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 International Financial Reporting Standards ("IFRS"). According to the Company's accounting policy, interestsin 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 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 KazMunayGas ("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, 2014:

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 ("KMG EP EA")	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
on December 31, 2013:

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
3,111	3,111	3,161	-2%	Total production (ktonnes)*	12,328	12,388	0%
(194,958)	31,692	48,668	-501%	Net Income/(loss) (KZT million)	47,038	141,829	-67%
(2.86)	0.46	0.71	-503%	Basic and diluted EPS (KZT thousand)	0.69	2.08	-67%
17,541	66,888	82,484	-79%	EBITDA (KZT million)**	281,917	308,947	-9%
-9%	15%	27%	-133%	Operating margin (%)***	17%	23%	-26%
(81,309)	55,986	69,925	-216%	Operating cash flow before working capital adjustments (KZT million)	147,942	184,520	-20%
-13%	2%	4%	-425%	ROE (%)	3%	11%	-73%

* 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.
*** 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.

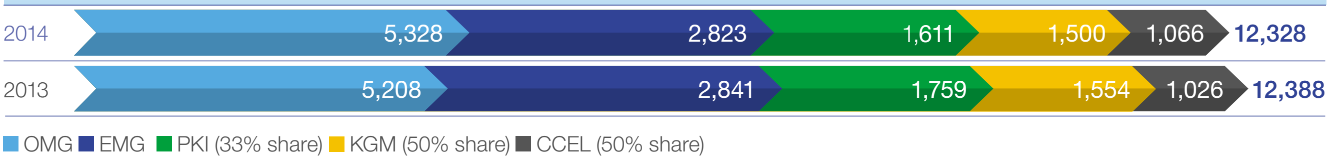
The National Bank of Kazakhstan ("NBK") made a decision to abandon its support of the tenge, reducing foreign exchange interventions and efforts to control the rate of the Tenge, effective from February 11, 2014. To prevent destabilization of the financial markets and the economy as a whole, NBK established 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.

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
76.58	101.93	109.27	-30%	Average Brent (DTD) (US$ / bbl)	98.95	108.66	-9%
1.5%	1.1%	1.5%	0%	Kazakhstan inflation (%)	7.4%	4.8%	54%
181.39	182.52	153.80	18%	Average Tenge/US$ exchange rate	179.12	152.14	18%
182.35	181.90	153.61	19%	Tenge/US$ exchange rate at the reporting date	182.35	153.61	19%

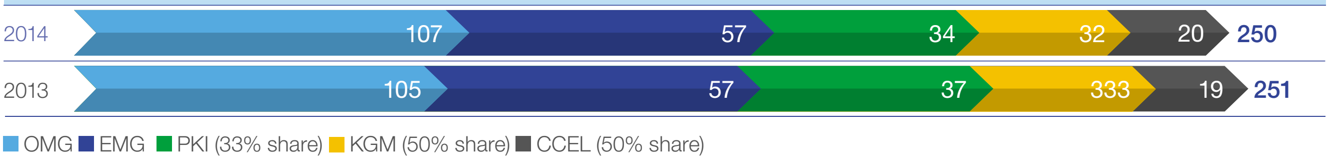
Operating and financial review continued

Production activity

Crude oil production for the period
ktonnes



Average daily production
kBOPD



The Company's total crude oil production in 2014, including the share of production from its joint ventures and associated company, amounted to 12,328 ktonnes or 250 kbopd. OMG and EMG produced 164 kbopd with a further 34 kbopd from PKI, 32 kbopd from KGM and 20 kbopd from CCEL.

Compared to 2013, OMG production increased by 120 ktonnes due to the increase in drilling activity and decrease in idle well park. Compared to 2013, EMG production decreased by 1% or 18 ktonnes.

The share in PKI production declined by 148 ktonnes in 2014, compared to 2013, due to the natural decline at some of the PKI mature fields. Share in KGM's production decreased by 54 ktonnes in 2014, compared with 2013, due to the natural depletion of the KGM fields. Share in CCEL production increased by 40 ktonnes in 2014, compared with 2013, mainly due to an increase in well park. Total share in the production volume of PKI, KGM and CCEL in 2014 was 4,177 ktonnes.

Wells as of reporting date*	Number of wells Drilled in 2014*	Number of wells Drilled in 2014*		Well workovers 2014	Well workovers 2013	Change	Well servicings 2014	Well servicings 2013	Change
5,082	227	226	OMG	890	853	4%	15,034	14,962	0%
2,759	70	85	EMG	284	298	-5%	3,723	3,663	2%
1,788	114	127	PKI (100%)**	400	512	-22%	1,012	1,397	-28%
220	28	28	KGM (100%)**	44	45	-2%	88	63	40%
3,503	179	154	CCEL (100%)**	255	243	5%	3,577	3,150	14%

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

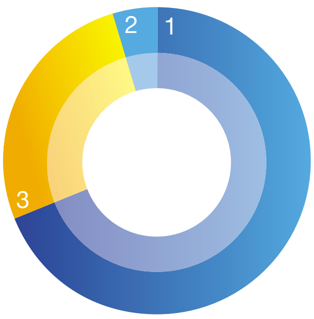
Oil production in the reporting period from the new wells at OMG amounted to 374 ktonnes compared to 272 ktonnes in 2013. OMG workovers of 890 wells provided an incremental production of 417 ktonnes, while 853 well workovers in 2013 provided incremental production of 400 ktonnes.

