OPERATING AND FINANCIAL REVIEW

For the nine months ended September 30, 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 reviewed interim condensed consolidated financial statements of the Company and should be read in conjunction with those statements and the accompanying notes. All financial data and discussions thereof are based on the reviewed interim condensed consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS"). According to the Company's accounting policy, interest in joint ventures and associates, are accounted for using equity method, and thus are not consolidated line by line ("equity-accounted entities").

OVERVIEW

KazMunaiGas Exploration Production ("the Company" or "KMG EP") is engaged in the exploration, development, production, processing, and export of hydrocarbons and refined products, as well as the acquisition of oil and gas assets. The Company has publicly listed Global Depositary Receipts ("GDR") and shares traded on the London Stock Exchange ("LSE") and Kazakhstan Stock Exchange ("KASE"). Its majority shareholder is JSC National Company KazMunaiGas ("NC KMG"), the wholly state-owned joint stock company, which represents the State's interests in the Kazakh oil and gas industry. The Company's core oil and gas assets are located in the Pre-Caspian, Mangistau and Southern Turgai basins. The following table represents the Company's principal oil and gas interests as of September 30, 2017:

Name	Ownership interest	Principal operations	Financial statement reflection
Ozenmunaigas JSC ("OMG")	100%	Crude oil and natural gas upstream	Consolidated entity
Embamunaigas JSC ("EMG")	100%	Crude oil upstream	Consolidated entity
Kazakh Gas Processing Plant ("KazGPZ")	100%	Gas refining	Consolidated entity
KS EP Investments BV ("KS")*	100%	Oil and gas exploration	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

**On June 15, 2017 the Company acquired a 49% share in KS EP Investments BV ("KS") from MOL Hungarian Oil and Gas Plc. ("MOL") for 1 US dollar and following the acquisition now owns a 100% interest in KS EP Investments.*

KEY PERFORMANCE INDICATORS

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
2,999	2,981	3,056	-2%	Total production (ktonnes)*	8,884	9,134	-3%
2,107	2,076	2,117	-0.5%	OMG and EMG production (ktonnes)	6,209	6,303	-1%
80,493	85,609	58,474	38%	Net Income (KZT million)	168,373	75,723	122%
1.17	1.26	0.86	36%	Basic and diluted EPS (KZT thousand)	2.46	1.11	122%
50,147	62,350	67,581	-26%	EBITDA (KZT million)**	180,795	123,396	47%
13%	18%	26%	-50%	Operating margin (%)***	17%	17%	0%
51,568	74,237	57,874	-11%	Operating cash flow before working capital adjustments (KZT million)	160,439	75,008	114%
1,360,332	1,285,930	1,145,167	19%	Net cash position at the end of the period (KZT million)	1,360,332	1,145,167	19%

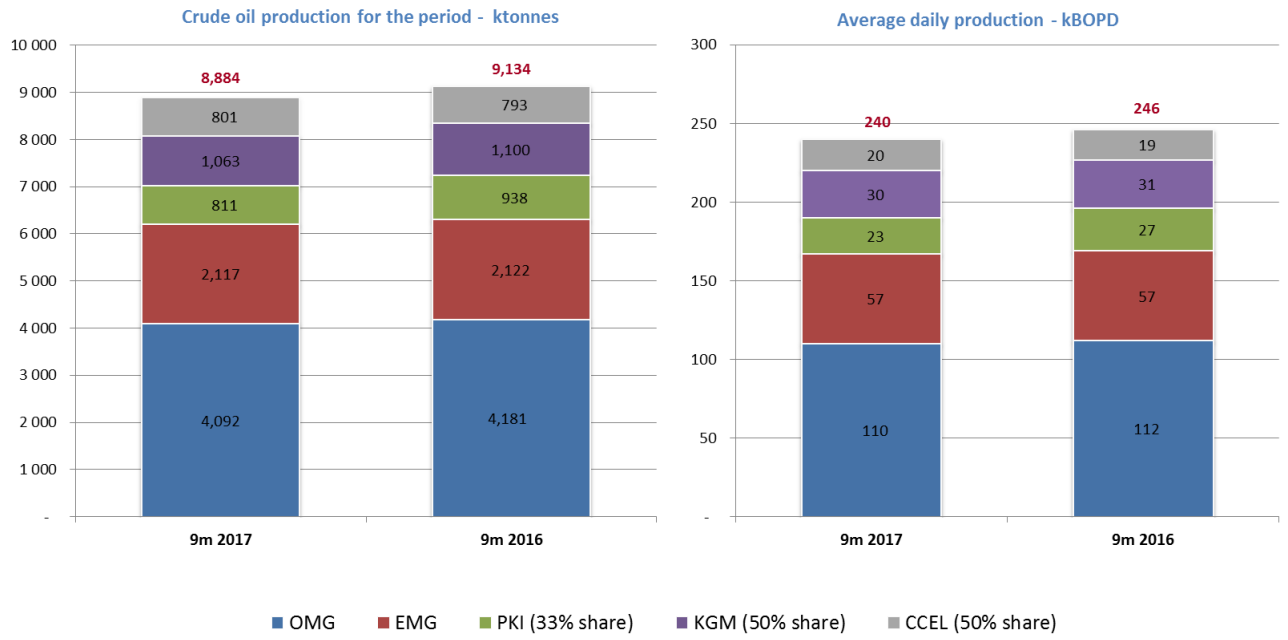
**Including proportionate share of equity-accounted entities.*
***EBITDA is calculated by adding back the share of income in equity-accounted entities, finance income and non-cash expenses such as depreciation and amortization to the Company's operating profit and net loss on acquisition of subsidiary.*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

BUSINESS ENVIRONMENT

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

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
52.08	49.64	45.86	14%	Average Brent (DTD) (US$ / bbl)	51.84	41.88	24%
0.5%	1.4%	1.0%	-50%	Kazakhstan inflation (%)	4.2%	5.6%	-25%
332.4	315.0	341.3	-3%	Average Tenge - US$ exchange rate	323.3	344.0	-6%
341.2	322.3	335.5	2%	Tenge - US$ exchange rate at the reporting date	341.2	335.5	2%

PRODUCTION ACTIVITY



The Company's total crude oil production in 9m 2017, including the share of production from its joint ventures and associated company, amounted to 8,884 ktonnes or 240 kbopd. OMG and EMG produced 167 kbopd with a further 23 kbopd from PKI, 30 kbopd from KGM and 20 kbopd from CCEL.

Compared to 9m 2016, OMG production decreased by 2% or 89 ktonnes, mainly due to lower production from existing wells. This resulted from increase in water cut due to failure in work of production strings and increase of downtime of wells due to failure in work of underground equipment. EMG production in 9m 2017 was 0.2% lower, or 5 ktonnes due to less number of wells put into operation during the year.

The share in PKI's production declined by 14% or 127 ktonnes in 9m 2017, compared to 9m 2016, due to the natural depletion of some of PKI's mature fields. The share in KGM's production decreased by 3% or 37 ktonnes in 9m 2017, compared with the same period in 2016 due to the fact that fewer wells were drilled. The share in CCEL production increased by 8 ktonnes in 9m 2017, compared with 9m 2016. The total share in production volume of PKI, KGM and CCEL in 9m 2017 was 2,675 ktonnes, which is 6% or 156 ktonnes less than in 9m 2016.

