

Strategic overview

Operating and financial review

The following document is intended to assist the understanding and assessment of trends and significant changes in the Company's results and financial condition. This review is based on the audited consolidated financial statements of the Company and should be read in conjunction with those statements and the accompanying notes. All financial data and discussions thereof are based on the audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS"). According to the Company's accounting policy, interests in joint ventures and associates are accounted for using the 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 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 National Company KazMunayGas JSC ("NC KMG"), the wholly state-owned joint stock company, which represents the State's interests in the Kazakh oil and gas industry. The Company's core oil and gas assets are located in the Pre-Caspian, Mangistau and Southern Turgai basins.

The following table represents the Company's principal oil and gas interests as of December 31, 2015:

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
KMG EP Exploration Assets ("KMGEPA")	100%	Oil and gas exploration	Consolidated entity
Kazakh Gas Processing Plant ("KazGPZ")	100%	Natural gas upstream and refining	Consolidated entity
JV Kazgermunai LLP ("KGM")	50%	Crude oil upstream	Equity-accounted entity
PetroKazakhstan Inc. ("PKI")	33%	Crude oil upstream	Equity-accounted entity
CITIC Canada Energy Limited ("CCEL")	50%	Crude oil upstream	Financial asset
Ural Oil and Gas LLP ("UOG")	50%	Oil and gas exploration	Equity-accounted entity
KS EP Investments BV ("KS")	51%	Oil and gas exploration	Equity-accounted entity

Key performance indicators

4Q 2015	3Q 2015	4Q 2014	Change		2015	2014	Change
3,106	3,123	3,111	0%	Total production (ktonnes)*	12,351	12,328	0%
105,896	134,884	(194,958)	-154%	Net income (KZT million)	243,669	47,038	418%
1.55	1.98	(2.86)	-154%	Basic and diluted EPS (KZT thousand)	3.57	0.69	417%
28,199	(28,478)	17,541	61%	EBITDA (KZT million)**	8,801	281,917	-97%
18%	-32%	-9%	-300%	Operating margin (%)***	-3%	17%	-118%
(16,954)	(25,718)	(81,309)	-79%	Operating cash flow before working capital adjustments (KZT million)	(69,583)	147,942	-147%
7%	10%	-13%	-154%	ROE (%)	18%	3%	500%

* 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 amortisation to the Company's operating profit.

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

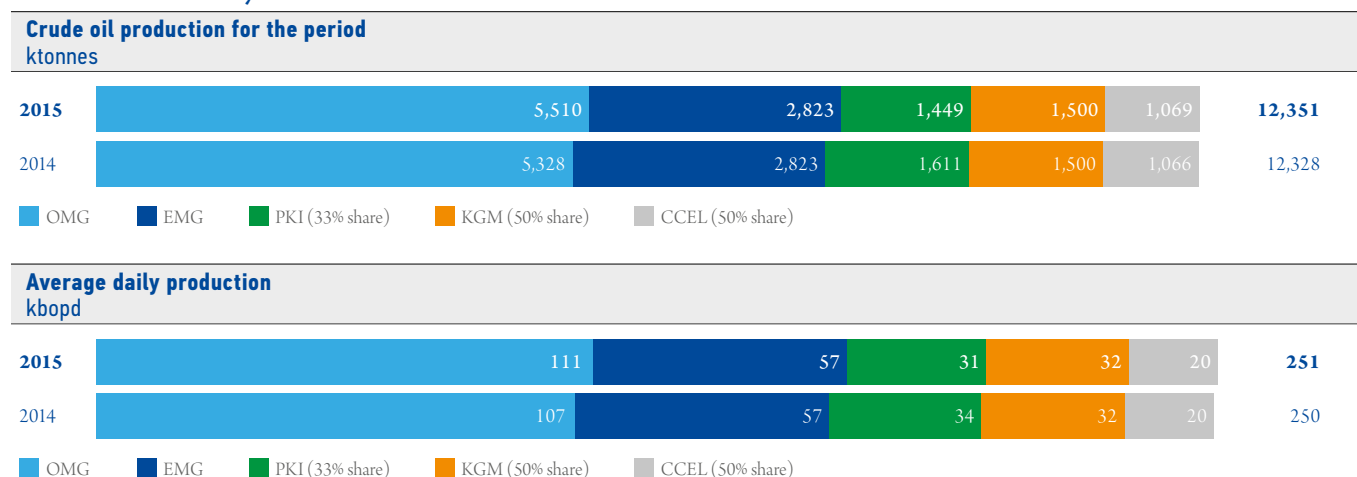
Business environment

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

4Q 2015	3 3Q 2015	4Q 2014	Change		2015	2014	Change
43.76	50.47	76.58	-43%	Average Brent (DTD) (US\$ / bbl)	52.39	98.95	-47%
10.7%	1.5%	1.5%	613%	Kazakhstan inflation (%)	13.6%	7.4%	84%
300.44	216.92	181.39	66%	Average tenge/US\$ exchange rate	222.25	179.12	24%
339.47	270.40	182.35	86%	tenge/US\$ exchange rate at the reporting date	339.47	182.35	86%

The National Bank of Kazakhstan ("NBK") made a decision to abandon its support of the tenge, reducing foreign exchange interventions and efforts to control the rate of the tenge, effective from February 11, 2014. To prevent the destabilisation of financial markets and the economy as a whole, NBK established a tenge/dollar fluctuation band at 185 tenge per US dollar, plus or minus 3 tenge, in February 2014. In September 2014, NBK expanded the tenge/dollar fluctuation band to 185 tenge per US dollar, plus 3 tenge or minus 15 tenge. In July 2015, NBK expanded further the tenge/dollar fluctuation band to 185 tenge per US dollar, plus 13 or minus 15 tenge. On August 20, 2015, the Government of the Republic of Kazakhstan and NBK made a decision to switch to a free-floating exchange rate regime of the tenge.

Production activity



The Company's total crude oil production in 2015, including the share of production from its joint ventures and associated company, amounted to 12,351 ktonnes or 251 kbopd. OMG and EMG produced 168 kbopd with a further 31 kbopd from PKI, 32 kbopd from KGM and 20 kbopd from CCEL.

Compared to 2014, OMG production increased by 3% or 182 ktonnes, primarily due to ahead of schedule drilling and a decrease in the idle well park.

The share in PKI production declined by 10% or 162 ktonnes in 2015, compared to 2014, due to the natural decline at some of PKI's mature fields and a decrease in drilling activity. The share in CCEL production increased by less than 1% or 3 ktonnes in 2015, compared with 2014, mainly due to an increase in well park. Total share in production volume of PKI, KGM and CCEL in 2015 was 4,018 ktonnes, which is 4% or 159 ktonnes less than in 2014.

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Wells as of reporting date*	Drilled in 2015*	Drilled in 2014*		Well workovers 2015	Well workovers 2014	Well servicing 2015	Well servicing 2014
Number of wells				Number of well workovers		Number of well servicing	
5,165	229	227	OMG	921	890	14,335	15,034
2,691	54	70	EMG	248	284	3,541	3,723
1,735	84	114	PKI (100%)**	195	400	831	1,012
237	33	28	KGM (100%)**	56	44	101	88
3,606	112	179	CCEL (100%)**	20	255	3,370	3,577

*Development wells, including injection wells.

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

Oil production in the reporting period from the new wells at OMG amounted to 523 ktonnes compared to 374 ktonnes in 2014, as drilling operations were ahead of schedule. OMG workovers of 921 wells provided an incremental production of 433 ktonnes, while 890 well workovers in 2014 provided incremental production of 417 ktonnes.

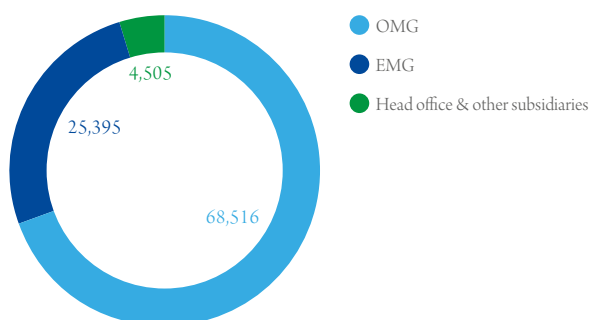
Oil production for 2015 from the new wells at EMG amounted to 66 ktonnes compared to 73 ktonnes in 2014. EMG performed 248 well workovers in 2015, which provided an incremental production of 97 ktonnes, while 284 well workovers provided 87 ktonnes in 2014.