Oil production for 2014 from the new wells at EMG amounted to 73 ktonnes compared to 116 ktonnes in 2013. EMG performed 284 well workovers which provided an incremental production of 87 ktonnes, while 298 well workovers provided 99 ktonnes in 2013.

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, CA, and other subsidiaries ₸128,234 mln



1 OMG	88,502 mln
2 EMG	33,730 mln
3 Head office & other subsidiaries	6,002 mln
Total	128,234 mln

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

In 2014 the Company's capital expenditures, amounted to KZT128.2 billion, KZT15.7 billion less than in 2013. 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 2014 amounted to KZT88.5 billion, which is KZT4.3 billion less than in 2013, mainly due to lower fixed asset purchases, which were partially offset by an increase in production drilling and a higher level of construction and modernisation of production facilities in 2014.

EMG capital expenditure in 2014 amounted to KZT33.7 billion, which is KZT3.1 billion less than in 2013, mainly due to a higher level of construction and modernisation of production facilities in 2013.

Head office and other subsidiaries' capital expenditure in 2014 amounted to KZT6.0 billion, KZT8.2 billion less than in 2013, mainly due to increased construction and exploration drilling works performed by Head office in 2013.

Operating and financial review continued

Capital expenditure of equity-accounted entities

PKI capital expenditures in 2014 amounted to KZT43.2 billion (KMG EP 33% share: KZT14.3 billion), which is 27% less than in 2013, mainly due to decrease in construction works and production drilling in the current period.

KGM capital expenditures for the period were KZT18.1 billion (KMG EP 50% share: KZT9.1 billion), which is KZT3.1 billion more than in 2013, mainly due to costs relating to the Aksai field development, the higher purchase of fixed assets and the modernization of general purpose facilities in 2014.

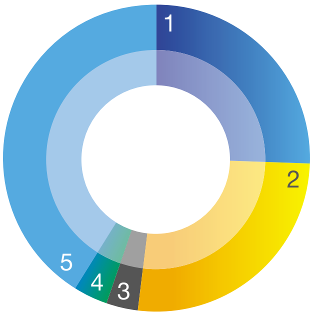
CCEL capital expenditures in 2014 were KZT17.9 billion (KMG EP 50% share: KZT9.0 billion), which is 4% more than in 2013, primarily due to an increase in the number of drilled wells from 154 to 179.

UOG capital expenditures amounted to KZT2.3 billion (KMG EP 50% share: KZT1.2 billion), which is 83% less than in 2013, mainly due to a higher level of exploration activity in the prior period as the Fedorovskiy block first stage exploration program on the Rozhkovskiy field is currently being finalised.

KS capital expenditures amounted to KZT2.5 billion (KMG EP 51% share: KZT 1.3 billion), which is 34% less than in 2013, mainly due to a higher level of exploration drilling in 2013.

* Capital expenditure amounts for 2015 presented herein represent currently expected amounts based on the management's estimates as of date of issuance of this report. Amounts do not represent any formal commitments and are subject to changes in any direction.

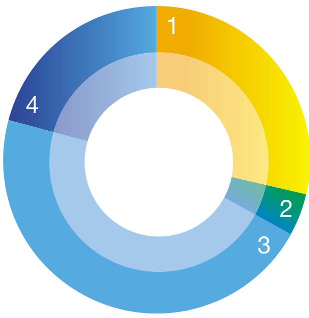
Capital expenditures of equity-accounted entities ₸34,729 mln



1 CCEL (50%)	8,961 mln
2 KGM (50%)	9,082 mln
3 OUG (50%)	1,155 mln
4 KS (50%)	1,268 mln
5 PKI (33%)	14,263 mln
Total	34,729 mln

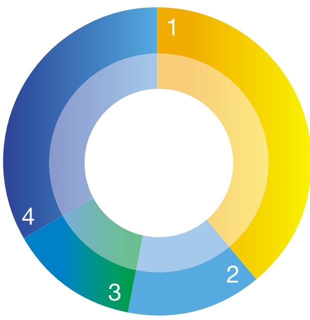
Below are current 2015 capital expenditure expectations for consolidated and equity accounted entities:

Current 2015 capital expenditure expectations for OMG, EMG and other subsidiaries ₸84,182 mln



1 Constructions works	24,164 mln
2 Exploration	3,786 mln
3 Production drilling	38,715 mln
4 Other capital expenditure	17,517 mln
Total	84,182 mln*