Wells as of reporting date*	Drilled in 9m 2017*	Drilled in 9m 2016*		Well workovers 9m 2017	Well workovers 9m 2016	Well servicing 9m 2017	Well servicing 9m 2016
Number of wells							
5,265	120	122	OMG	674	707	10,560	10,037
2,683	29	42	EMG	174	166	2,362	2,550
1,749	49	13	PKI (100%)**	104	113	457	455
264	19	23	KGM (100%)**	25	37	64	67
3,746	89	49	CCEL (100%)**	72	52	3,022	2,783

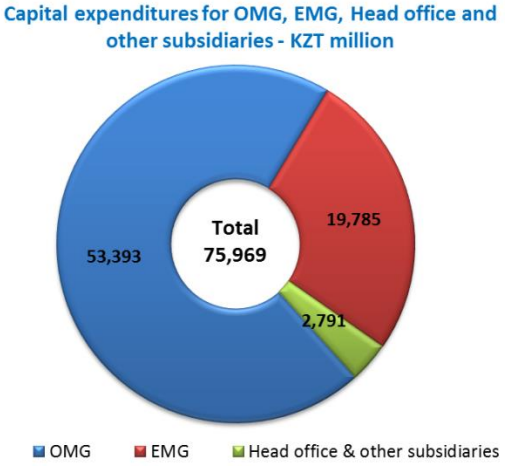
**Development wells, including injection wells.*
*** Includes 100% of the number of well operations related to JVs and associated company.*

Oil production from new wells at OMG in the reporting period amounted to 180 ktonnes compared to 296 ktonnes in 9m 2016, due to lower number of days in operation. 9m 2017 OMG workovers provided incremental production of 113 ktonnes.

Oil production for 9m 2017 from the new wells at EMG amounted to 20 ktonnes compared to 46 ktonnes in 9m 2016. EMG performed 174 well workovers in 9m 2017, which provided incremental production of 44 ktonnes, while 166 well workovers provided 64 ktonnes in 9m 2016, due to wells being offline longer in 2017 than in 2016. In 9m 2017 the signing of contracts for well workovers was delayed due to tender procedure issues.

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 9m 2017, the Company's capital expenditures amounted to KZT76 billion or KZT4.2 billion more than in 9m 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.

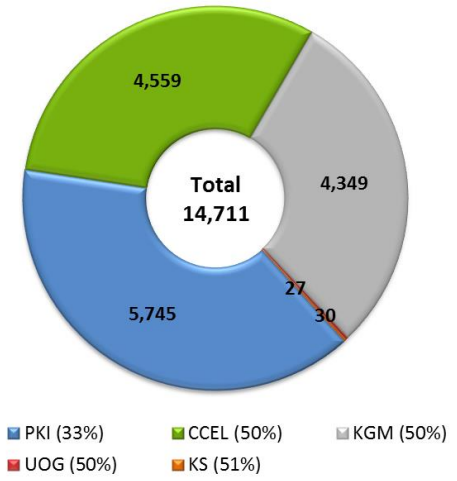
OMG capital expenditures for 9m 2017 amounted to KZT53.4 billion which is higher than in 9m 2016 by KZT8.6 billion. The increase is due to higher volumes of hydraulic fracturing performed on the new wells and purchases of fixed assets.

EMG capital expenditures amounted to KZT19.8 billion in 9m 2017, which is KZT5.5 billion lower than in 9m 2016. In 9m 2017 lower volumes of production drilling and construction works were performed due to delayed schedules of works as a result of tender procedure issues.

Head office and other subsidiaries' capital expenditures in 9m 2017 amounted to KZT2.8 billion, which is KZT1 billion higher than in 9m 2016, primarily due to purchases of intangibles and KS EP exploration drilling.

Since 15 June, 2017 KS EP is 100% a KMG EP consolidated entity. Its capital expenditures amounted to KZT0.4 billion for the period June, 15 – September, 30 2017.

Capital expenditures of equity-accounted entities - KZT million



Capital expenditure of equity-accounted entities

PKI capital expenditures in 9m 2017 amounted to KZT17.4 billion (KMG EP 33% share: KZT5.7 billion), which is KZT6 billion higher than in 9m 2016, mainly due to higher drilling volumes and completion works of wells in the current period.

KGM capital expenditures for the period were KZT8.7 billion (KMG EP 50% share: KZT4.4 billion), which is KZT2.1 billion more than in 9m 2016, mainly due to higher expenses of production drilling in 9m 2017.

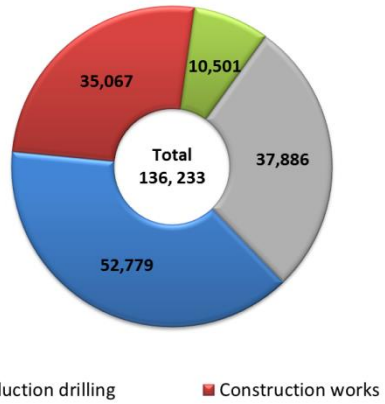
CCEL capital expenditures in 9m 2017 were KZT9.1 billion (KMG EP 50% share: KZT4.6 billion), which is KZT4.1 billion higher than in 9m 2016, primarily due to higher drilling volumes, construction and modernization of production facilities, partially offset by a decrease in fixed asset purchases and design works in 9m 2017.

UOG capital expenditure amounted to KZT60 million (KMG EP 50% share: KZT30 million), which is KZT3.5 billion less than in 9m 2016 mainly due to more exploration drilling conducted in 9m 2016.

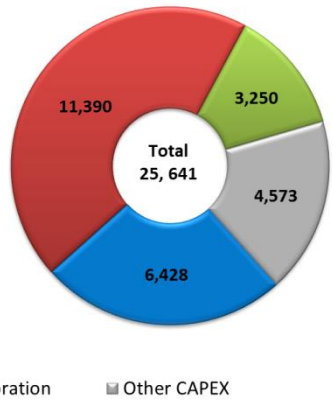
KS capital expenditures amounted to KZT54 million for the period January, 1 – June, 15 2017 (until June 15, 2017: KMG EP 51% share: KZT28 million).

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

Current 2017 capital expenditure expectations for OMG, EMG and other subsidiaries - KZT million



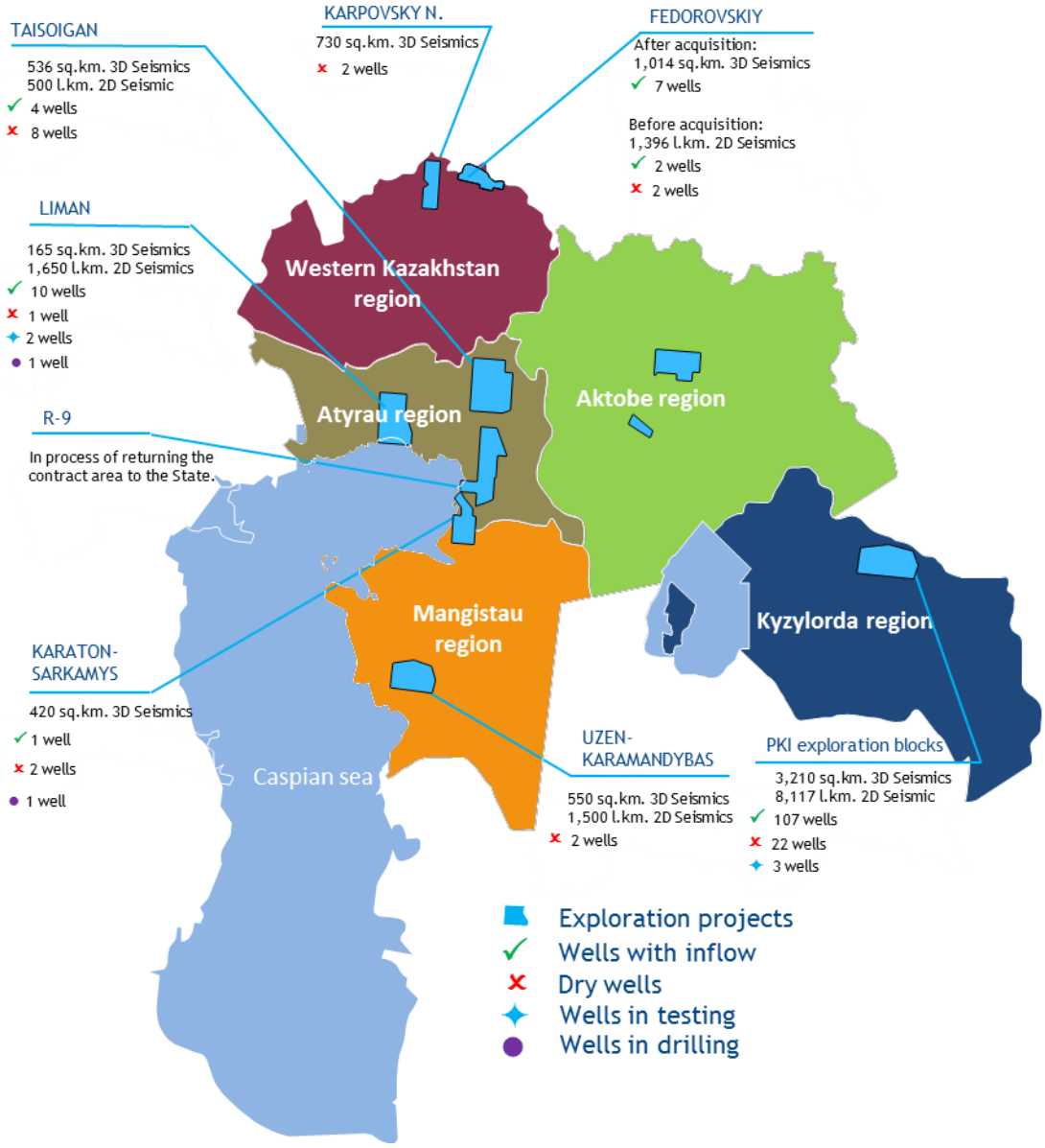
Current 2017 capital expenditure expectations for equity-accounted entities - KZT million (proportional share)*