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 asset, 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 KZT million

98,416



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

In 2015, the Company's capital expenditures amounted to KZT98.4 billion or KZT29.8 billion less than in 2014. Capital expenditures include the cost of drilling new wells, the construction and modernisation of production facilities, the purchase of fixed and intangible assets and non-production capital expenditures.

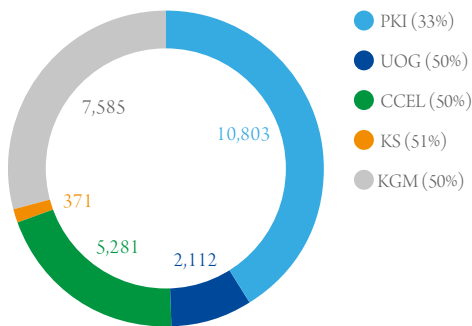
OMG capital expenditures for 2015 amounted to KZT68.5 billion, which is KZT20.0 billion less than in 2014, mainly due to a decrease in production drilling as a result of a discount obtained from the contractor for drilling services, a lower level of construction and modernisation of production facilities compared to 2014, and lower fixed asset purchases in the reporting period.

EMG capital expenditures amounted to KZT25.4 billion in 2015, which is KZT8.3 billion less than in 2014, mainly due to a lower level of production and exploration drilling, and lower fixed asset purchases, as well as the construction and modernisation of production facilities in the reporting period compared to 2014.

Head office and other subsidiaries' capital expenditures in 2015 amounted to KZT4.5 billion, which is KZT1.5 billion less than in 2014, primarily due to higher construction and modernisation of production facilities in 2014.

Capital expenditure of equity-accounted entities
KZT million

26,152



Capital expenditure of equity-accounted entities

PKI capital expenditures in 2015 amounted to KZT32.7 billion (KMG EP 33% share: KZT10.8 billion), which is KZT10.5 billion less than in 2014, mainly due to the decrease in drilling volumes in the current period.

KGM capital expenditures for the period were KZT15.2 billion (KMG EP 50% share: KZT7.6 billion), which is KZT3.0 billion less than in 2014, mainly due to the higher construction and modernisation of production facilities and the purchase of fixed assets in 2014 primarily relating to the Aksai field development, which was partially offset by higher production drilling in the reporting period.

CCEL capital expenditures in 2015 were KZT10.6 billion (KMG EP 50% share: KZT5.3 billion), which is KZT7.4 billion less than in 2014, primarily due to the decrease in drilling volumes and construction and modernization of production facilities in the current period.

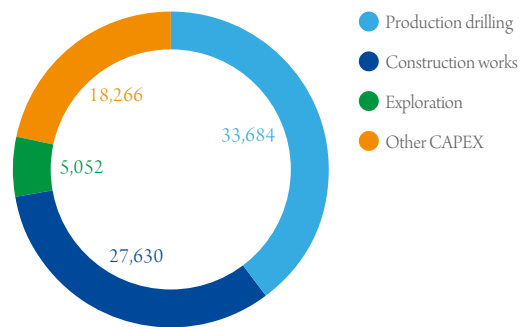
UOG capital expenditures amounted to KZT4.2 billion (KMG EP 50% share: KZT2.1 billion), which is 1.9 billion more than in 2014, mainly due to the payment of a commercial discovery bonus, as required by law.

KS capital expenditures amounted to KZT0.7 billion (KMG EP 51% share: KZT0.4 billion), which mainly relates to deepening of the SK-2 well.

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

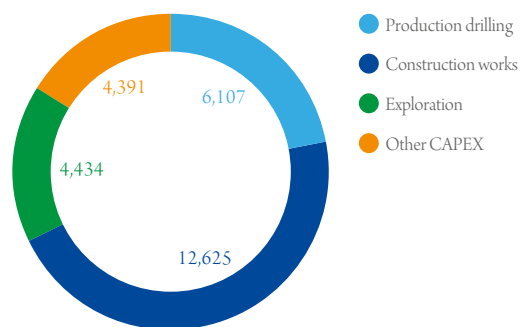
Current 2016 capital expenditure expectations for OMG, EMG and other subsidiaries KZT million

84,632



Current 2016 capital expenditure expectations for equity-accounted entities KZT million (proportional share)*

27,557

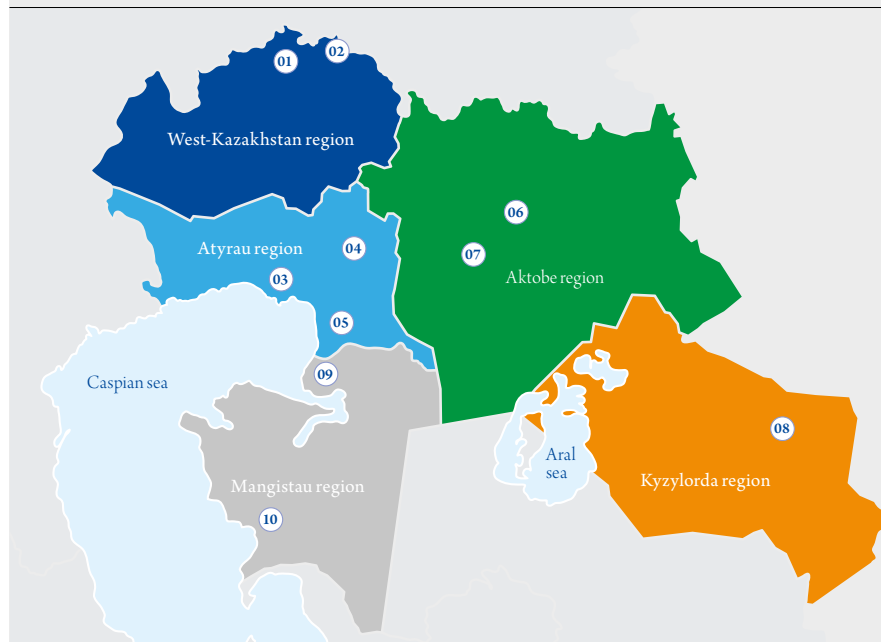


* Capital expenditure amounts for 2016 presented herein represent currently expected amounts based on management's estimates as of date of the issuance of this report. Amounts do not represent any formal commitments and are subject to changes in any direction.

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Exploration activity



The following map depicts the Company's major exploration projects along with the cumulative number of exploration wells that have been drilled as of December 31, 2015.

01 Karpovsky North

730 sq. km 3D Seismics

- 1 well
- ⊗ 1 well

02 Fedorovskiy

After acquisition:

- 1,014 sq. km 3D Seismics
- ✓ 6 wells
- 1 well

Before acquisition:

