1662%	Income tax (expense) / benefit	(27,513)	13,007	-312%
29,245	(18,221)	-261%	Net income / (loss)	29,245	(8,615)	-439%
821	905	-9%	Crude oil production, ktonnes	821	981	-16%

An increase in 1Q 2017 revenues resulted from higher 1Q 2017 Brent prices partially offset with the lower export sales.

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

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(ktonnes)				*(ktonnes)*		
587	554	6%	Domestic sales	587	566	4%
126	198	-36%	Export via KCP (PKKR 100%)	126	192	-34%
66	77	-14%	Export via KCP (KGM 50%)	66	144	-54%
26	14	85%	Export via KCP (TP 50%)	26	39	-34%
21	28	-25%	Export via KCP (Kolzhan 100% & PKVI 75%)	21	25	-16%
-	20	-100%	Export Uzbekistan (TP 50%)	-	-	-
826	**891**	**-7%**	**Total crude oil sales, ktonnes**	**826**	**966**	**-14%**

Operating expenses decreased mainly due to lower transportation, DD&A, ECD and MET expenses partially offset by increase in rent tax, employee benefits accrued in 1Q 2017. Rent tax increased in 1Q 2017 due to higher Q1 2017 average Brent price. ECD, MET and transportation expenses decreased due to lower export sales.

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

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(US$ per bbl sold)*				*(US$ per bbl sold*)*		
7.2	4.5	60%	DD&A	7.2	7.5	-4%
2.6	2.9	-10%	Transportation expenses	2.6	3.1	-16%
1.8	2.1	-14%	Export customs duty	1.8	2.5	-28%
1.6	1.4	14%	Repairs and maintenance	1.6	1.3	23%
1.5	1.5	0%	Mineral extraction tax	1.5	1.3	15%
1.6	1.6	0%	Employee benefits	1.6	1.0	60%
1.0	1.1	-9%	Materials and supplies	1.0	0.9	11%
1.7	1.3	31%	Rent tax	1.7	-	100%
-	0.1	-100%	Fines and penalties	-	(0.3)	-100%
2.6	15.7	-83%	Other	2.6	3.1	-16%
21.6	**32.2**	**-33%**	**Total operating expenses**	**21.6**	**20.4**	**6%**

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

The share in PKI results reflected in the Company's interim condensed consolidated financial statements represents a proportionate share of the results of PKI in 1Q 2017 adjusted for the impact of amortization of the fair value of the licenses for the amount of KZT1.6 billion (KZT2.9 billion in 1Q 2016).

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

CCEL

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

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

As of March 31, 2017 the Company had KZT33.36 billion (US$106.34 million) as a receivable from CCEL. The Company has accrued KZT1.2 billion (US$3.65 million) of interest income in 1Q 2017, relating to the US$26.87 million annual priority return from CCEL. Payments are usually made twice a year in 2Q and 4Q.

In 1Q 2017, CCEL produced around 523 ktonnes (50% share: 261 ktonnes) of crude oil, which decreased by 2% compared to 1Q 2016. CCEL's key financial and operational indicators (100%) are as follows:

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(US$ thousand, unless otherwise stated)				*(US$ thousand, unless otherwise stated)*		
171,203	155,263	10%	Revenue	171,203	121,487	41%
(125,218)	(139,177)	-10%	Operating expenses	(125,218)	(118,765)	6%
(4,930)	4,217	-217%	Finance cost, net	(4,930)	(5,096)	-3%
(9,653)	(11,109)	-13%	Income tax expense	(9,653)	-	100%
31,402	9,194	242%	Net income / (loss)	31,402	(2,374)	-1423%
523	539	-3%	Crude oil production, ktonnes	523	531	-2%

The increase in revenue in 1Q 2017 is due to higher export sales resulted from higher Brent prices partially offset by lower revenues from domestic sales.

CCEL crude oil sales split by routes is as follows:

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(ktonnes)				*(ktonnes)*		
264	280	-6%	Export via Novorossiysk	264	312	-15%
137	175	-22%	Export via Ust-luga	137	253	-46%
60	-	100%	Export via Batumi	60	-	100%
40	38	5%	Domestic market	40	-	100%
5	33	-84%	Domestic market (Bitumen)	5	-	100%
506	**526**	**4%**	**Total crude oil sales, ktonnes**	**506**	**565**	**-10%**

Total operating expenses in 1Q 2017 increased by 5% compared to 1Q 2016 mainly due to increase in employee benefits, repairs and maintenance, materials and supplies, rent tax and ECD expenses.

Increase in ECD and rent tax expenses is a result of higher Brent prices in 1Q 2017. Increase of employee benefits costs is due to annual 7% salary indexation. Moreover, higher operating costs in 1Q 2017 are due to lower US dollar-Tenge conversion rates in 1Q 2017.

Operating expenses on per barrel sold basis are as follows:

1Q 2017	4Q 2016	Change		1Q 2017	1Q 2016	Change
(US$ per bbl sold)*				*(US$ per bbl sold*)*		
8.5	11.2	-24%	Employee benefits	8.5	6.5	31%
6.6	7.0	-6%	Transportation expenses	6.6	6.1	8%
6.7	6.0	12%	Export customs duty	6.7	5.5	22%
3.5	3.5	0%	Energy	3.5	4.1	-15%
2.7	3.0	-10%	DD&A	2.7	2.7	0%
2.5	1.1	127%	Repairs and maintenance	2.5	1.7	47%
0.9	0.9	0%	Materials and supplies	0.9	0.5	80%
0.3	0.3	0%	Mineral extraction tax	0.3	0.2	50%
5.5	3.3	67%	Rent tax	5.5	-	100%
(0.2)	3.3	-106%	Other	(0.2)	4.2	-105%
37.0	**39.6**	**-7%**	**Total operating expenses**	**37.0**	**31.5**	**18%**