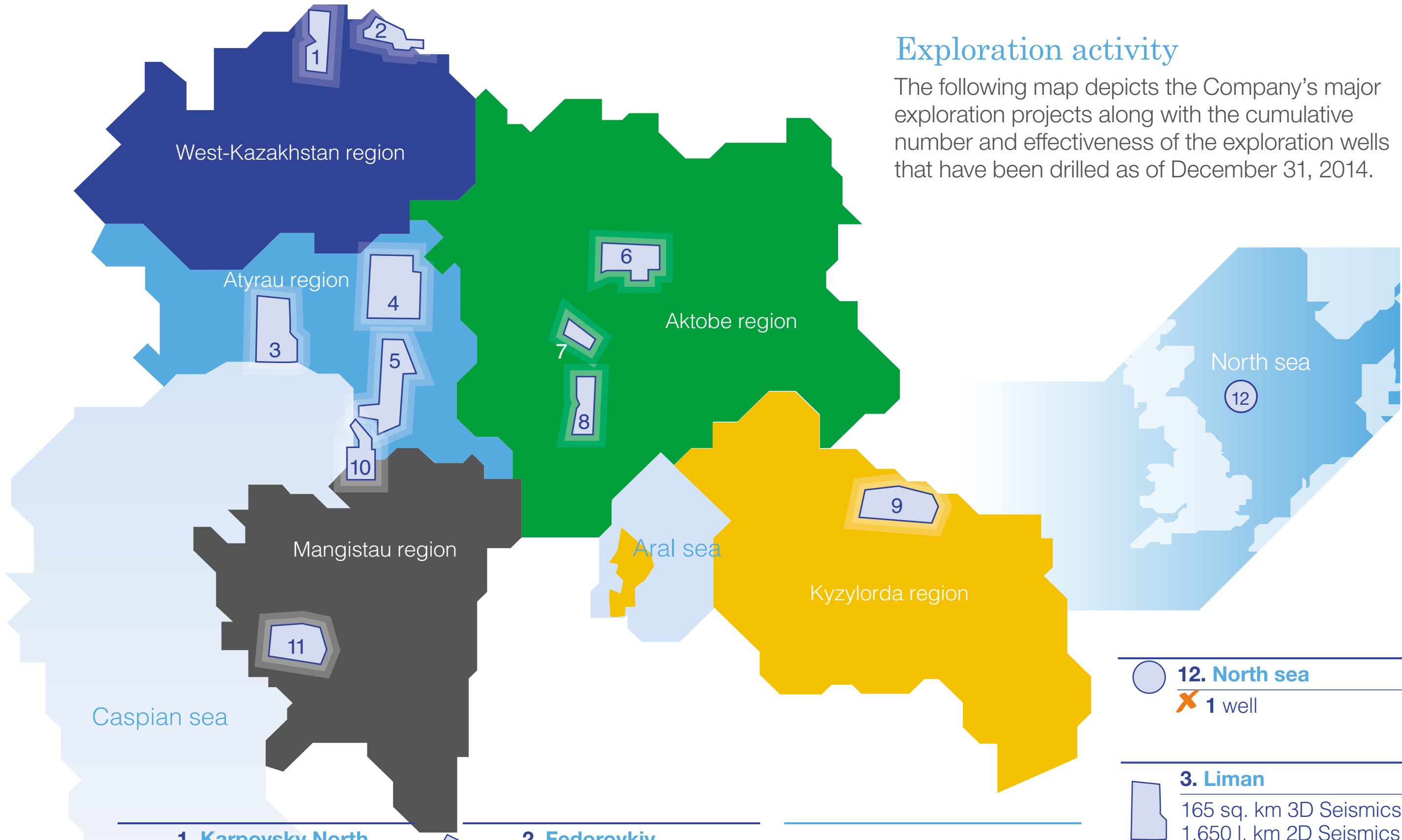
Current 2015 capital expenditure expectations for equity-accounted entities (proportional share) ₸45,547 mln



1 Construction works	17,725 mln
2 Production drillinng	6,176 mln
3 Other capital expenditure	6,468 mln
4 Exploration	15,178 mln
Total	45,547 mln

Exploration activity

The following map depicts the Company's major exploration projects along with the cumulative number and effectiveness of the exploration wells that have been drilled as of December 31, 2014.



12. North sea
✗ **1** well

3. Liman
165 sq. km 3D Seismics
1,650 l. km 2D Seismics
✓ **8** wells
✗ **1** well
◆ **1** well

1. Karpovsky North
730 sq. km 3D Seismics
✗ **1** well
● **1** well

2. Fedorovkiy
After acquisition:
1,014 sq. km 3D Seismics
✓ **5** wells
◆ **1** well

Before acquisition:
1,396 l. km 2D Seismics
✓ **2** wells
✗ **2** wells

7. Zharkamys Eastern-1
200 sq. km 3D Seismics
610 l. km 2D Seismics
✗ **2** wells

4. Taisoigan (Bazhir field only)
86 sq. km 3D Seismics
150 l. km 2D Seismics
✓ **1** well
✗ **2** wells

5. R-9
984 sq. km 3D Seismics
3,620 l. km 2D Seismics
✗ **12** wells

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

11. Uzen-Karamandybas
1,500 l. km 2D Seismics
✗ **2** wells

8. Teresken
Exploration contract returned to the state on May 12, 2014
900 l. km 2D Seismics

9. PKI explorations blocks
1 552 sq. km 3D Seismics
3,900 l. km 2D Seismics
✓ **61** wells
✗ **14** wells
◆ **9** wells
● **1** well