- 1,396 l. km 2D Seismics
- ✓ 2 wells
- ⊗ 2 wells

03 Liman

165 sq. km 3D Seismics
1,650 l. km 2D Seismics

- 1 well
- ✓ 9 wells
- ⊗ 1 well

04 Taisoigan

386 sq. km 3D Seismics
150 l. km 2D Seismics

- ✓ 4 wells
- ⊗ 5 wells

05 R-9

984 sq. km 3D Seismics
3,620 l. km 2D Seismics

- ⊗ 12 wells

06 Temir

200 sq. km 3D Seismics
975 l. km 2D Seismics

07 Zharkamys Eastern-1

200 sq. km 3D Seismics
610 l. km 2D Seismics

- ⊗ 2 wells

08 PKI explorations blocks

1,552 sq. km 3D Seismics
3,900 l. km 2D Seismics

- 9 wells
- ✓ 78 wells
- ⊗ 14 wells

09 Karaton-Sarkamys

160 sq. km 3D Seismics

- ⊗ 2 wells
- 1 well

10 Uzen-Karamandybas

1,500 l. km 2D Seismics

- ⊗ 2 wells

○ Exploration projects

- ✓ Wells with inflow
- ⊗ Dry wells
- Wells in testing
- Wells in drilling

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

Block (interest)	Prospect	Well	Status as of reporting date
Liman (100%)	Novobogat SE		Trial production of Novobogat Southeast is being conducted. Drilling of the appraisal well PR-3 completed. Testing is being conducted. Extension of the exploration contract #406 for the appraisal period of Novobogat Southeast until 19.02.2018 was received.
Temir (100%)			The Company is in the process of returning the contract area to the State.
Zharkamys Eastern (100%)	Tuskum		The Company is in the process of returning the contract area to the State due to low prospects and expiration of the subsoil use agreement.
Uzen-Karamandybas (100%)	NW Tenge		In the process of agreeing amendments to the work program of the Contract on transfer of volume of exploration works from 2015 to 2016.
Taisoigan (100%)	Uaz	U-21	Drilling and testing of the U-21 well completed. Protocol on the transfer of a military training area on the Taisoigan block was signed between the Ministry of Defence of the RK and Ministry of Defence of Russia. In the process of agreeing extension of the exploration contract for 3 years.
R-9 (100%)			The Company is in the process of returning the contract area to the State.
Karaton Sarkamys (100%)		NSV-1	In the process of agreeing amendments to the work program of the Contract on transfer of volume of exploration works from 2015 to 2016. The well drilling was completed. Achieved project depth of 3,818m. The well is being tested.
Karpovskiy Severniy (KS – 51%)	Orlovskaya Central	SK-2	Completed deepening the SK-2 well to the depth of 5,755m. In the process of agreeing the testing of productive shelves allocated based on the result of the research.
Fedorovskiy block (UOG – 50%)	Rozhkovskiy Pavlovskaya, Yanvartsevskaya	U-25	Drilling the U-25 well. Depth as of reporting date – 1,110m. Addendum #7 dated February 24, 2015 to an exploration contract #468 was concluded – the exploration period was prolonged until May 11, 2016. It was decided to extend the exploration contract period for two years from 2016 through 2018. Production contract at the Rozhkovskiy field was concluded on April 2, 2015. Seismic field works on the Yanvartsevskaya and Pavlovskaya areas are completed. Drilling of the U-31 well was postponed to 2016 due to the need to clarify siting based on the result of 3D seismic. As of reporting date, processing of 3D seismic data of Pavlovskaya and Yanvartsevskaya areas is being completed.
Doszhan-Zhamansu (24.75% through PKI)	South Doszhan, South-Eastern Doszhan, Zhamansu		6 wells were drilled at the Doszhan-Zhamansu block during the reporting period: 5 wells with inflow of hydrocarbons and 1 well with inflow of water.
Karaganda (PKI – 33%)	Karabulak, Buharsai		1 well was drilled at Karaganda block, with inflow of hydrocarbons.
Karavanchi (PKI – 33%)	Karavanchi		2 wells were drilled, 1 well is being tested, 1 well with inflow of hydrocarbons.
Western Tuzkol (PKI – 33%)	Western Tuzkol		10 appraisal wells were drilled (1 well on the Taskuduk structure). 8 wells with inflow of hydrocarbons, 2 wells with inflow of water.

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Results of operations

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

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
180,475	108,232	155,496	16%	Revenue	529,812	845,770	-37%
(65,012)	(50,865)	(67,280)	-3%	Production expenses	(225,049)	(211,900)	6%
(28,341)	(36,815)	(27,136)	4%	SG&A	(118,601)	(102,568)	16%
(49,917)	(49,011)	(58,402)	-15%	Taxes other than on income	(181,501)	(328,211)	-45%
(229)	(1,186)	(1,329)	-83%	Exploration expenses	(1,892)	(2,127)	-11%
(4,952)	(4,538)	(15,219)	-67%	DD&A	(20,110)	(59,485)	-66%
32,024	(34,183)	(13,870)	331%	Operating profit / (loss)	(17,341)	141,479	-112%
(46,753)	-	-	-100%	Allowance for VAT recoverable	(46,753)	-	-100%
(16,576)	(5,393)	11,466	-245%	Share of results of associate and JVs	(20,062)	60,191	-133%
(189)	4	(2,153)	-91%	Gain / (loss) on disposal of fixed assets	(260)	(4,221)	-94%
(3,500)	(253)	(228,252)	-98%	Impairment of PP&E	(4,358)	(256,683)	-98%
9,540	(8,249)	(1,535)	-721%	Finance income / (costs), net	11,095	11,810	-6%
187,206	243,029	1,273	100%	Foreign exchange gain / (loss), net	448,869	108,997	312%
(55,856)	(60,071)	38,113	-247%	Income tax (expense) / benefit	(127,521)	(14,535)	777%
105,896	134,884	(194,958)	-154%	Net income / (loss)	243,669	47,038	418%
6,7	(11.1)	(5.3)	-226%	Profit / (loss) from operations (US\$ per bbl sold*)	(1.3)	13.7	-109%
22,3	44.0	(74.8)	-130%	Net income / (loss) (US\$ per bbl sold*)	18.3	4.5	307%

* Converted at 7.23 barrels per tonne of crude oil

The increase in net income for 2015 is mainly due to a higher foreign exchange gain recognition as a result of the decision of the Government of the Republic of Kazakhstan and NBK to switch to the freely floating tenge exchange rate regime in 3Q2015, which was partially offset by a drop in the average Brent price from US\$98.95 per barrel in 2014 to US\$52.39 per barrel in 2015. Moreover, in 2015 production expenses and selling, general and administrative expenses increased compared to 2014, mainly due to the increase in employee benefit expenses and accrual of KZT16.1 billion fines and penalties related to CIT and EPT provision based on results of 2009-2012 tax audit, KZT3.3 billion of penalties related to CIT and EPT provisions on a possible future tax audit assessments for 2012-2015, KZT2.1 billion of penalties related to additional declaration of MET submitted for 3Q and 4Q2012, as well as KZT2.1 billion of penalties related to lower accrual of advance payment, which were offset by the decrease in taxes other than on income and depreciation,

depletion and amortisation. Additionally, in 2015 the Company recognised allowance for VAT recoverable in the amount of KZT46.8 billion related to the Company's sale of production assets to OMG and EMG as part of establishing new subsidiaries in 2012. In accordance with the tax legislation of the Republic of Kazakhstan, sale of production assets were subject to value-added-tax ("VAT"). VAT paid to the tax authorities after the reorganisation of the Company was recorded as VAT recoverable by OMG and EMG. The Company recognised an allowance for the entire VAT recoverable due to the fact that the authorities have not confirmed it as currently due and management taking the view that it is not probable to receive these amounts back from the Government. In 2014 the Company recognised a KZT255 billion impairment of PPE in regards to OMG assets and there was no such charge in 2015. Share of results of associate and JVs also decreased mainly due to a 47% drop in average Brent price from US\$98.95 per barrel in 2014 to US\$52.39 per barrel in 2015.