**Capital expenditure amounts for 2017 presented herein represent currently expected amounts based on management's estimates as of the date of issuance of this report according to approved 2017 budget. Amounts do not represent any formal commitments and are subject to changes in any direction. **Other CAPEX include Fixed assets and Intangibles purchases.*

EXPLORATION ACTIVITY

The following map shows the Company's major exploration projects along with the cumulative number of exploration wells that have been drilled as of September 30, 2017:



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	08.04.2016-21.08.2016	2,262m.	PR-4's daily flow is 7 m3/day. PR-5 and PR-7 daily flows are 5,3 m3/day which is average for this field. PR-8 drilling is in-process.
			PR-5	01.04.2016-29.09.2016	2,500m.	
			PR-7	20.09.2016-27.01.2017	2,290m.	
			PR-8	22.05.2017-currently	2,200m.	
Uzen-Karamandybas (100%)	18.07.2011	South-western part of the exploration block				3D-MOGT field works with the area of 550 l.km completed. The contract for processing and interpretation of seismic data was signed as of May, 5 2017. The works are in-progress.
Taisoigan (100%)	29.01.2004	Uaz				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. Contracts for drilling NSV-2 and NSV-3 wells signed as of May, 22 2017. According to drilling schedule NSV-2 drilling started in August 2017 (1 500 meters currently drilled), NSV-3 starts in December 2017 with the further works in 2018.
Karpovskiy Severniy (KS-100%)	18.10.2011	Orlovskaya Central	SK-2	01.07.2013-18.08.2015	5,755m.	The well has commercially unviable gas inflows.
Fedorovskiy block (UOG-50%)	11.03.2011	Rozhkovskiy Pavlovskaya, Yanvartsevskaya				U-25 drilled and tested during 2016 has 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	South-Eastern Doszhan-52	01.06.2017-19.06.2017	1,439m.	Completed drilling of Zhamansy-10, S-E Doszhan–49, 52, 56. S-E Doszhan-49, 52 and Zhamansu-10 which have inflows. S-E Doszhan-56 has gas inflow. Further works are under consideration. Doshan-65 is in testing.
			South-Eastern Doszhan-49	24.06.2017-21.06.2017	2,033m.	
			South-Eastern Doszhan-56	20.07.2017-08.08.2017	1,450m.	
			Doszhan-65	31.07.2017-12.08.2017	815m.	
			Zhamansu-10	27.11.2016-17.01.2017	2,300m.	
Karaganda (PKI-33%)	22.12.2009	Karabulak, Buharsai	Buharsai-3	29.08.2017-24.09.2017	1,525m.	Completed drilling of 2016 the Northern Karabulak-3, Karabulak-19 and Karabulak-31 exploration wells. Northern Karabulak-3 well – dry. Karabulak-19 and Karabulak-31 wells – have inflow. Drilled Buharsai-3, Karabulak-53, Karabulak-35 have inflows. Further works are under consideration.
			Karabulak-53	15.08.2017-08.08.2017	1,400m.	
			Karabulak-35	29.03.2017-01.05.2017	1,369m.	
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 – in testing, Western Tuzkol-130 is dry, Western Tuzkol-127 have inflows. Western Tuzkol appraisal wells 234, 237 have inflows.
			Western Tuzkol-130	01.02.2017-14.02.2017	1,300m.	
			Western Tuzkol-127	10.05.2017-23.05.2017	1,100m.	
			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 in testing.

*On June 15, 2017 the Company acquired a 49% share in KS EP Investments BV ("KS EP Investments") from MOL Hungarian Oil and Gas Plc. ("MOL") for 1 US dollar and following the acquisition now owns a 100% interest in KS EP Investments

RESULTS OF OPERATIONS

The following section is based on the Company's reviewed condensed consolidated interim 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 interim statement of cash flows and at the closing rate for the consolidated statement of financial position.

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
					(KZT million, unless otherwise stated)		
228,538	**223,252**	**201,340**	**14%**	**Revenue**	**665,516**	**514,706**	**29%**
(80,805)	(79,464)	(72,155)	12%	Production expenses	(230,348)	(195,364)	18%
(33,609)	(33,771)	(31,917)	5%	SG&A	(92,812)	(94,514)	-2%
(74,648)	(61,391)	(36,493)	105%	Taxes other than on income	(201,634)	(115,803)	74%
(357)	(120)	(51)	600%	Exploration expenses	(525)	(51)	929%
(8,856)	(8,553)	(9,175)	-3%	DD&A	(25,765)	(22,524)	14%
30,263	**39,953**	**51,549**	**-41%**	**Operating profit / (loss)**	**114,432**	**86,450**	**32%**
-	26,414	20,298	-100%	Reversal for VAT recoverable (net)	26,414	13,362	98%
3,602	6,165	(893)	-503%	Share of results of associate and JV's	18,173	(7,603)	-339%
(389)	(200)	(250)	56%	Gain/(loss) on disposal of fixed assets	(192)	(532)	-64%
-	(3,249)	-	0%	Net loss on acquisition of a subsidiary	(3,249)	-	100%
6,469	6,749	6,914	-6%	Finance income / (costs), net	19,269	19,323	0.3%
61,788	26,054	(8,733)	-808%	Foreign exchange gain / (loss), net	29,189	(7,284)	-501%
(21,240)	(16,277)	(10,411)	104%	Income tax expense	(35,663)	(27,993)	27%
80,493	**85,609**	**58,474**	**38%**	**Net income**	**168,373**	**75,723**	**122%**

The increase in net income for 9m 2017 compared to 9m 2016 is mainly due to an increase in the average Brent crude price from 41.88 US dollar per barrel in 9m 2016 to 51.84 US dollar per barrel in 9m 2017. As a result, net income increased in 9m 2017, compared to 9m 2016, due to higher revenues from export sales, increase of share in income of associate and joint ventures, as well as an increase in revenue from oil products sales due to the Company's switch to an independent oil processing scheme in April 2016. These effects were partially offset by increase in taxes other than on income and oil refinery costs in 9m 2017. Mineral extraction tax (MET), rent tax and ECD (export custom duty) expenses were higher in 9m 2017 due to increased Brent prices.

The Company reversed a previously accrued allowance for VAT recoverable in the amount of KZT30.1 billion following the positive decision achieved regarding the Company's application for the VAT recovery. Additionally, the Company recorded KZT 29 billion net foreign exchange gain resulted from US dollar- Tenge exchange rates fluctuations compared to KZT7 billion net foreign exchange loss in 9m 2016.

During 9m 2017 the Company recorded a loss of KZT3.2 billion due to the net liabilities acquired following the acquisition of a 49% share in KS EP Investments BV from MOL Hungarian Oil and Gas Plc. for 1 (one) US dollar.