10. Karaton-Sarkamys
160 sq. km 3D Seismics
✗ **2** wells
● **1** well

Legend

Exploration projects | ✓ Well with inflow | ✗ Dry wells | ◆ Wells in testing | ● Wells in drilling

Operating and financial review continued

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	G-8	The well has been drilled to a depth of 1265m. Testing completed – with inflow.
			Trial production of Novobogat Southeast is being conducted. Due to a sufficiency of geological information, Liman Block is to be transferred to the development stage for reporting purposes disregarding the legal status of the field as an exploration contract.
Temir (100%)	Prospect I		As of the reporting date, the interpretation of the results from the 3D seismic works for 200 sq. km was finalised. As a result a number of objects were selected in the subsalt complex. The Company is considering engaging a potential partner to conduct joint exploration.
Zharkamys Eastern (100%)	Tuskum		The Company is in the process of returning the contract area to the State due to low prospects.
Uzen-Karamandybas (100%)	NW Tenge	NW-1	Dry well, liquidated.
Taisoigan (100%)	Bazhir East	G-3	Dry well, liquidated.
	Uaz	U-2	Testing completed – with inflow.
Teresken (100%)			The Company concluded the process of returning the contract area to the State on May 12, 2014.
R-9 (100%)			Return of the contract area to the State is being considered by the Company.
Karaton Sarkamys (100%)		NSV-1	Well drilling was started. Current depth – 500m.
Karpovskiy Severniy (KS-51%)	Melovoya	SK-1	Dry well, liquidated.
	Orlovskaya Central	SK-2	Planned to deepen the well to 5,750m. Current depth – 5,460m.
			3D seismic field works on the block with the area of 732 sq. km. have been completed. Processing and interpretation of 3D seismic filed works were completed, in process of analysing results.

Block (interest)	Prospect	Well	Status as of reporting date
Fedorovskiy block (UOG-50%)	Rozhkovskiy	U-24	Testing completed – with inflow of gas and condensate. The exploration license for the Fedorovskiy block expired on May 11, 2014. The Company received preliminary permission from the Ministry of Energy for further extension of the Fedorovskiy block exploration period from May 2014 to May 2016. The Company also expects to conclude the Rozhkovskiy field production contract in 1Q 2015. On May 13, 2014 the Company announced a new discovery in the Bashkirian tier sediments of the Carboniferous period in the Rozhkovskiy field while carrying out tests in reservoirs of the Bashkirian period at the U-24. Previous exploration on this part of the field targeted hydrocarbons in the Bobrikovskiy and Tournaisian horizons.
White Bear block (35%)			The Company is in process of returning the contract to the State.
Doszhan-Zhamansu (24.75% through PKI)	South Doszhan, South-Eastern Doszhan		During the reporting period 8 exploration and 3 appraisal wells were drilled at the Doszhan field. One exploration well was drilled at Zhamansu field. 100 sq km of 3D seismic works were conducted. 6 wells are with inflow, 2 wells are in testing, 1 well is in drilling, 3 wells are dry.
Karaganda (PKI-33%)	Karabulak, Buharsai		2 exploration and 5 appraisal wells were drilled. Inflow was obtained from 6 wells, 1 well is dry.
Karavanchi (PKI – 33%)	Karavanchi		During the reporting period 2 wells were drilled: inflow was obtained from 1 well and 1 well is dry.

Operating and financial review continued

Results of operations

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

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
155,496	**225,829**	**210,406**	**-26%**	**Revenue**	**845,770**	**816,712**	**4%**
(67,280)	(56,136)	(35,869)	88%	Production expenses	(211,900)	(162,035)	31%
(27,136)	(26,012)	(22,484)	21%	SG&A	(102,568)	(92,360)	11%
(58,402)	(91,632)	(83,174)	-30%	Taxes other than on income	(328,211)	(311,688)	5%
(1,329)	(412)	(2,655)	-50%	Exploration expenses	(2,127)	(13,125)	-84%
(15,219)	(17,163)	(10,178)	50%	DD&A	(59,485)	(47,144)	26%
(13,870)	**34,474**	**56,046**	**-125%**	**Operating profit / (loss)**	**141,479**	**190,360**	**-26%**
11,466	10,373	11,542	-1%	Share of results of associate and JVs	60,191	50,866	18%
(2,153)	(1,260)	(1,635)	32%	Loss on disposal of fixed assets	(4,221)	(4,475)	-6%
(228,252)	(983)	(1,537)	100%	Impairment of PP&E	(256,683)	(60,099)	327%
(1,535)	4,159	2,320	-166%	Finance income / (costs), net	11,810	12,492	-5%
1,273	(5,711)	(206)	-718%	Foreign exchange gain / (loss), net	108,997	11,216	872%
38,113	(9,360)	(17,862)	-313%	Income tax (expense) / benefit	(14,535)	(58,531)	-75%
(194,958)	**31,692**	**48,668**	**-501%**	**Net income / (loss)**	**47,038**	**141,829**	**-67%**
(5.3)	12.9	25.6	-121%	Profit / (loss) from operations (US$ per bbl sold*)	13.7	21.7	-37%
(74.8)	11,.9	22.3	-435%	Net Income / (loss) (US$ per bbl sold*)	4.5	16.1	-72%