Revenue

The following table shows sales volumes and realised prices resulting from OMG and EMG operations:

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
Export sales of crude oil							
<i>UAS pipeline</i>							
66,583	41,323	76,491	-13%	Net sales (KZT million)	213,635	449,931	-53%
779	560	779	0%	Volume (ktonnes)	2,797	3,580	-22%
85,472	73,791	98,191	-13%	Average price (KZT/tonne)	76,380	125,679	-39%
39.35	47.05	74.87	-47%	Average price (US\$/bbl*)	47.53	97.05	-51%
<i>CPC pipeline</i>							
53,759	30,453	38,263	40%	Net sales (KZT million)	150,849	257,009	-41%
565	378	390	45%	Volume (ktonnes)	1,850	1,991	-7%
95,149	80,563	98,110	-3%	Average price (KZT/tonne)	81,540	129,085	-37%
43.80	51.37	74.81	-41%	Average price (US\$/bbl*)	50.74	99.68	-49%
120,342	71,776	114,754	5%	Total sales of crude oil exported (KZT million)	364,484	706,940	-48%
1,344	938	1,169	15%	Total crude oil exported (ktonnes)	4,647	5,571	-17%
Domestic sales of crude oil and oil products							
55,390	16,820	20,008	177%	Net domestic sales (KZT million)	100,576	94,656	6%
844	667	421	100%	Volume (ktonnes)	2,742	1,967	39%
65,628	25,217	47,525	38%	Average price (KZT/tonne)	36,680	48,122	-24%
30.21	16.08	36.24	-17%	Average price (US\$/bbl*)	22.83	37.16	-39%
Shipments of crude oil to Russia							
–	14,793	14,645	-100%	Net sales (KZT million)	46,102	17,376	165%
–	350	397	-100%	Volume (ktonnes)	916	447	105%
–	42,266	36,889	-100%	Average price (KZT/tonne)	50,313	38,871	29%
–	26.95	28.13	-100%	Average price (US\$/bbl*)	31.31	30.02	4%
Total sales							
175,732	103,389	149,407	18%	Total net sales of crude oil (KZT million)	511,162	818,972	-38%
2,188	1,955	1,987	10%	Total volume (ktonnes)	8,305	7,985	4%
80,316	52,884	75,192	7%	Average price (KZT/tonne)	61,546	102,564	-40%
36.97	33.72	57.34	-36%	Average price (US\$/bbl*)	38.30	79.20	-52%
4,743	4,843	6,089	-22%	Other sales (KZT million)	18,650	26,798	-30%
180,475	108,232	155,496	16%	Total revenue (KZT million)	529,812	845,770	-37%

* Converted at 7.23 barrels per tonne of crude oil.

OMG and EMG export crude oil using two principal routes: via the pipeline owned by Caspian Pipeline Consortium (“CPC”) and via the Uzen-Atyrau-Samara pipeline (“UAS”) owned by KazTransOil JSC (in Kazakhstan). OMG and EMG also deliver their crude oil to the domestic market, and OMG made counter-oil supplies to the Russian Federation in 2015 and 2014 as part of the intergovernmental agreement.

The relative profitability of the two export routes depends on the quality of crude oil in the pipeline, the prevailing international market prices and the relevant pipeline tariffs. It should be noted that the volume of crude oil that can be shipped through the pipelines has to be agreed with the Ministry of Energy of the Republic of Kazakhstan (“ME”). Thus, crude oil volume allocations between different routes change from period to period primarily due to greater or lower ME quotas for a certain route.

In 2015, the Company shipped 916 thousand tonnes of crude oil to the Russian Federation to fulfil its obligations under the counter-oil supply agreement between the Government of Kazakhstan and the Russian Government. Thus, UAS and CPC shipments decreased in the reporting period due to the shipment of crude oil to Russia. As of the reporting date, the Company fulfilled its obligation under the counter-oil supply agreement between the Government of Kazakhstan and the Russian Government.

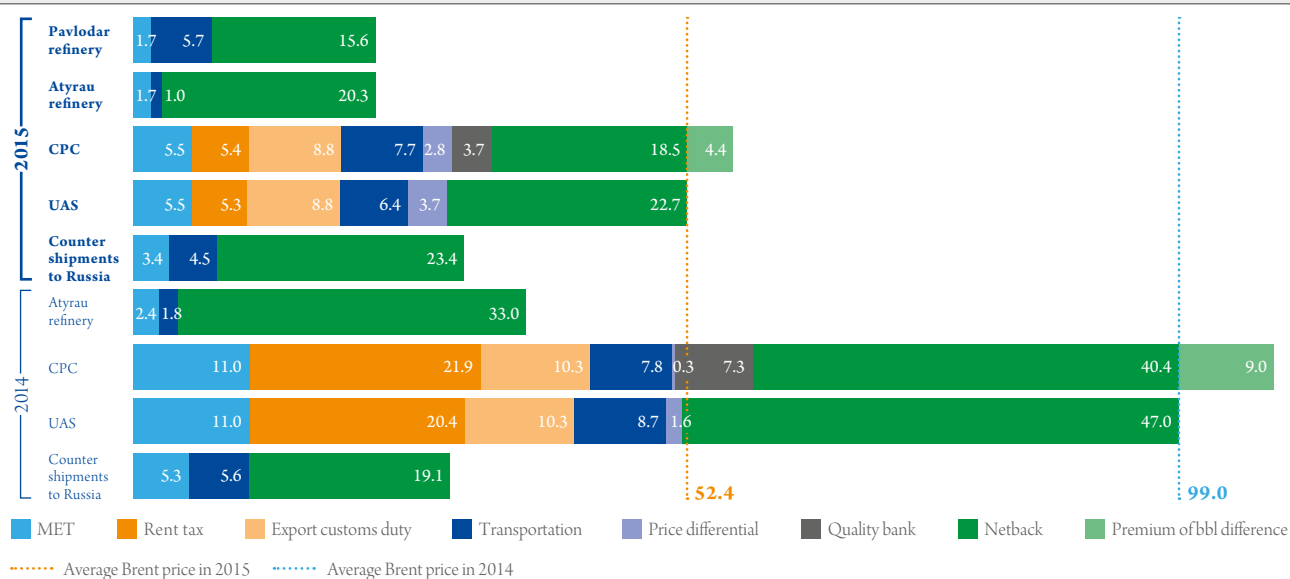
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The following chart shows the OMG and EMG realised prices adjusted for crude oil transportation, rent tax, export customs duty ("ECD"), mineral extraction tax ("MET") and other expenses based on the shipment route (netback analysis). The netback calculation methodology was changed in 2015 to include MET subtraction from the netback. As a result, the comparative information for 2014 was also restated.

Netback analysis

US\$/bbl*



* Converted at actual barrels per tonne of crude oil

Export netbacks for 2015 decreased in the period compared to 2014, primarily due to a drop in the average Brent price from US\$98.95 per barrel in 2014 to US\$52.39 per barrel in 2015. Additionally, expenses related to export of crude oil via the CPC route increased in 2H 2015 due to the decision of the Government of the Republic of Kazakhstan and NBK to switch to the freely floating tenge exchange rate regime in 3Q2015, which negatively affected CPC netback.

Domestic market netbacks decreased in 2015 due to the drop in average sales prices in Tenge terms and increase of the average tenge/US dollar exchange rate.

During 2015, per instructions from NC KMG, for crude oil supplied to Atyrau Oil Refinery Plant ("ANPZ") and Pavlodar Oil Refinery Plant ("PNHZ"), the Company was paid by KazMunaiGas Refining and Marketing JSC an average price of approximately KZT21 thousand and KZT32 thousand per tonne, respectively. These prices were disputed by the Company and its INEDs and were not formally agreed.

In 4Q2015 an agreement was reached whereby for all volumes shipped to ANPZ and PNHZ in 2015 the Company was to receive KZT37 thousand per tonne. The Company's financial statements have been adjusted in the fourth quarter to reflect the agreed price.

The sale price of counter crude oil shipments to Russia is based on the intergovernmental agreement between the Government of Kazakhstan and the Russian Government. A significant increase in counter crude oil shipments to Russia netbacks resulted due to a Russian Federation tax system manoeuvre starting from January 1, 2015, when the Russian export tax burden was reallocated from ECD to MET. Due to the price formula specifics of counter oil supplies to Russia, this tax manoeuvre positively affected its netbacks.

Production expenses

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

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
40,017	38,260	37,111	8%	Employee benefits	153,928	130,367	18%
6,200	5,483	10,070	-38%	Repairs and maintenance	20,206	26,781	-25%
4,647	4,576	4,425	5%	Energy	18,389	16,706	10%
4,601	4,025	6,087	-24%	Materials and supplies	18,357	20,050	-8%
1,455	1,435	1,553	-6%	Transportation service	5,345	5,875	-9%
3,159	(5,011)	1,888	67%	Change in crude oil balance	3,356	1,373	144%
554	165	492	13%	Processing expenses	1,109	1,205	-8%
(346)	186	3,206	-111%	Change in estimate of environmental remediation obligation	127	1,110	-89%
2,313	(86)	-	100%	Decrease in asset retirement obligation in excess of capitalised asset	(1,686)	-	-100%
2,412	1,832	2,448	-1%	Other	5,918	8,433	-30%
65,012	50,865	67,280	-3%	Total production expenses	225,049	211,900	6%
13.7	16.6	25.8	-47%	Total production expenses (US\$ per bbl sold*)	16.9	20.5	-18%

* Converted at 7.23 barrels per tonne of crude oil.