Revenue

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

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
				Export sales of crude oil			
				UAS pipeline			
123,418	77,179	76,507	61%	Net sales (KZT million)	284,948	201,251	42%
1,019	720	719	42%	Volume (ktonnes)	2,458	2,078	18%
121,117	107,193	106,408	14%	Average price (KZT/tonne)	115,927	96,848	20%
50.40	47.07	43.12	17%	Average price (US$/bbl*)	49.60	38.94	27%
				CPC pipeline			
52,468	82,962	62,182	-16%	Net sales(KZT million)	202,700	172,116	18%
415	762	561	-26%	Volume (ktonnes)	1,742	1,666	5%
126,429	108,874	110,841	14%	Average price (KZT/tonne)	116,361	103,311	13%
52.61	47.80	44.91	17%	Average price (US$/bbl*)	49.78	41.54	20%
175,886	160,141	138,689	27%	Total sales of crude oil-exported (KZT million)	487,648	373,367	31%
1,434	1,482	1,280	12%	Total crude oil-exported (ktonnes)	4,200	3,744	12%
				Total sales of crude oil			
175,886	160,141	138,689	27%	Total net sales of crude oil (KZT million)**	487,648	388,826	25%
1,434	1,482	1,280	12%	Total volume (ktonnes)**	4,200	4,574	-8%
122,654	108,057	108,351	13%	Average price (KZT/tonne)	116,107	85,008	37%
51.04	47.45	43.90	16%	Average price (US$/bbl*)	49.67	34.18	45%
				Sales of oil products			
46,388	57,638	57,662	-20%	Net sales (KZT million)	161,630	113,038	43%
489	632	753	-37%	Volume (ktonnes)	1,759	1,517	16%
94,826	91,199	76,576	27%	Average price (KZT/tonne)	91,887	74,514	23%
285.28	289.51	224.34	27%	Average price (US$/tonne)	284.22	216.61	31%
39.46	40.04	31.03	27%	Average price (US$/bbl*)	39.32	29.96	31%
6,264	5,472	4,989	26%	Other sales (KZT million)	16,238	12,842	26%
228,538	**223,252**	**201,340**	**14%**	**Total revenue (KZT million)**	**665,516**	**514,706**	**29%**

** Converted at 7.23 barrels per tonne of crude oil.*
***Total net sales in 1Q 2016 include net domestic sales of crude oil to KMG RM (830 thous. tonnes amounted 15 459 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 these 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, which resulted in an increase in income and higher volumes of oil products sales.

In regards to refined products, the Kazakhstan government also requires to supply a major portion of oil products, specifically light distillates, to meet domestic fuel requirements and to support agricultural producers during spring and autumn sowing campaigns. This is achieved by either refusal to allow export of light distillates or by issuing quotas to supply agricultural producers. Local market oil products prices are significantly lower than international market prices and domestic prices for some of the refined products are regulated by the Committee for the Regulation of Natural Monopolies.

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

3Q 2017	2Q 2017	3Q 2016		9m 2017	9m 2016**
33,335	47,775	50,379	Revenue	126,281	95,794
(13,635)	(17,870)	(20 729)	Costs, including:	(46,908)	(41,071)
(9,245)	(13,222)	(14,164)	Processing	(33,140)	(27,950)
(144)	(222)	(186)	Additives	(690)	(271)
(1,517)	(1,230)	(799)	Excise tax	(3,597)	(1,678)
(1,999)	(2,851)	(3 660)	Export customs duty	(8,039)	(7,441)
(730)	(345)	(343)	Selling and transportation expenses	(1,442)	(636)
-	-	(1,577)	KMG Refinery and Marketing commission fee	-	(3,095)
19,700	**29,905**	**29,650**	**Net revenue**	**79,373**	**54,723**
357.24	520.35	661.40	Volume of oil products sold, thousands of tonnes	1,364.94	1,296.70
21.97	27.13	36.48	Processing losses, thousands of tonnes	82.20	76.22
379.21	547.48	697.88	Total volume of crude oil processed and sold, thousands of tonnes	1,447.14	1,372.92
51,950	54,623	42,485	Net revenue Tenge per tonne of crude oil	54,848	39,859

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

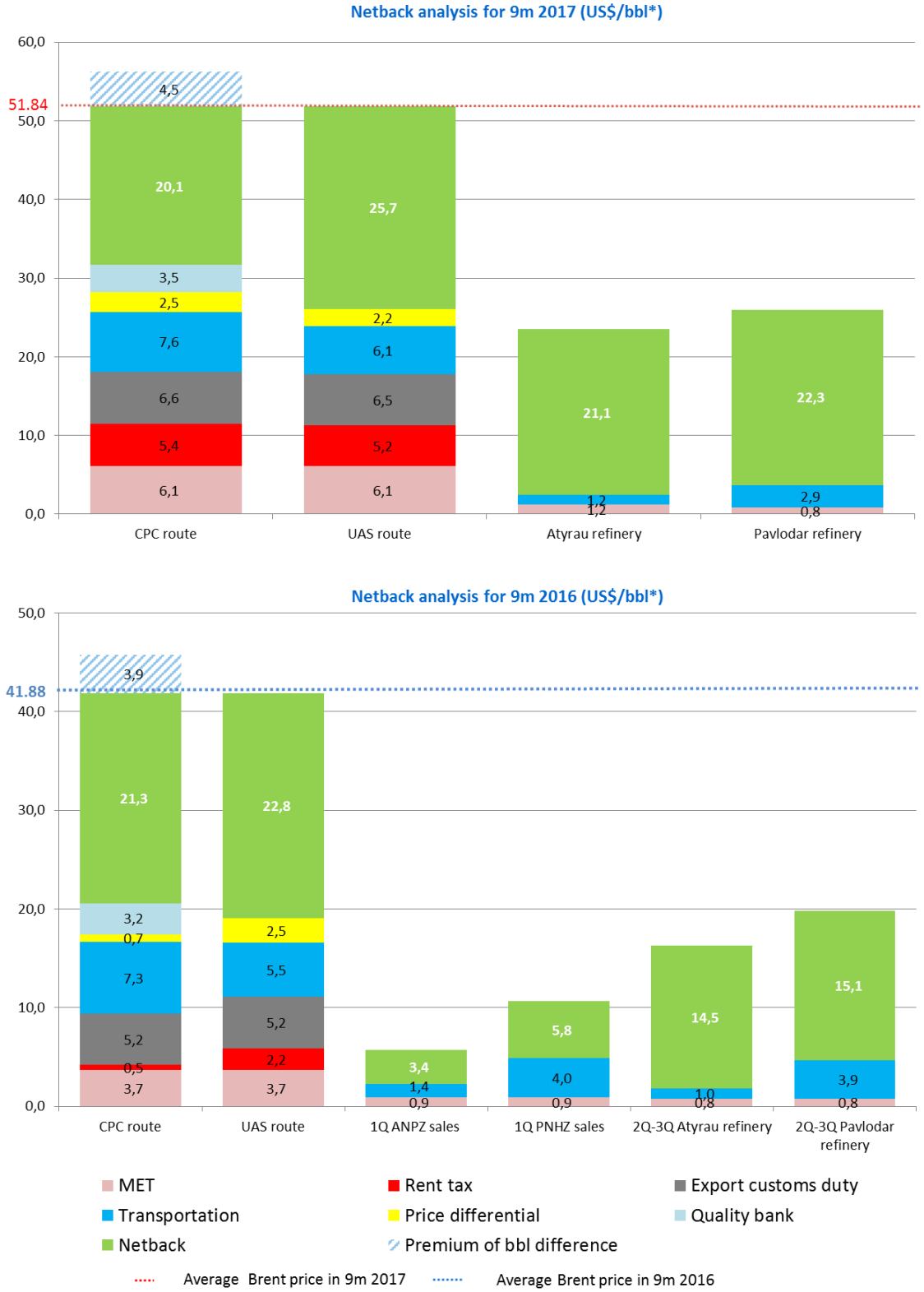
3Q 2017	2Q 2017	3Q 2016		9m 2017	9m 2016**
13,461	11,025	7,812	Revenue	37,342	17,515
(3,601)	(2,666)	(2,400)	Costs, including:	(9,391)	(5,460)
(2,433)	(1,938)	(1 675)	Processing	(6,657)	(3,872)
(178)	(113)	(126)	Additives	(488)	(214)
(899)	(537)	(327)	Excise tax	(1,956)	(759)
(92)	(78)	(46)	Selling and transportation expenses	(290)	(105)
-	-	(226)	KMG Refinery and Marketing commission fee	-	(510)
9,859	**8,359**	**5,412**	**Net revenue**	**27,951**	**12,055**
135.15	121.15	96.60	Volume of oil products sold, thousands of tonnes	409.46	222.47
15.99	15.57	11.50	Processing losses, thousands of tonnes	50.37	26.38
151.14	136.72	108.10	Total volume of crude oil processed and sold, thousands of tonnes	459.83	248.85
65,235	61,140	50,065	Net revenue Tenge per tonne of crude oil	60,786	48,443