* Converted at 7.23 barrels per tonne of crude oil

The significant decrease in net income for 2014 is mainly due to the impairment of PPE related to OMG, which was partially offset by the Tenge devaluation that took place during the period leading to large foreign exchange gain recognition. The net loss for 4Q 2014 is mainly due to the recognition of PPE impairment and the drop in average Brent prices from US$101.9 per barrel in 3Q 2014 to US$76.6 per barrel in 4Q 2014, including an average Brent price of US$62.5 per barrel in December 2014. The significant income tax benefit in 4Q 2014 is related to the impairment deferred tax benefit of KZT47 billion.

Revenue

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

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
				Export sales of crude oil			
				UAS pipeline			
76,491	114,522	118,104	-35%	Net sales (KZT million)	449,931	476,606	-6%
779	879	985	-21%	Volume (ktonnes)	3,580	4,061	-12%
98,191	130,287	119,903	-18%	Average price (KZT/tonne)	125,679	117,362	7%
74.87	98.73	107.83	-31%	Average price (US$/bbl*)	97.05	106.70	-9%
				CPC pipeline			
38,263	75,994	67,828	-44%	Net sales (KZT million)	257,009	235,737	9%
390	585	550	-29%	Volume (ktonnes)	1,991	1,956	2%
98,110	129,904	123,324	-20%	Average price (KZT/tonne)	129,085	120,520	7%
74.81	98.44	110.91	-33%	Average price (US$/bbl*)	99.68	109.57	-9%
114,754	190,516	185,932	-38%	Total sales of crude oil-exported (KZT million)	706,940	712,343	-1%
1,169	1,464	1,535	-24%	Total crude oil-exported (ktonnes)	5,571	6,017	-7%
				Domestic sales of crude oil and oil products			
20,008	24,357	17,420	15%	Net domestic sales (KZT million)	94,656	79,563	19%
421	504	432	-3%	Volume (ktonnes)	1,967	1,967	0%
47,525	48,327	40,324	18%	Average price (KZT/tonne)	48,122	40,449	19%
36.24	36.62	36.26	0%	Average price (US$/bbl*)	37.16	36.77	1%
				Shipments of crude oil to Russia			
14,645	2,731	–	100%	Net sales (KZT million)	17,376	–	100%
397	50	–	100%	Volume (ktonnes)	447	–	100%
36,889	54,620	–	100%	Average price (KZT/tonne)	38,871	–	100%
28.13	41.39	–	100%	Average price (US$/bbl*)	30.02	–	100%
				Total sales			
149,407	217,604	203,352	-27%	Total net sales of crude oil (KZT million)	818,972	791,906	3%
1,987	2,018	1,967	1%	Total volume (ktonnes)	7,985	7,984	0%
75,192	107,832	103,382	-27%	Average price (KZT/tonne)	102,564	99,187	3%
57.34	81.71	92.97	-38%	Average price (US$/bbl*)	79.20	90.17	-12%
6,089	8,225	7,054	-14%	Other sales (KZT million)	26,798	24,806	8%
155,496	**225,829**	**210,406**	**-26%**	**Total revenue (KZT million)**	**845,770**	**816,712**	**4%**

* Converted at 7.23 barrels per tonne of crude oil.