Production expenses in 2015 increased by KZT13.1 billion or 6% compared to 2014, primarily due to increased employee benefits. This was partially offset by a decrease in repair and maintenance and a decrease in asset retirement obligations in excess of capitalised asset.

Employee benefit expenses in 2015 increased by 18% compared to 2014, mainly due to a 7% indexation increase in basic salaries for production personnel from January 1, 2015 according to the terms of the collective agreement; introduction of a Unified System of Wages and additional 10% increase of wages starting from April 2014, and an increase in production bonuses from 25% to 33% for supporting production personnel starting from September 2014. Additionally, employee benefit expenses increased in 2015 compared to 2014 due to the rise in employee benefit liabilities in the amount of KZT6.9 billion, which resulted from prolongation of OMG and EMG oilfield licences.

Increase in energy expenses by 10% compared to 2014 is primarily related to the increase in tariffs of energy suppliers in the reporting period.

In 2014, the Company changed its estimate for the environmental remediation provision, which relates to certain soil contamination and oil waste disposal, in accordance with a memorandum of cooperation ("MOC") signed by the Parent Company (comprising the Company and JSC OMG) with the Ministry of the Environment and Water Resources and Ministry of Oil and Gas in June 2014, and recognized a reversal of the related provision for the amount of KZT2.1 billion. In 4Q2014, the Company reconsidered this ecology provision and accrued an additional provision in the amount of KZT3.2 billion. In 2015, the Company once again reconsidered the ecology provision and accrued additional provision in the amount of KZT0.1 billion.

A decrease in asset retirement obligation resulted mainly due to the extension of EMG subsoil agreements.

Strategic overview

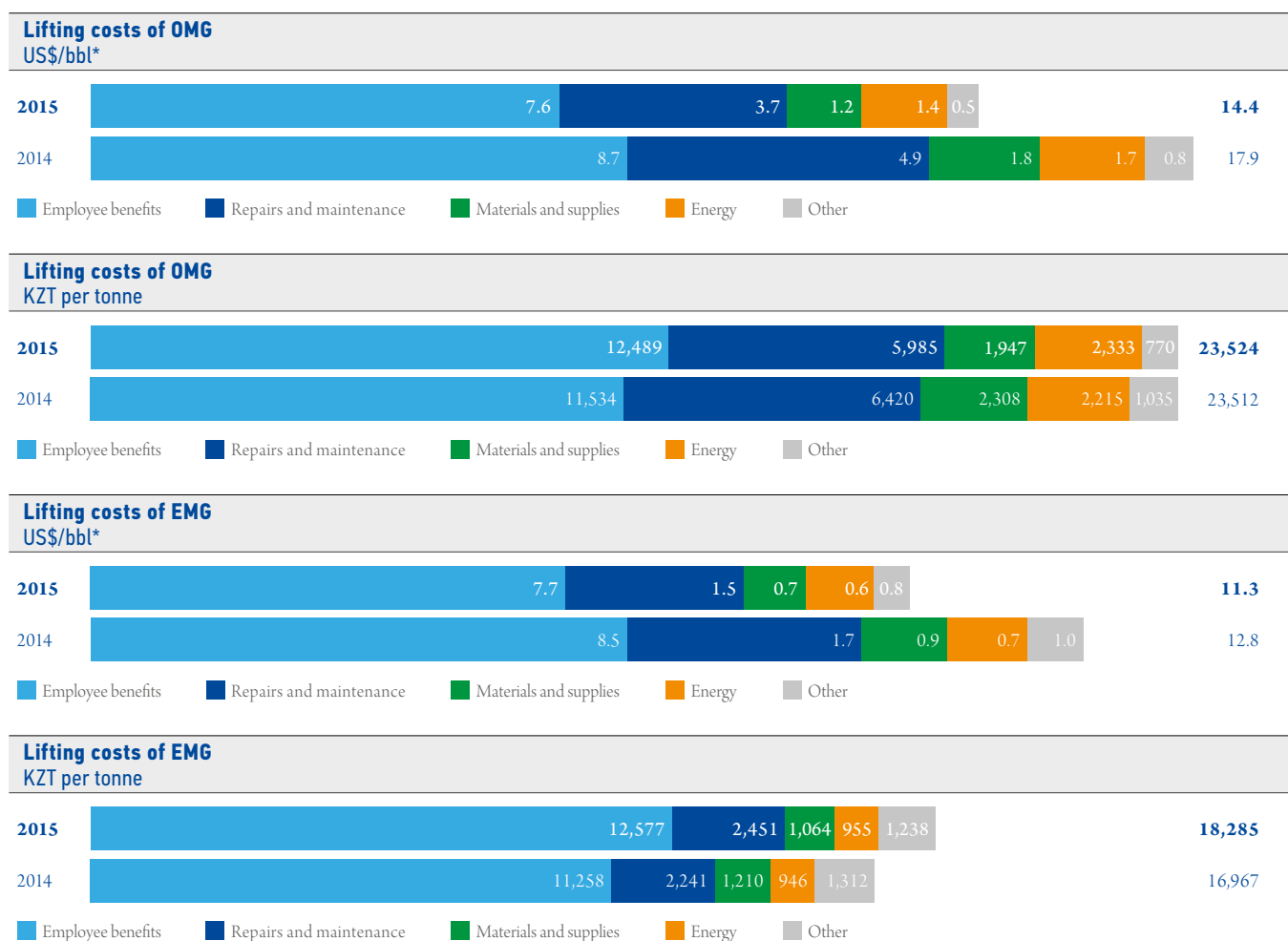
Operating and financial review continued

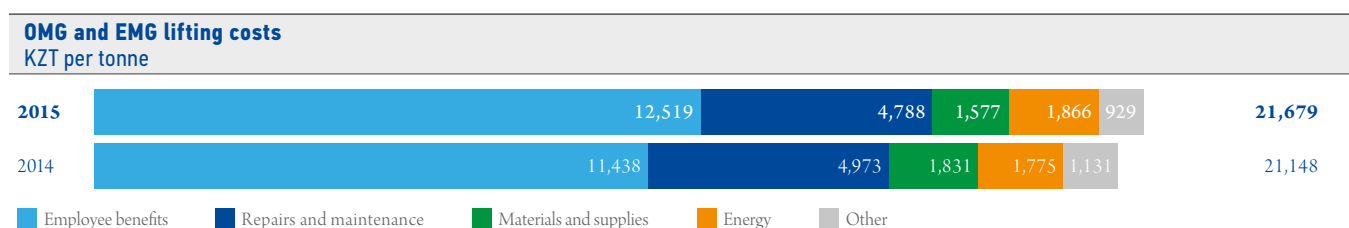
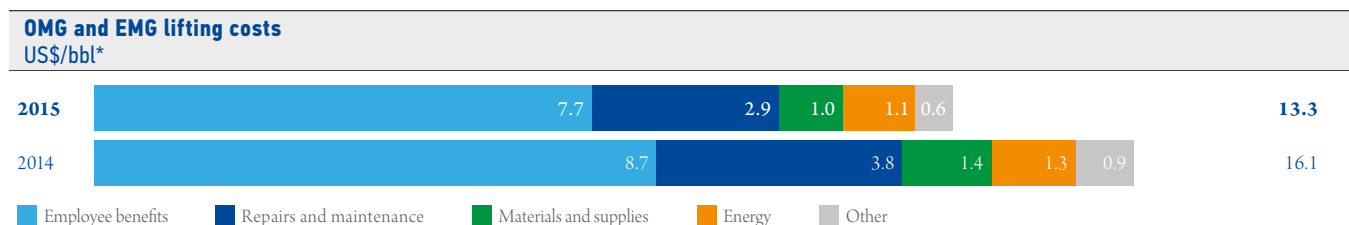
Lifting costs

Starting from 4Q2014 the Company changed its lifting costs calculation methodology. Lifting cost per barrel is calculated as production costs of OMG and EMG subsidiaries, including materials and supplies, production payroll, repairs and maintenance, and other production expenses except for the DD&A, taxes, contractual social obligations, actuarial costs, obligatory professional pension deductions and other expenses not directly related to the production process, divided by total crude oil produced.