**These statements include sales of refined products within the group.*
***The data presented is for period April,1 – September, 2016.*

Effective from 1 April, 2017 processing tariffs at Atyrau refinery increased from KZT20,501 to KZT24,512 per tonne of crude oil. Effective from 1 August, 2017 processing tariffs at Pavlodar refinery increased from KZT14,895 to KZT16,417 per tonne of crude oil.

In October 2016, as a result of changes in tax legislation, the higher excise tax tariff for diesel of KZT9,300 per tonne should be applied during April-October months. In April 2017, the application period of higher excise tax tariffs was changed to June-October months. These factors affected changes of ANPZ net revenue in tenge per tonne in June-September 2017. Railway route transportation expenses also increased since 1 August, 2017.

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



*Converted at actual barrels per tonne of crude oil.

** The Company switched to oil processing scheme starting from April 2016. Netbacks of ANPZ and PNHZ for 9m 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 9m 2017 increased compared to 9m 2016, primarily due to higher Brent prices in 9m 2017 partially offset by increase in Rent tax, MET and ECD.

In 9m 2017 refinery netbacks improved mainly due to higher revenues of light oil products sales.

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 and EMG operations:

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
41,618	39,301	37,734	10%	Employee benefits	122,293	108,094	13%
11,678	15,159	15,853	-26%	Refinery processing costs	39,797	31,823	25%
9,241	8,586	7,180	29%	Repairs and maintenance	22,191	16,962	31%
6,299	3,402	4,052	55%	Materials and supplies	14,967	13,141	14%
5,170	5,190	5,113	1%	Energy	15,992	15,534	3%
1,906	1,882	1,446	32%	Transportation services	5,241	3,900	34%
(7,952)	3,887	(1,505)	428%	Change in crude oil balance	(7,642)	(419)	1724%
8,871	-	-	100%	Recognition of environmental remediation obligation	8,871	-	100%
1,570	423	-	100%	Asset retirement obligation (ARO) on depleted oil fields/ movement in ARO	1,570	-	100%
2,404	1,634	2,282	5%	Other	7,068	6,329	12%
80,805	**79,464**	**72,155**	**12%**	**Total production expenses**	**230,348**	**195,364**	**18%**

Production expenses in 9m 2017 increased by KZT35 billion or 18% compared to 9m 2016, primarily due to an increase in employee benefits, oil refinery costs, repairs and maintenance expenses and accrual of ecology provisions. This was partially offset by the change in the crude oil balance.

Employee benefit expenses in 9m 2017 increased by 13% compared to 9m 2016 or KZT14.2 billion, mainly due to 7% basic salary indexation for production personnel from January 1, 2017 according to the terms of the collective agreement and accrual of bonus provisions during 9m 2017.

Oil refinery costs increased in 9m 2017 compared to 2Q-3Q 2016 due to higher volumes of oil products sold in 9 months 2017 in comparison with the 6 months of 2Q-3Q 2016 and the higher Atyrau refinery processing tariff effective from 1 April, 2017 and the higher Pavlodar refinery processing tariff effective from 1 August, 2017.

Refinery processing costs in 3Q 2017 in comparison with 2Q 2017 decreased due to lower production of oil products resulted from repair works at refinery plants in 3Q 2017.

In 3Q 2017 additional ecology provisions were accrued for remediation of historical land contaminated with oil in the amount of KZT8.9 billion at OMG and EMG.

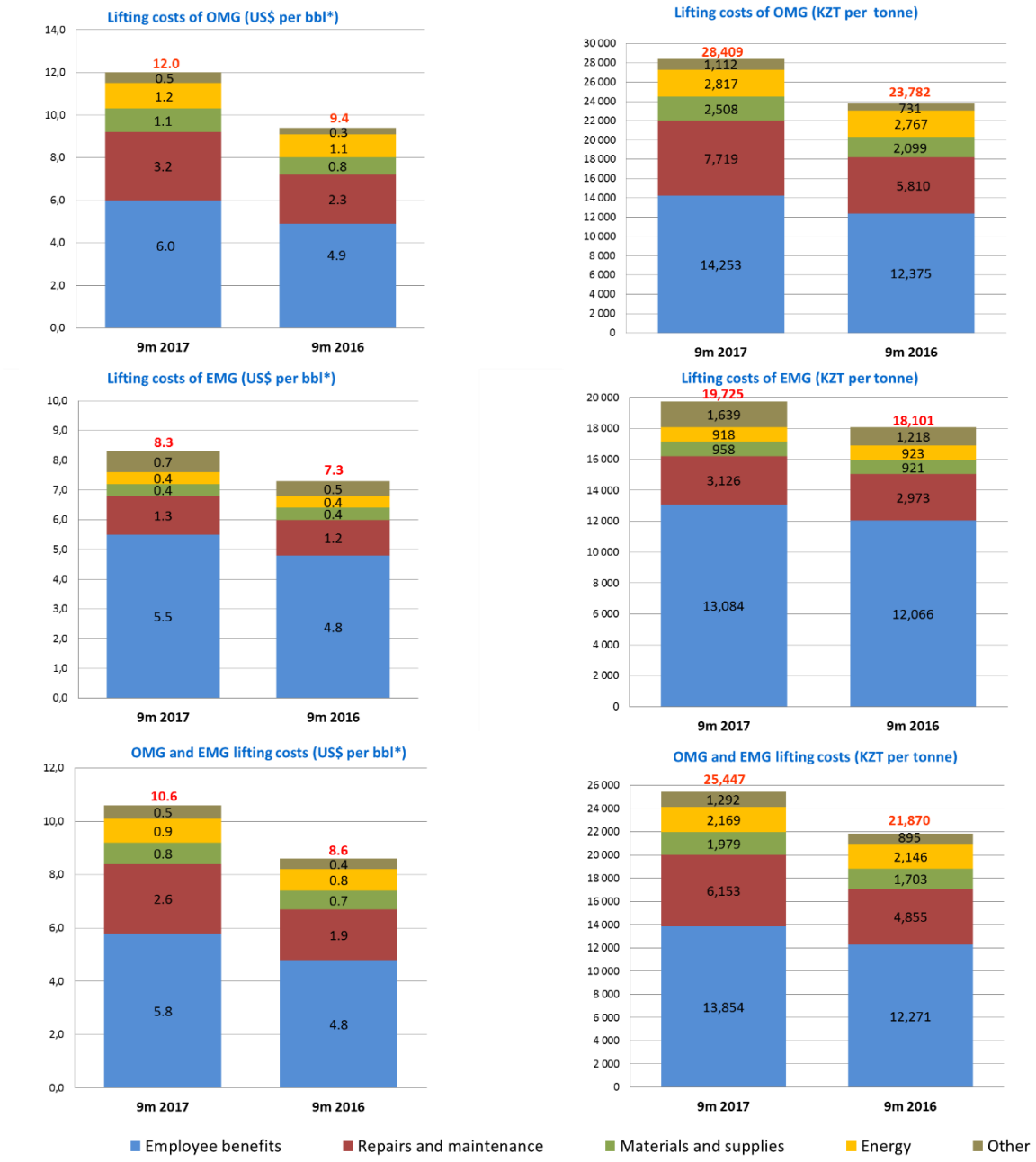
Repairs and maintenance costs increased due to higher volumes of well servicing performed by third parties and increased tariffs and volumes of hydraulic fracturing works in 9m 2017.