Operating and financial review continued

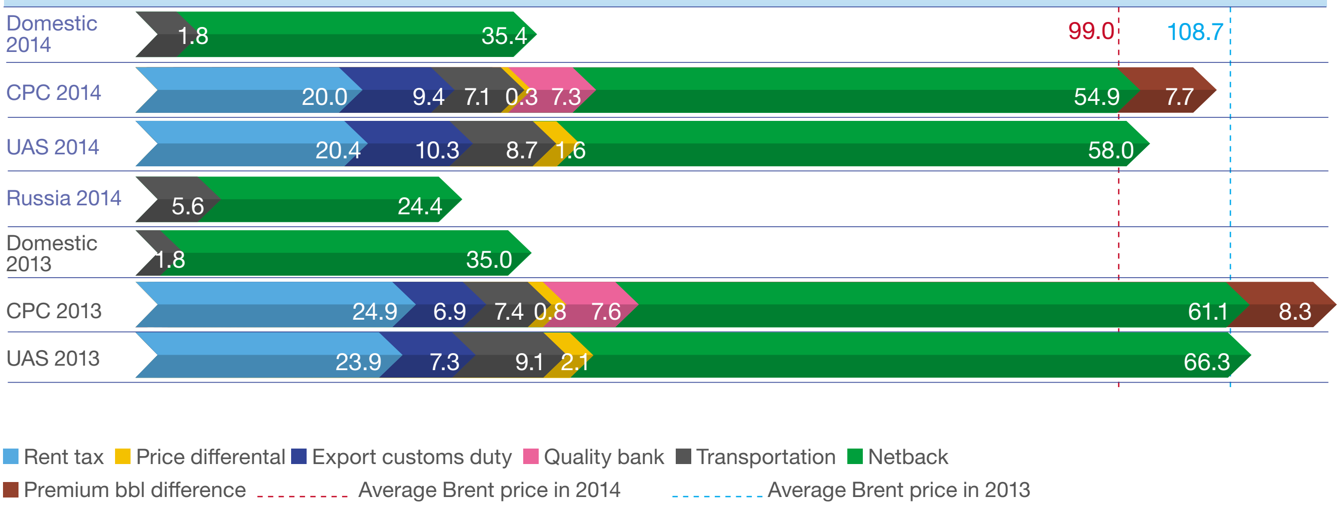
OMG and EMG export crude oil using two principal routes: via the pipeline owned by Caspian Pipeline Consortium ("CPC") and via the Uzen-Atyrau-Samara pipeline ("UAS") owned by KazTransOil JSC (in Kazakhstan). OMG also delivers its crude oil to the domestic market, and made oil counter deliveries to Russian Federation in 3Q 2014 and 4Q 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 2014 the Company shipped 447 thousand tonnes of crude oil to the Russian Federation to fulfill its obligations under the counter-oil supply agreement between the Government of Kazakhstan and the Russian Government. Thus, UAS shipments decreased in the reporting period with a slight increase of CPC route shipments. Sales volumes shipped to the Russian Federation are determined by the ME of Kazakhstan on a monthly basis and currently the Company has not received an approved schedule for deliveries to Russian Federation for 2015.

The following chart shows the OMG and EMG realised prices adjusted for crude oil transportation, rent tax, export customs duty and other expenses based on the shipment route (netback analysis):

Netback analysis
(US$bbl*)



* Converted at actual barrels per tonne of crude oil.

Netback for 2014 decreased compared to 2013, primarily due to a drop in average Brent price from US$108.7 per barrel in 2013 to US$99 per barrel in 2014, as well as an increase in export customs duty (from US$40 to US$60 per tonne in April 2013 and from US$60 to US$80 per tonne effective from April 2014), partially offset by a drop in rent tax rate from lower Brent prices and lower price differentials.

Domestic market netback increased in 2014 due to the growth of average sales prices in Tenge terms, which was partially offset by Tenge devaluation during 2014.

Sale prices of crude oil shipments to Russia are based on the intergovernmental agreement between the Government of Kazakhstan and the Russian Government.

Production expenses

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

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
37,111	36,925	21,150	75%	Employee benefits	130,367	92,318	41%
10,070	6,331	7,097	42%	Repairs and maintenance	26,781	22,619	18%
6,087	5,280	4,795	27%	Materials and supplies	20,050	16,920	18%
4,425	4,098	4,023	10%	Energy	16,706	15,908	5%
1,553	1,498	1,458	7%	Transportation service	5,875	5,633	4%
492	267	272	81%	Processing expenses	1,205	1,099	10%
1,888	(832)	(3,917)	-148%	Change in crude oil balance	1,373	727	89%
3,206	–	–	100%	Change in estimate of environmental remediation obligation	1,110	–	100%
2,448	2,569	991	147%	Other	8,433	6,811	24%
67,280	**56,136**	**35,869**	**88%**	**Total production expenses**	**211,900**	**162,035**	**31%**
25.8	**21.1**	**16.4**	**57%**	**Total production expenses (US$ per bbl sold*)**	**20.5**	**18.5**	**11%**

* Converted at 7.23 barrels per tonne of crude oil.

Production expenses in 2014 increased by KZT49.9 billion or 31% compared to 2013, primarily due to increased employee benefits, repair and maintenance, materials and supplies and changes in estimates of environmental remediation obligations.

Employee benefit expenses increased by 41% compared to 2013, mainly due to a 7% indexation increase in basic salaries for production personnel from January 1, 2014 according to the terms of the collective agreement; introduction of a Unified System of Wages; an additional 10% increase in wages, and an increase in production bonuses from 25% to 33% for supporting production personnel.

Repair and maintenance expenses increased by 18% compared to 2013, mainly due to the increase in the usage of flow deflection technologies, equipment maintenance and other types of well operations to increase oil recovery. Additionally, in 4Q 2014 Company expensed KZT1.5 billion worth of environmental remediation costs.

The 18% increase in expenses for materials and supplies is mainly related to the increase in the cost of raw materials, uniform clothes expenses and an increase in fuel expenses in 2014 compared to 2013.