** 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	3,129	7,353	26,062
Materials	1,681	6,471	3,049
Repair and maintenance	735	5,471	8,510
Energy	2,705	4,679	11,971
Other	650	4,229	10,148
Total lifting expenses (US$ thousand)	**8,900**	**28,203**	**59,740**
Production (ktonnes)	**692**	**821**	**523**
Lifting cost US$ per bbl*	**1.7**	**4.4**	**17.1**

**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)	53.7	53.7	53.7
Price differential and premium of bbl difference, net	(7.4)	(7.4)	(4.3)
Average realized price	**46.3**	**46.3**	**49.4**
Rent tax	(5.8)	(5.9)	(5.6)
Export customs duty	(6.3)	(6.4)	(6.8)
Transportation expenses	(4.1)	(5.0)	(6.6)
MET	(5.5)	(3.2)	(0.3)
Netback price	**24.6**	**25.8**	**30.1**

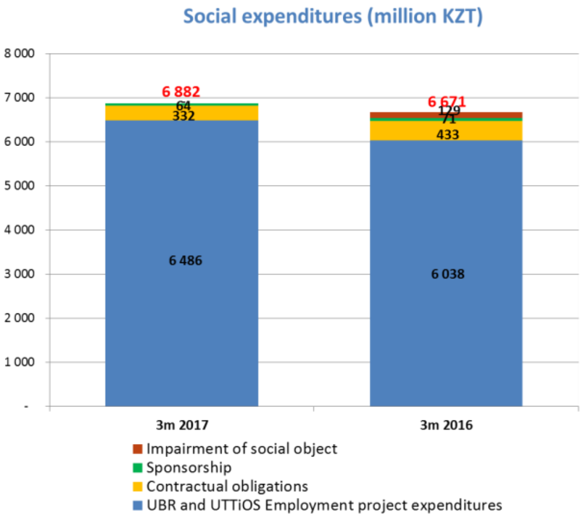
**Following average tonne / bbl conversion factors were used KGM 7.7, PKI 7.75, CCEL 6.68.*

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	**21.0**	**24.4**	**20.5**
Transportation expenses	(1.6)	(1.4)	(1.8)
MET	(0.4)	(0.8)	(0.2)
Netback price	**19.0**	**22.2**	**18.5**

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

CORPORATE SOCIAL RESPONSIBILITY



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

In 2012, two service units – UBR and UTTiOS - were created to employ approximately 2,000 people in the Mangistau region. In 1Q 2017, the Company incurred KZT6.4 billion of operating expenses at UBR and UTTiOS, including KZT5.3 billion of employee benefit expenses and KZT1.1 billion for materials, supplies and other expenses.

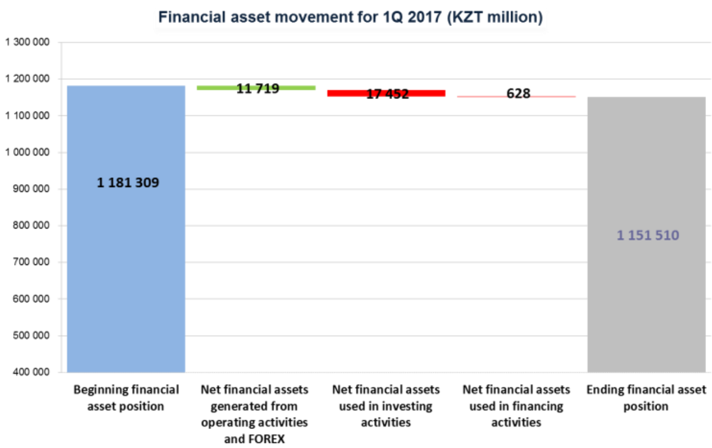
The Company has invested approximately KZT0.1 billion for the purchase of equipment to support the operations at UBR and UTTiOS in 1Q 2017. Expenses for the financing of UTTiOS were partially offset by income from third parties in 1Q 2016, which totalled KZT1.4 billion (KZT1.4 billion in 1Q 2016).

In 1Q 2017 the Company spent KZT64 million 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 1Q 2017, the Company's social expenses related to the execution of contractual obligations amounted to KZT0.33 billion, including the social programs and ecology fund that amounted to KZT0.26 billion as well as the training of local specialists which amounted to KZT0.07 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 1Q 2017, net financial assets flow from operating activities and FOREX amounted to minus KZT11.7 billion or KZT8.9 billion less than in 1Q 2016. The decrease is primarily due to lower income tax prepayments made in 1Q 2017.

Net financial assets outflow from investing activities in 1Q 2017 was KZT17.5 billion versus an outflow of KZT21.8 billion in 1Q 2016. The decrease in net outflows primarily resulted from lower capital expenditures (KZT8.1 billion less) the effect of which was offset by higher dividends received from joint ventures and associates in 1Q 2016. Net financial asset outflow from financing activities in 1Q 2017 was KZT0.6 billion (outflow of KZT0.3 billion in 1Q 2016).

Net cash position

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

	As at March 31, 2017	As at December 31, 2016	Change
	(KZT million, unless otherwise stated)		%
Current portion	5,209	5,483	-5%
Non-current portion	3,156	3,844	-18%
Total borrowings	**8,365**	**9,327**	**-10%**
Cash and cash equivalents	170,346	162,091	5%
Other current financial assets	947,566	983,257	-4%
Non-current financial assets	33,598	35,961	-7%
Total financial assets	**1,151,510**	**1,181,309**	**-3%**
Foreign currency denominated cash and financial assets, %	**98%**	**97%**	
Net cash	**1,143,145**	**1,171,982**	**-2%**

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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.