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 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 increased also due to the fluctuation 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 a free-floating exchange rate regime for the Tenge since August 2015.

The following charts show production lifting costs of OMG and EMG in US$/bbl* and KZT per 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 OMG, EMG and KMG EP Head office operations:

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
25,332	25,976	22,826	11%	Transportation expenses	75,021	68,779	9%
5,231	4,492	3,960	32%	Employee benefits	13,862	11,979	16%
87	1,044	(2,029)	104%	Accrual/ (reverse) of fines and penalties	(2,804)	(601)	367%
-	-	1,803	-100%	Agency fees	-	3,605	-100%
661	445	1,865	-65%	Consulting and audit services	1,565	2,919	-46%
268	246	494	-46%	Repairs and maintenance	742	901	-18%
322	178	377	-15%	Sponsorship	564	1,528	-63%
1,708	1,390	2,621	-35%	Other	3,862	5,404	-29%
33,609	**33,771**	**31,917**	**5%**	**Total SG&A expenses**	**92,812**	**94,514**	**-2%**

Selling, general and administrative expenses in 9m 2017 amounted to KZT92.8 billion, 2% less than in 9m 2016. The decrease is mainly due to a reversal of previously accrued expenses for fines and penalties in 9m 2017 and to the absence of KMG RM agency fees which is partially offset by an increase in transportation expenses and employee benefits costs.

In 9m 2017 the Company successfully appealed to the competent courts and reduced income tax liabilities for prior years. Fines and penalties related to these income taxes were accordingly reversed in 9m 2017 in the amount of KZT 2.6 billion.

The KZT3.6 billion agency fees accrued in 9m 2016 correspond to commissions paid to KMG RM for the sale of the Company's oil products. Since 1 January, 2017 these commissions are no longer incurred as the Company manages sales of refined products for its own account.

The increase in transportation expenses in 9m 2017 compared to 9m 2016 resulted mainly from higher export sales in 9m 2017.

Employee benefit expenses increased in 9m 2017 mainly due to a 7% basic salary indexation for administrative personnel from January 1, 2017 according to the terms of the collective agreement and accrual of annual bonus provision. In 3Q 2017 in comparison with 2Q 2017 employee benefits increased due to additional payments made to workers for the Oilman holiday and bonuses for the results of the first half of the year.

Taxes other than on income

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

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
23,136	25,429	22,067	5%	Export customs duty	72,033	55,530	30%
24,130	19,874	7,394	226%	MET	65,430	39,661	65%
21,435	12,227	3,768	469%	Rent tax	51,386	13,411	283%
1,692	1,662	1,704	-1%	Property tax	4,819	5,028	-4%
240	239	187	28%	Environmental tax	704	531	33%
4,015	1,960	1,373	192%	Other taxes	7,262	1,642	342%
74,648	**61,391**	**36,493**	**105%**	**Total taxes other than on income**	**201,634**	**115,803**	**74%**

Taxes other than on income in 9m 2017 increased by KZT85.8 billion or 74% compared to 9m 2016, mainly due to increase in ECD , rent tax and MET (mineral extraction tax) and other taxes.

The increase of subsoil user taxes and payments to the budget such as MET, rent tax and ECD is due to higher export sales and a higher average Brent price in 9m 2017 of 51.84 USD per barrel in comparison with 41.88 USD per barrel in 9m 2016, which was partially offset by a lower average US dollar-Tenge exchange rate in 9m 2017.

The increase in MET is due to the increase of the OMG tax rate from 9% to 13% as in 9m 2016 OMG received MET tax relief from state authorities applicable only for 2016.

ECD expenses increased in 9m 2017 compared to 9m 2016 mainly due to higher export sales of crude oil and oil products since the Company's decision to switch to an independent oil processing scheme starting from April 2016. Crude oil ECD expenses increased also due to higher Brent prices in 9m 2017. According to Kazakhstani legislation ECD rates are dependent on Brent prices. These effects were partially offset by lower US dollar-tenge exchange rates.

Other taxes increases in 9m 2017 were due to a seasonal increase in excise tax on diesel products sold. In October 2016, as a result of changes in tax legislation, the higher excise tax tariff for diesel of KZT 9,300 per tonne should be applied from April to October. In April 2017, the application period of higher excise tax tariffs changed to June-October .

Income Tax Expense

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
101,733	101,887	68,885	48%	Profit before tax	204,036	103,716	97%
98,131	69,308	69,778	41%	Profit/(loss) before tax (with adjustments*)	159,449	111,319	43%
21,240	16,277	10,411	104%	Income tax expense/(benefit)	35,663	27,993	27%
21,240	16,277	10,411	104%	Income tax (with adjustments*)	35,663	26,291	36%
21%	16%	15%	40%	Effective tax rate	17%	27%	-37%
22%	23%	15%	47%	Effective tax rate (with adjustments*)	22%	24%	-8%

** Profit before tax and income tax expense without share in results of JV's and associated company, impairment charges and allowance for VAT recoverable reverse.*

The Company's effective income tax rate in 9m 2017 was lower in comparison with 9m 2016 primarily due to the reversal of previously accrued tax provisions and deferred tax benefits. Income tax provisions were reversed in 9m 2017 as a result of the further reduced claims of the 2009-2012 Comprehensive tax audit. Deferred tax benefits mainly resulted from MET and Rent tax prepayments. Also, in 9m 2016 significant amounts of OMG PPE deferred tax expense resulted in a higher effective tax rate.

OVERVIEW OF JVS AND ASSOCIATE OPERATIONS

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

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
2,969	5,279	1,495	99%	Share in income from KGM	15,562	3,978	291%
1,083	1,231	(2,135)	151%	Share in income/(loss) from PKI	3,822	(10,566)	136%
(450)	(345)	(253)	-78%	Share in loss from UOG	(1,211)	(1,015)	-19%
3,602	**6,165**	**(893)**	**503%**	**Share in income / (loss) in associate and JV's**	**18,173**	**(7,603)**	**339%**

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 9m 2017 was 2,126 ktonnes (50% share is 1,063 ktonnes), which is 74 ktonnes or 3% lower than in 9m 2016.

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

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
146,429	147,115	144,164	2%	Revenue	434,376	327,332	33%
(66,573)	(60,910)	(95,661)	-30%	Operating expenses	(193,569)	(244,126)	-21%
(103)	669	(4)	2600%	Finance income / (cost), net	1,335	(449)	397%
2,993	(321)	(720)	516%	Foreign exchange gain / (loss), net	(1,945)	(5,329)	-64%
(60,437)	(47,365)	(32,830)	84%	Income tax (expense)/ benefit	(129,290)	(35,588)	263%
22,309	39,188	14,949	49%	Net income	110,907	41,840	165%
705	729	741	-5%	Crude oil production, ktonnes	2,126	2,200	-3%

The increase in 9m 2017 revenue mainly resulted from higher Brent prices and the increase of domestic sales prices in comparison with 9m 2016. Higher income tax expense is due to higher profit before tax and excess profit taxes accrued in 9m 2017. KGM's crude oil sales split by routes is as follows:

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(ktonnes)					*(ktonnes)*		
115	114	317	-64%	Export via KCP	362	711	-49%
588	613	425	38%	Domestic market	1,758	1,483	19%
703	**727**	**742**	**-5%**	**Total crude oil sales, ktonnes**	**2,120**	**2,194**	**-3%**

Operating expenses decreased due to lower DD&A, lower ECD and MET expenses in 9m 2017. Other costs (general and administrative expenses included here) are lower in 9m 2017 such as the commercial discovery bonus and the akimat sponsorship accrued in 9m 2016. These effects were partially offset by an increase of rent taxes as a result of higher average Brent prices in 9m 2017, an increase in employee benefits and repairs and maintenance costs.