In 2Q 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 recognised a reversal of the related provision for the amount of KZT2.1 billion. In 4Q 2014 the Company has once again reconsidered this environmental provision and accrued additional provision in the amount of KZT3.2 billion.

Lifting Costs

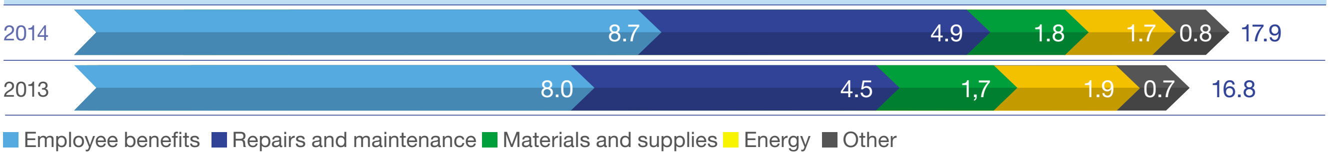
As per the Company's internal methodology, lifting cost per barrel is calculated as production costs of OMG and EMG subsidiaries, including materials and supplies, production payroll, repairs and maintenance, and other production expenses except for the DD&A, taxes and contractual social obligations divided by total crude oil produced.

Lifting expenses in US$ per bbl have been affected by the Tenge devaluation that took place in 2014 as most of the OMG and EMG production expenses are denominated in Tenge.

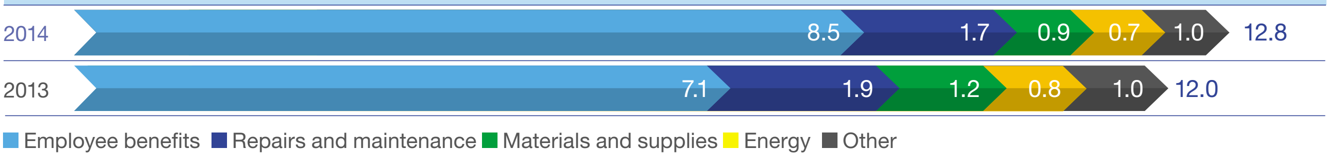
Operating and financial review continued

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

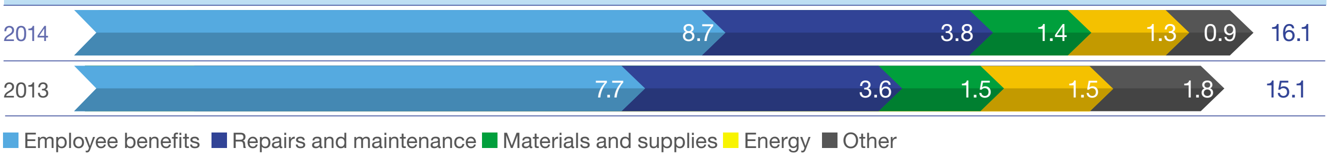
Lifting cost of OMG
(US$ per bbl*)



Lifting cost of EMG
(US$ per bbl*)



Total lifting costs
(US$ per 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

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
16,163	18,643	15,917	2%	Transportation expenses	68,687	61,810	11%
4,865	4,368	3,784	29%	Employee benefits	16,758	12,986	29%
1,113	1,112	737	51%	Management fees and commissions	4,451	3,750	19%
962	265	(307)	-413%	Fines and penalties	3,592	5,191	-31%
855	282	369	132%	Consulting and audit services	2,188	1,354	62%
392	237	442	-11%	Repairs and maintenance	1,023	1,093	-6%
497	158	389	28%	Sponsorship	933	1,681	-44%
2,289	947	1,153	99%	Other	4,936	4,495	10%
27,136	**26,012**	**22,484**	**21%**	**Total SG&A expenses**	**102,568**	**92,360**	**11%**
10.4	**9.8**	**10.3**	**1%**	**Total SG&A expenses (US$ per bbl sold*)**	**9.9**	**10.5**	**-6%**

* Converted at 7.23 barrels per tonne of crude oil.

Selling, general and administrative (SG&A) expenses in 2014 amounted to KZT102.6 billion which is 11% higher than in 2013. The increase is mainly due to the rise in transportation expenses, employee benefits and consulting and audit services.

The growth in transportation expenses resulted mainly from higher transportation costs for the CPC route due to an increase in volume and the average Tenge/US dollar exchange rate as the CPC tariff is partially US dollar denominated. Additionally, the growth in transportation expenses resulted from higher transportation costs for the UAS route due to a higher average tariff for the Russian and Kazakhstan territory. Effective from January 1, 2014 KTO increased its domestic transportation tariffs by 50%. Starting from April 1, 2014 KTO export route tariffs have increased by an average of 20%.

Employee benefit expenses in 2014 increased by 29% compared to 2013, primarily due to the 7% indexation in basic salaries from January 1, 2014, the introduction of a Unified System of Wages and an additional 10% indexation of wages for administrative personnel of production subsidiaries.

Consulting and audit service expenses increased in 2014 by 62% or KZT0.8 billion compared to 2013, mainly due to consulting services acquired related to the assessment of the Company's current exploration asset portfolio and the additional technical audit of reserves conducted in 2014.