As most of the OMG and EMG production expenses are denominated in Tenge, lifting costs in US\$ per bbl decreased mainly due to the increase of the average tenge/US dollar exchange rate that resulted from the decision of the Government of the Republic of Kazakhstan and NBK to switch to the freely floating tenge exchange rate regime in 3Q2015.

The following chart depicts production lifting costs of OMG and EMG in US\$/bbl*:





* 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:

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
21,036	13,814	16,163	30%	Transportation expenses	66,637	68,687	-3%
2,392	14,762	962	149%	Fines and penalties	24,737	3,592	589%
5,623	5,011	4,865	16%	Employee benefits	19,364	16,758	16%
759	242	855	-11%	Consulting and audit services	1,889	2,188	-14%
423	228	392	8%	Repairs and maintenance	1,026	1,023	0%
281	257	497	-43%	Sponsorship	726	933	-22%
(3,338)	1,112	1,113	-400%	Management fees and commissions	-	4,451	-100%
1,165	1,389	2,289	-49%	Other	4,222	4,936	-14%
28,341	36,815	27,136	4%	Total SG&A expenses	118,601	102,568	16%
6.0	12.0	10.4	-42%	Total SG&A expenses (US\$ per bbl sold*)	8.9	9.9	-10%

*Converted at 7.23 barrels per tonne of crude oil.

Selling, general and administrative expenses in 2015 amounted to KZT118.6 billion which is 16% higher than in 2014. The increase is mainly due to the rise in fines and penalties, which were partially offset by the decrease in management fees and commissions.

In 2015, the Company accrued KZT16.1 billion of penalties related to CIT and EPT provisions based on the results of the 2009-2012 tax audit, KZT3.3 billion of penalties related to CIT and EPT provisions on possible future tax audit assessments for 2012-2015, KZT2.1 billion of penalties related to the additional declaration of MET submitted for 3Q and 4Q 2012 and KZT2.1 billion of penalties related to lower accrual of advance payment.

Management fees and commissions in 2015 decreased compared to 2014 as the Company did not sign a management agreement with NC KMG for 2015.

Strategic overview

Operating and financial review continued

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:

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
16,114	25,414	16,858	-4%	MET	67,160	89,840	-25%
22,648	11,563	16,993	33%	Export customs duty	65,588	74,227	-12%
8,453	9,423	19,960	-58%	Rent tax	39,838	151,861	-74%
1,734	1,725	1,739	0%	Property tax	6,265	6,204	1%
968	886	2,852	-66%	Other taxes	2,650	6,079	-56%
49,917	49,011	58,402	-15%	Total taxes other than on income	181,501	328,211	-45%
10.5	16.0	22.4	-53%	Total taxes other than on income (US\$ per bbl sold*)	13.6	31.7	-57%

* Converted at 7.23 barrels per tonne of crude oil.

Taxes other than on income in 2015 decreased by KZT146.7 billion or 45% compared to 2014, mainly due to the decrease in rent tax, mineral extraction tax and ECD.

Rent tax decreased due to the average Brent price drop, which also resulted in the reduction of the average tax rate from 21% in 2014 to 11% in 2015, as well as a decrease in export volumes. This impact was partially offset by an increase in the average tenge/US dollar exchange rate.

The decrease of MET in 2015 compared to 2014 resulted from a drop in the average Brent price from US\$98.95 per barrel in 2014 to US\$52.39 per barrel in 2015 and the decrease of export volumes, which was partially offset by an increase in the average tenge/US dollar exchange rate, and additional charges recognised in 3Q 2015 in the amount of KZT12.8 billion for adjustments of the MET rate in 2012 as per the tax audit act for the 2009-2012 period.

ECD expenses decreased in 2015 compared to 2014 mainly due to the ECD rate drop (the ECD rate was dropped back from US\$80 per tonne to US\$60 per tonne effective from March 19, 2015) and the decrease of export volumes, which was partially offset by an increase in the average tenge/US dollar exchange rate.

Income tax expense

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
161,752	194,955	(233,071)	-169%	Profit / (loss) before tax	371,190	61,573	503%
181,828	200,601	(16,285)	-100%	Profit / (loss) before tax (with adjustments**)	395,610	258,065	53%
55,856	60,071	(38,113)	-247%	Income tax	127,521	14,535	777%
55,856	60,071	9,158	510%	Income tax (with adjustments**)	127,521	66,917	91%
11.8	19.6	(14.6)	-181%	Income tax, US\$ per bbl* sold	9.6	1.4	586%
35%	31%	16%	119%	Effective tax rate	34%	24%	42%
31%	30%	-56%	-155%	Effective tax rate (with adjustments**)	32%	26%	23%

* Converted at 7.23 barrels per tonne of crude oil.

** Profit before tax and income tax expense without share in results of JVs and associated company, impairment charges and related deferred tax benefit.

The main reason for the higher 2015 income tax compared to 2014 is the higher taxable profit from the increase in the average tenge/US dollar exchange rate as the result of the decision of the Government of the Republic of Kazakhstan and NBK to switch to the freely floating tenge exchange rate regime in 3Q2015.

The higher effective tax rate in 2015 compared to 2014 is due to accrual of CIT and EPT provisions in the amount of KZT10.0 billion related to the results of the 2009-2012 tax audit. In addition, the Company with its tax advisors has undertaken a review of its tax accounts covering the 2012-2015 period and has made an additional provision of CIT and EPT in the amount of KZT21.6 billion.

Overview of JV's and associate's operations

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

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
(5,296)	(108)	11,133	-148%	Share in income / (loss) from KGM	2,626	41,672	-94%
(6,395)	(6,142)	604	-100%	Share in income / (loss) from PKI	(17,772)	21,735	-182%
(4,885)	857	(261)	100%	Share in income / (loss) from UOG	(4,916)	(722)	581%
-	-	(10)	-100%	Share in loss from KS	-	(2,494)	-100%
(16,576)	(5,393)	11,466	-245%	Share in income / (loss) in associate and JVs	(20,062)	60,191	-133%

KGM

KGM's core operating activity is the production and sales 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 2015 was 3,000 ktonnes (50% share is 1,500 ktonnes), in line with 2014.

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

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(US\$ thousand, unless otherwise stated)					(US\$ thousand, unless otherwise stated)		
112,082	140,695	274,215	-59%	Revenue	628,154	1,399,617	-55%
(80,605)	(80,370)	(114,903)	-30%	Operating expenses	(398,697)	(635,662)	-37%
(237)	1	(51)	365%	Finance income / (cost), net	(790)	2,174	-136%
35,329	(8,939)	(7,354)	-580%	Foreign exchange gain / (loss), net	25,907	29,084	-11%
(114,608)	(45,984)	(18,571)	517%	Income tax expense	(218,532)	(289,423)	-24%
(48,039)	5,403	133,336	-136%	Net income	36,042	505,790	-93%
745	752	783	-5%	Crude oil production, ktonnes	3,000	3,000	0%

The decrease in 2015 revenue mainly resulted from lower export volumes, as well as a decrease in the average export and domestic prices in comparison with 2014. Moreover, in 2015 KGM accrued US\$10.9 million of penalties for EPT and CIT based on the tax audit of 2009-2012, which resulted in lower net income in 2015 compared to 2014.

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

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(ktonnes)					(ktonnes)		
552	595	596	-7%	Domestic market	2,102	1,943	8%
194	151	184	5%	Export via KCP	880	942	-7%
-	-	-	0%	Export via Aktau	-	132	-100%
746	746	780	-4%	Total crude oil sales, ktonnes	2,982	3,017	-1%

A decrease in the export sales volumes and average export price has also resulted in a decrease in operating expenses, particularly rent tax (by US\$139.1 million), MET (by US\$49.1 million) and transportation expenses (by US\$43.0 million).