The increase of employee benefits and repairs and maintenance costs was due to a lower average US dollar-Tenge exchange conversion rate in 9m 2017. The increase in employee benefits is also due to a one-off 7% basic salary indexation.

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

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(US$ per bbl sold)*					*(US$ per bbl sold*)*		
4.2	3.8	4.9	-14%	DD&A	4.1	4.9	-16%
2.2	2.2	2.7	-19%	Transportation expenses	2.2	2.2	0%
1.0	1.0	2.3	-57%	Export customs duty	1.1	1.8	-39%
1.3	1.3	2.3	-43%	Mineral extraction tax	1.4	1.7	-18%
0.8	0.9	0.8	0%	Employee benefits	0.9	0.7	29%
1.1	1.0	0.8	38%	Repairs and maintenance	0.9	0.7	29%
0.6	0.3	0.4	50%	Materials and supplies	0.4	0.4	0%
0.9	0.5	1.3	-31%	Rent tax	0.9	0.6	50%
-	-	0.5	-100%	Fines and penalties	-	0.2	-100%
0.5	(0.1)	0.6	17%	Other	0.3	1.1	-73%
12.6	**10.9**	**16.6**	**-24%**	**Total operating expenses**	**12.2**	**14.3**	**-15%**

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

The share in KGM income, reflected in the reviewed interim condensed consolidated financial statements of the Company, represents a proportionate share of the results of KGM for 9m 2017, adjusted for the impact of amortization of the fair value of the licenses, partially offset by related deferred tax benefit of KZT2.4 billion (KZT3.1 billion in 9m 2016).

In June 2017 KGM declared dividends amounted to KZT82 billion or US$250 million for the results of operations for the year ended December, 31 2016 (50% share is KZT41 billion or US$125 million). The actual amount of dividends received by the Company from KGM in 9m 2017 was KZT36.7 billion or US$112.6 million.

For the capital expenditure analysis of JVs 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 9m 2017, PKI produced 2,457 ktonnes of oil (33% share: 811 ktonnes) which is 14% less than in 9m 2016. The decline in production was due to the reserves depletion of some of PKI's mature fields.

PKI's key financial and operational indicators (100%) are shown below:

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
185,631	196,114	184,521	1%	Revenue	580,496	484,870	20%
(105,811)	(125,569)	(160,262)	-34%	Operating expenses	(370,925)	(450,459)	-18%
(2,714)	(2,494)	(1,085)	150%	Finance cost, net	(7,656)	(24,746)	-69%
(47,510)	(35,820)	(17,424)	173%	Income tax expense	(110,843)	(28,975)	283%
29,596	32,231	5,750	415%	Net income / (loss)	91,072	(19,310)	572%
808	828	917	-12%	Crude oil production, ktonnes	2,457	2,842	-14%

The increase in revenue in 9m 2017, in comparison with 9m 2016, was mainly due to higher average Brent prices and domestic prices in 9m 2017, and was partially offset by a lower sales volume. Higher income tax expense in 9m 2017 is due to higher profit before tax and excess profit tax expenses accrued in 9m 2017.

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

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(ktonnes)					*(ktonnes)*		
663	592	565	17%	Domestic sales	1,842	1,851	-1%
41	132	125	-67%	Export via KCP (PKKR 100%)	300	418	-28%
58	57	159	-64%	Export via KCP (KGM 50%)	181	356	-49%
15	27	23	-35%	Export via KCP (Kolzhan 100% & PKVI 75%)	63	74	-15%
-	8	8	-100%	Export via KCP (TP 50%)	29	47	-38%
22	15	23	-4%	Export Uzbekistan (TP 50%)	41	52	-21%
799	**831**	**903**	**-12%**	**Total crude oil sales, ktonnes**	**2,456**	**2,798**	**-12%**

Operating expenses significantly decreased due to lower DD&A costs, transportation expenses and other expenses. These effects were partially offset by the increase of rent tax resulting from higher average Brent prices in 9m 2017.

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

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(US$ per bbl sold)*					*(US$ per bbl sold*)*		
7.4	7.1	9.8	-24%	DD&A	7.2	8.6	-16%
2.4	2.9	2.7	-7%	Transportation expenses	2.7	2.7	0%
1.0	1.8	2.0	-50%	Export customs duty	1.6	1.7	-6%
1.8	1.7	1.4	29%	Repairs and maintenance	1.7	1.4	21%
1.8	1.5	1.3	38%	Employee benefits	1.6	1.3	23%
1.0	1.1	1.6	-38%	Mineral extraction tax	1.2	1.3	-8%
1.0	1.0	0.8	25%	Materials and supplies	1.0	0.8	25%
1.1	1.0	1.2	-8%	Rent tax	1.3	0.6	117%
-	-	0.6	-100%	Fines and penalties	-	0.1	-100%
-0.4	1.2	1.6	-125%	Other	1.1	2.3	-52%
17.1	**19.3**	**23.0**	**-26%**	**Total operating expenses**	**19.4**	**20.8**	**-7%**

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

The share in PKI results reflected in the Company's reviewed interim condensed consolidated financial statements represents a proportionate share of the results of PKI in 9m 2017 adjusted for the impact of amortization of the fair value of the licenses for the amount of KZT 5.9 billion (KZT8.4 billion in 9m 2016).

In June 2017 the Company received dividends from PKI amounted to KZT10 billion (net of withholding tax) or US$31 million for the results of operations for the year ended December, 31 2016.

On October 11, 2017 the partners of PKI agreed to distribute 100 million US Dollars as a dividend payment (the Company's share is 33 million US Dollars).

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

CCEL

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

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

As of September 30, 2017 the Company had KZT38.3 billion (US$112.1 million) as a receivable from CCEL. The Company has accrued KZT3 billion (US$9.4 million) of interest income in 9m 2017, relating to the US$26.9 million annual priority return from CCEL. Payments are usually made twice a year in 2Q and 4Q.

In 9m 2017, CCEL produced around 1,602 ktonnes (50% share: 801 ktonnes) of crude oil, which increased by 1% compared to 9m 2016. CCEL's key financial and operational indicators (100%) are as follows:

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
141,088	178,264	139,268	1%	Revenue	490,555	410,054	20%
(142,718)	(157,014)	(126,248)	13%	Operating expenses	(424,950)	(349,157)	22%
(4,450)	(4,173)	(5,227)	-15%	Finance cost, net	(13,553)	(15,522)	-13%
5,247	(7,706)	25	20888%	Income tax expense	(12,113)	6,343	-291%
(833)	9 371	7,818	-111%	Net income / (loss)	39,939	51,718	-23%
546	533	535	2%	Crude oil production, ktonnes	1,602	1,588	1%

Revenues in 9m 2017 increased due to higher Brent prices in comparison with 9m 2016. In 9m 2016 in comparison with 9m 2017 income tax expenses for prior years were reversed as a result of positive tax decision in regards to 2009-2012 complex tax audit appeal and deferred tax assets accrued to previous years losses.

CCEL crude oil sales split by routes is as follows:

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(ktonnes)					*(ktonnes)*		
192	380	238	-19%	Export via Novorossiysk	836	825	1%
123	45	207	-40%	Export via Ust'-Luga	305	668	-54%
30	90	-	100%	Export via Batumi	180	-	100%
-	-	-	0%	Domestic market	40	-	100%
345	**515**	**445**	**-22%**	**Total crude oil sales, ktonnes**	**1,361**	**1,493**	**-9%**
104	71	54	92%	**Domestic market (bitumen)***	180	76	136%
449	**586**	**499**	**-10%**	**Total crude oil &bitumen sales***	**1,541**	**1,569**	**-2%**

**as part of contractual obligations bitumen produced from CCEL oil is sold to the domestic market*

Total operating expenses in 9m 2017 increased compared to 9m 2016 mainly due to rent tax and ECD expenses, other expenses, repairs and maintenance, materials and supplies and increase in employee benefits. Increase in ECD and rent tax expenses is a result of higher Brent prices in 9m 2017. Also in 9m 2017 oil processing tariffs and refinery volumes at bitumen plant were increased and included in other costs. Higher repairs and maintenance costs are explained by an increase in the number of well workovers and well servicing in 9m 2017. The increase in materials and supplies is due to higher costs in 9m 2017. The increase in employee benefits costs is due to the annual 7% salary indexation.