ECD expenses decreased by US\$19.1 million due to the decrease in export sales volume in 2015 compared to 2014 and the ECD rate drop from US\$80 per tonne to US\$60 per tonne effective from March 19, 2015.

Strategic overview

Operating and financial review continued

Operating expenses on per barrel sold basis are as follows:

4Q 2015	3Q 2015	4Q 2014	Change		2015	2014	Change
(US\$ per bbl sold*)					(US\$ per bbl sold*)		
3.0	4.0	3.6	-17%	DD&A	3.7	3.3	12%
3.1	2.6	3.4	-9%	Transportation expenses	3.3	5.1	-35%
2.2	1.6	2.3	-4%	Export customs duty	2.6	3.4	-24%
1.1	1.3	2.2	-50%	Mineral extraction tax	1.8	3.9	-54%
0.6	0.2	2.2	-73%	Rent tax	1.5	7.4	-80%
1.1	1.2	1.7	-35%	Repairs and maintenance	1.2	1.1	9%
1.0	1.0	1.5	-33%	Employee benefits	1.1	1.3	-15%
0.7	0.6	0.8	-13%	Materials and supplies	0.6	0.6	0%
(0.4)	–	–	-100%	Fines and penalties	0.4	–	100%
1.7	1.6	1.4	21%	Other	1.2	1.2	0%
14.1	14.1	19.1	-26%	Total operating expenses	17.4	27.3	-36%

* Converted at 7.7 barrels per tonne of crude oil.

The share in KGM income, reflected in the audited consolidated financial statements of the Company, represents a proportionate share of the results of KGM for 2015, adjusted for the impact of amortisation of the fair value of the licences, partially offset by a related deferred tax benefit of KZT1.4 billion (KZT3.6 billion in 2014).

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

PKI

For the purposes of this report joint operations of PKI have been proportionally consolidated.

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 2015 PKI produced 4,390 ktonnes (33% share: 1,449 ktonnes) which is 10% less than in 2014. 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:

4Q 2015	3Q 2015	4Q 2014	Change		2015	2014	Change
(US\$ thousand, unless otherwise stated)					(US\$ thousand, unless otherwise stated)		
170,411	236,364	490,941	-65%	Revenue	984,943	2,468,829	-60%
(224,710)	(235,718)	(326,057)	-31%	Operating expenses	(1,012,943)	(1,472,762)	-31%
(10,835)	(8,496)	(5,045)	115%	Finance cost, net	(41,796)	(25,420)	64%
(27,725)	(57,718)	(72,886)	-62%	Income tax expense	(124,683)	(454,061)	-73%
(92,859)	(65,568)	86,953	-207%	Net income / (loss)	(194,479)	516,586	-138%
1,069	1,103	1,219	-12%	Crude oil production, ktonnes	4,390	4,883	-10%

The decrease in revenue in 2015, in comparison with 2014, occurred mainly due to lower export volumes and a decrease in average Brent prices and domestic prices.

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

4Q 2015	3Q 2015	4Q 2014	Change		2015	2014	Change
(ktonnes)					(ktonnes)		
727	774	813	-11%	Domestic sales	2,804	2,867	-2%
166	160	244	-32%	Export via KCP (PKKR 100%)	762	1,089	-30%
97	75	92	5%	Export via KCP (KGM 50%)	440	471	-7%
43	45	38	13%	Export via KCP (TP 50%)	181	171	6%
31	31	38	-18%	Export via KCP (Kolzhan 100% & PKVI 75%)	105	152	-31%
–	–	–	0%	Export Aktau (KGM 50%)	–	66	-100%
–	–	11	-100%	Export Uzbekistan (TP 50%)	–	47	-100%
1,064	1,085	1,236	-14%	Total crude oil sales, ktonnes	4,292	4,863	-12%

Operating expenses decreased mainly due to lower export sales and average export price that resulted in lower rent tax (by US\$263.2 million), MET (by US\$89.5 million) and transportation expenses (by US\$60.8 million).

In 2015 PKI accrued US\$2.1 million of PetroKazakhstan Kumkol Resources JSC's (100% subsidiary) penalties related to CIT and EPT of 2013 and a US\$4.2 million ecological fine. PKI also recognised a 50% share in KGM's penalties accrued in the amount of US\$5.5 million for EPT and the CIT based on the tax audit of 2009-2012. Moreover, PKI accrued US\$13.9 million of penalties based on the tax audit results of Kolzhan LLP for 2011-2012 and US\$9.8 million of fines and penalties related to the tax audit results of Turgai-Petroleum JSC for 2009-2012.

Operating expenses on per barrel sold basis are as follows:

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(US\$ per bbl sold*)					(US\$ per bbl sold*)		
5.2	9.2	9.7	-46%	DD&A	8.4	9.0	-7%
3.0	3.6	4.6	-35%	Transportation expenses	3.8	5.0	-24%
2.3	2.1	3.4	-32%	Export customs duty	2.9	3.7	-22%
1.1	2.0	3.6	-69%	Repairs and maintenance	2.1	3.1	-32%
1.4	1.7	2.1	-33%	Employee benefits	1.9	2.2	-14%
1.2	1.4	2.7	-56%	Mineral extraction tax	1.8	4.0	-55%
0.9	1.2	4.7	-81%	Rent tax	1.7	8.5	-80%
1.1	1.0	1.7	-35%	Materials and supplies	1.1	1.4	-21%
2.7	(0.3)	(3.7)	100%	Fines and penalties	1.1	(0.7)	-257%
8.4	6.3	5.2	62%	Other	5.8	2.9	100%
27.3	28.2	34.0	-20%	Total operating expenses	30.6	39.1	-22%

* Converted at 7.75 barrels per tonne of crude oil.

The share in PKI results reflected in the Company's audited condensed consolidated financial statements represents a proportionate share of the results of PKI in 2015 adjusted for the impact of amortisation of the fair value of the licences for the amount of KZT7.3 billion (KZT5.7 billion in 2014).

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

CCEL

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

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

As of December 31, 2015 the Company had KZT30.3 billion (US\$89.3 million) as a receivable from CCEL. The Company has accrued KZT3.4 billion (US\$15.2 million) of interest income in 2015, relating to the US\$26.87 million annual priority return from CCEL. In 2015, the Company received US\$26.4 million as a priority return from CCEL.

In 2015, CCEL produced around 2,138 ktonnes (50% share: 1,069 ktonnes) of crude oil, which increased by less than 1% compared to 2014. CCEL's key financial and operational indicators (100%) are as follows:

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(US\$ thousand, unless otherwise stated)					(US\$ thousand, unless otherwise stated)		
99,734	139,950	226,302	-56%	Revenue	569,399	1,172,474	-51%
(163,330)	(239,435)	(195,795)	-17%	Operating expenses	(763,435)	(903,682)	-16%
(8,220)	(6,279)	(6,637)	24%	Finance cost, net	(28,503)	(26,550)	7%
(21,264)	(770)	(8,803)	142%	Income tax expense	(7,707)	(69,054)	-89%
(93,080)	(106,534)	15,067	-718%	Net income / (loss)	(230,246)	173,188	-233%
534	543	539	-1%	Crude oil production, ktonnes	2,138	2,132	0%

Strategic overview

Operating and financial review continued

The decrease in revenue in 2015 is mainly a result of a decrease in average export and domestic sales prices. CCEL crude oil sales split by routes is as follows:

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(ktonnes)					(ktonnes)		
210	272	221	-5%	Export via Novorossiysk	885	872	1%
217	164	165	32%	Export via Ust'-Luga	666	438	52%
-	-	-	0%	Export via Primorsk	-	186	-100%
63	97	127	-50%	Domestic market	382	485	-21%
-	-	45	-100%	Shipments of crude oil to Russia	139	124	12%
490	533	558	-12%	Total crude oil sales, ktonnes	2,072	2,105	-2%

Total operating expenses in 2015 decreased by 16% compared to 2014 mainly due to the decrease in rent tax, ECD, repairs and maintenance and DD&A which was partially offset by an increase in foreign exchange loss resulting from the decision of the Government of the Republic of Kazakhstan and NBK to switch to the freely floating tenge exchange rate regime in 3Q2015.

Rent tax decreased in 2015 compared to 2014 mainly as a result of the decrease in average Brent price, which was partially offset by an increase of export sales. ECD expenses decreased due to the ECD rate drop from US\$80 per tonne to US\$60 per tonne effective from March 19, 2015, which was partially offset by an increase of export sales in 2015 compared to 2014.

Repairs and maintenance decreased in 2015, mainly due to the decrease in volume of well workovers and servicing in the reporting period compared to 2014.

Operating expenses on per barrel sold basis are as follows:

4Q2015	3Q2015	4Q2014	Change		2015	2014	Change
(US\$ per bbl sold*)					(US\$ per bbl sold*)		
10.1	13.3	13.3	-24%	Employee benefits	11.1	11.3	-2%
8.7	7.1	8.9	-2%	Export customs duty	7.4	8.1	-9%
7.5	7.2	7.1	6%	Transportation expenses	7.1	7.1	0%
(2.3)	6.1	0.7	-429%	DD&A	4.9	8.7	-44%
2.5	5.1	9.2	-73%	Rent tax	4.3	15.2	-72%
2.8	3.5	4.5	-38%	Energy	3.9	4.6	-15%
2.9	3.1	4.7	-38%	Repairs and maintenance	3.8	4.7	-19%
0.6	1.0	0.9	-33%	Materials and supplies	0.9	0.9	0%
0.2	0.3	0.4	-50%	Mineral extraction tax	0.3	0.5	-40%
16.9	20.6	2.8	504%	Other	11.4	3.1	268%
49.9	67.3	52.5	-5%	Total operating expenses	55.1	64.2	-14%

* Converted at 6.68 barrels per tonne of crude oil.

For the capital expenditure analysis of JVs 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	17,925	40,735	137,454
Materials	13,898	34,980	12,826
Repair and maintenance	14,688	39,849	52,465
Energy	12,339	27,161	54,612
Other	5,008	33,576	15,221
Total lifting expenses (US\$ thousand)	63,858	176,301	272,578
Production (ktonnes)	3,000	4,390	2,138
Lifting cost US\$ per bbl*	2.8	5.2	19.1

*The 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)	52.4	52.4	52.4
Price differential and premium of bbl difference, net	(7.1)	(7.5)	(5.0)
Average realised price	45.3	44.9	47.4
Rent tax	(5.0)	(4.8)	(5.3)
Export customs duty	(8.8)	(8.3)	(9.1)
Transportation expenses	(5.4)	(6.5)	(8.1)
MET	(5.2)	(3.8)	(0.2)
Netback price	20.9	21.5	24.7

*The 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)		
Realised price	19.2	21.2	16.0
Transportation expenses	(2.2)	(2.0)	(0.9)
MET	(0.4)	(0.7)	(0.2)
Netback price	16.6	18.5	14.9

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

CCEL netback of counter crude oil shipments to the Russian Federation is represented as follows:

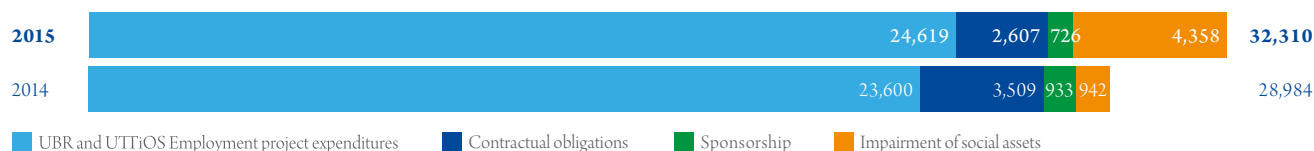
	CCEL
	(US\$ per bbl sold*, unless otherwise stated)
Realised price	44.0
Transportation expenses	(6.2)
MET	(0.3)
Netback price	37.5

* A tonne / bbl conversion factor for shipments to Russia of 7.23 is used.

Strategic overview

Operating and financial review continued

Corporate social responsibility

Social expenditures
million KZT

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 centres, 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 2015, the Company incurred KZT23.7 billion of operating expenses at UBR and UTTiOS, including KZT19.3 billion of employee benefit expenses and KZT4.4 billion for materials, supplies and other expenses.

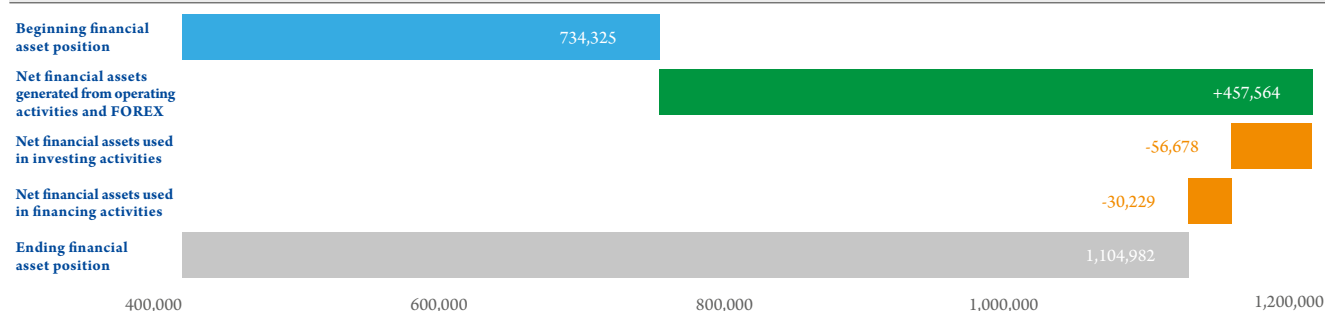
The Company has invested approximately KZT0.9 billion for the enlargement construction of worker accommodation, and production facilities as well as the purchase of equipment, to support the operations at UBR and UTTiOS. Expenses for the financing of UTTiOS were partially offset by the income from third parties in 2015, which totalled KZT5.3 billion (KZT6.3 billion in 2014).

In 2015 the Company spent KZT0.7 billion on sponsorship and supporting charities. The majority of this was used to finance social funds.

Obligations from exploration and production licences are arising from contracts for subsoil use and include payments to the social programs fund, the ecology fund and the commitment to train personnel. In 2015, the Company's social expenses related to the execution of contractual obligations amounted to KZT2.6 billion, including the social programs and ecology fund that amounted to KZT1.9 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 the need to finance its 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.

Financial asset movement for 2015
million KZT

During 2015 net financial assets inflow from operating activities and FOREX amounted to KZT457.6 billion or KZT171.5 billion more than in 2014. The increase is primarily attributable to higher foreign exchange gain recognition, as a result of the decision of the Government of the Republic of Kazakhstan and NBK to switch to the freely floating tenge exchange rate regime in 3Q2015, which was partially offset by the effect of lower crude oil sales prices.

Net financial asset outflow from investing activity in 2015 was KZT56.7 billion versus an outflow of KZT44.4 billion in 2014. Increase in net outflows primarily resulted from lower dividends received from JVs and associates (KZT60.1 billion less), which was partially offset by lower capital expenditures (KZT44.0 billion less) and higher loan repayments received from related parties (KZT1.9 billion more).

Net financial asset outflow from financing activities in 2015 was KZT30.2 billion (outflow of KZT130.1 billion in 2014). The decrease in outflows is mainly associated with lower dividend payments made in 2015 compared to 2014 (KZT100.0 billion less).

Net cash position

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

	As at December 31, 2015	As at December 31, 2014	Change
	(KZT million, unless otherwise stated)		%
Current portion	5,585	3,000	86%
Non-current portion	5,990	4,218	42%
Total borrowings	11,575	7,218	60%
Cash and cash equivalents	237,310	180,245	32%
Other current financial assets	833,912	535,513	56%
Non-current financial assets	33,760	18,567	82%
Total financial assets	1,104,982	734,325	50%
Foreign currency denominated cash and financial assets, %	99%	94%	
Net cash	1,093,407	727,107	50%

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.