Operating expenses on a per barrel sold basis(crude oil and bitumen sales) are as follows:

3Q 2017	2Q 2017	3Q 2016	Change		9m 2017	9m 2016	Change
(US$ per bbl sold*)							(US$ per bbl sold*)
8.8	6.5	5.3	66%	Employee benefits	7.8	6.2	26%
7.3	5.9	7.8	-6%	Transportation expenses	6.6	6.7	-1%
6.6	5.6	6.2	6%	Export customs duty	6.2	5.3	17%
3.2	2.8	3.4	-6%	Energy	3.2	3.7	-14%
2.9	2.9	3.2	-9%	DD&A	2.8	3.0	-7%
2.4	2.7	1.6	50%	Repairs and maintenance	2.5	1.8	39%
5.9	2.9	3.2	84%	Rent tax	4.6	2.0	130%
0.9	0.9	0.7	29%	Materials and supplies	0.9	0.7	29%
0.4	0.3	0.3	33%	Mineral extraction tax	0.3	0.3	0%
9.2	9.6	6.2	48%	Other	6.4	3.6	78%
47.6	**40.1**	**37.9**	**26%**	**Total operating expenses**	**41.3**	**33.3**	**24%**

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

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

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

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

	KGM	PKI	CCEL
	(US$ thousand, unless otherwise stated)		
Employee benefits	9,335	21,707	73,273
Materials	5,919	18,318	9,212
Repair and maintenance	6,448	18,632	26,025
Energy	7,762	13,214	32,491
Other	2,584	14,631	14,772
Total lifting expenses (US$ thousand)	**32,048**	**86,502**	**155,773**
Production (ktonnes)	**2,126**	**2,457**	**1,602**
Lifting cost US$ per bbl*	**2.0**	**4.5**	**14.6**

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

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

	KGM	PKI	CCEL
	(US$ per bbl sold*, unless otherwise stated)		
Benchmark end-market quote (Brent)	51.8	51.8	51.8
Price differential and premium of bbl difference, net	(6.3)	(6.0)	(4.0)
Average realized price	**45.5**	**45.9**	**47.8**
Rent tax	(4.9)	(5.1)	(5.0)
Export customs duty	(6.1)	(6.2)	(6.8)
Transportation expenses	(4.2)	(5.7)	(5.0)
MET	(5.2)	(3.3)	(0.3)
Netback price	**25.1**	**25.6**	**30.7**

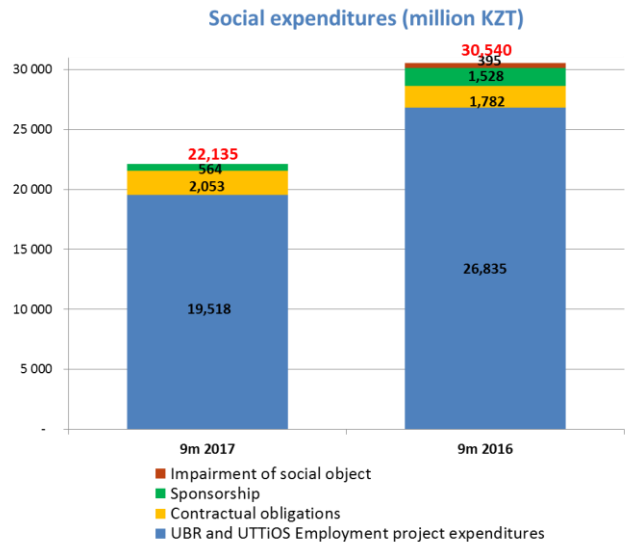
**Following average tonne / bbl conversion factors were used KGM 7.7, PKI 7.75, CCEL 6.68.*

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

	KGM	PKI	CCEL
	(US$ per bbl sold*, unless otherwise stated)		
Realized price	**21.7**	**25.0**	**20.5**
Transportation expenses	(1.6)	(1.4)	(1.8)
MET	(0.4)	(0.4)	(0.3)
Netback price	**19.7**	**23.2**	**18.4**

**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 9m 2017, the Company incurred KZT19.4 billion of operating expenses at UBR and UTTiOS, including KZT15.5 billion of employee benefits expenses and KZT3.9 billion for materials, supplies and other expenses.

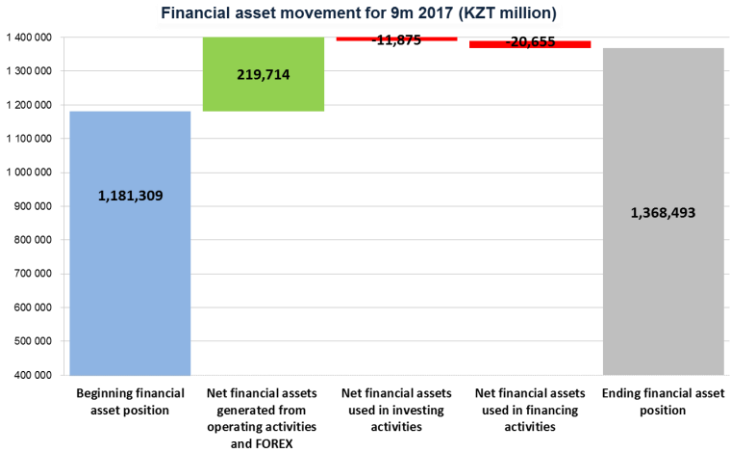
The Company has invested approximately KZT144 million for the purchase of equipment to support operations at UBR and UTTiOS. Expenses for the financing of UTTiOS were partially offset by income from third parties in 9m 2017, which totalled KZT4.8 billion (KZT3.5 billion in 9m 2016).

In 9m 2017 the Company spent KZT564 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 9m 2017, the Company's social expenses related to the execution of contractual obligations amounted to KZT2.1 billion, including the social programs and ecology fund that amounted to KZT1.4 billion as well as the training of local specialists which amounted to KZT0.7 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. Management believes that the Company has an adequate liquidity position to meet its obligations and pursue investment opportunities.



During 9m 2017, net financial assets inflow from operating activities and FOREX amounted to KZT219.7 billion or KZT124 billion more than in 9m 2016. The increase is mainly due to higher income from crude oil export sales and sales of oil products during the reporting period.

Net financial assets outflow from investing activities in 9m 2017 was KZT11.9 billion versus an outflow of KZT43.7 billion in 9m 2016. The decrease in net outflows mainly resulted from higher dividends received from joint ventures and associate (KZT33.7 billion more in 9m 2017).

Net financial asset outflow from financing activities in 9m 2017 was KZT20.7 billion (outflow of KZT1.6 billion in 9m 2016). The increase in outflows is mainly associated with the dividends paid to the Company's shareholders, which amounted to KZT 18.8 billion.

Net cash position

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

	As at September 30, 2017	As at December 31, 2016	As at September 30, 2016	Change
	(KZT million, unless otherwise stated)			%
Current portion	5,768	5,483	5,519	5%
Non-current portion	2,393	3,844	4,596	-38%
Total borrowings	**8,161**	**9,327**	**10,115**	**-13%**
Cash and cash equivalents	289,562	162,091	213,357	79%
Other current financial assets	1,041,900	983,257	905,952	6%
Non-current financial assets	37,031	35,961	35,973	3%
Total financial assets	**1,368,493**	**1,181,309**	**1,155,282**	**16%**
Foreign currency denominated cash and financial assets, %	**98%**	**97%**	**97%**	
Net cash	**1,360,332**	**1,171,982**	**1,145,167**	**16%**

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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.