Fines and penalties in 2014 are primarily related to the accrual of a KZT1.9 billion environmental fine as a result of the 2010-2011 ecological audit. During 2013 the Company recognised an environmental fine amounting to KZT3.9 billion according to a notification from the Tax Department of Mangistau Region. In 2014 OMG accrued environmental fines in the amount of KZT0.4 billion and EMG accrued tax fines in the amount of KZT0.2 billion. Additionally, in 2014 the Company accrued new tax provisions in the amount of KZT0.5 billion related to the preliminary results of the 2009-2012 comprehensive tax audit.

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:

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
19,960	43,263	44,224	-55%	Rent tax	151,861	165,307	-8%
16,858	24,508	22,417	-25%	MET	89,840	84,433	6%
16,993	21,465	14,177	20%	Export customs duty	74,227	48,981	52%
1,739	1,644	1,557	12%	Property tax	6,204	5,473	13%
278	224	103	170%	Environmental tax	1,312	4,893	-73%
2,574	528	696	270%	Other taxes	4,767	2,601	83%
58,402	**91,632**	**83,174**	**-30%**	**Total taxes other than on income**	**328,211**	**311,688**	**5%**
22.4	**34.4**	**38.0**	**-41%**	**Total taxes other than on income (US$ per bbl sold*)**	**31.7**	**35.5**	**-11%**

* Converted at 7.23 barrels per tonne of crude oil.

Taxes other than on income in 2014 increased by KZT16.5 billion or 5% compared to 2013, mainly due to the increase in mineral extraction tax and export customs duty, which was partially offset by the decrease in rent tax and environmental tax.

Rent tax decreased due to the drop in average Brent prices drop during 4Q 2014 that also resulted in the reduction of the tax rate from 21% to 16% in 4Q 2014 and a 7% decrease in export volumes. This impact was partially offset by an increase in the average Tenge/US dollar exchange rate.

The increase of MET in 2014 compared to 2013 resulted from an increase in the average Tenge/US dollar exchange rate which was partially offset by the decrease in export volumes.

Export customs duty expenses increased in 2014 compared to 2013 due to the rise of export customs duty from US$40 to US$60 per to nne in April 2013 and from US$60 to US$80 per tonne effective from April 2014. The impact was further intensified by an increase in the average Tenge/US dollar exchange rate and partially offset by a decrease in export volumes.

The environmental tax decrease is due to the accrual of KZT4 billion arising from the ecological audit at OMG in 2013.

Impairment of property, plant and equipment

Based on the indicators observed, Management performs an assessment of the recoverable value of the Company's assets. As a result of this assessment in 1Q 2014 the Company has recognised a KZT27 billion impairment charge and related deferred tax benefit of KZT5 billion in regards to OMG assets. This impairment charge related primarily to increases in employee benefit costs and an increase in export customs duty from US$60 to US$80 per tonne, effective from April 2014.

In 4Q 2014, declining crude oil prices indicated that the Company's cash generating units may be impaired. Therefore, the Management of the Company has carried out a formal assessment of the recoverable amount of its assets, including subsidiaries, joint ventures and associates. An additional impairment loss of KZT228 billion and related deferred tax benefit of KZT47 billion was recognised in relation to OMG assets, reducing the carrying value of OMG PPE to nil at December 31, 2014.

Income Tax Expense

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
(233,071)	41,052	66,530	-450%	Profit/(loss) before tax	61,573	200,360	-69%
(16,285)	31,662	56,525	-129%	Profit/(loss) before tax (with adjustments**)	258,065	209,593	23%
(38,113)	9,360	17,862	-313%	Income tax	14,535	58,531	-75%
9,158	9,360	17,862	-49%	Income tax (with adjustments**)	66,917	69,073	-3%
-14.6	3.5	8.2	-278%	Income tax, US$ per bbl* sold	1.4	6.7	-79%
16%	23%	27%	-41%	Effective tax rate	24%	29%	-17%
-56%	30%	32%	-275%	Effective tax rate (with adjustments**)	26%	38%	-32%

* Converted at 7.23 barrels per tonne of crude oil.

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

The main reason for the lower 2014 income tax compared to 2013 is the lower taxable profit from the impairment of PPE (related deferred tax benefit) as well as the lower effective tax rate, which was partially offset by the tenge devaluation resulting in significant foreign exchange gain recognised during 2014. The significant income tax benefit in 4Q 2014 is related to the impairment deferred tax benefit of KZT47 billion.

The lower effective tax rate in 2014 compared to 2013 is explained by a revaluation of the deferred EPT tax rate in 2014, recognition of non-deductible environmental fines and penalties in 2013, as well as deferred tax benefits recognised in 2014 in respect of asset retirement obligations and environmental provisions for KZT6.7 billion.

Operating and financial review continued

Overview of JV's and associate's operations

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

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(KZT million, unless otherwise stated)					(KZT million, unless otherwise stated)		
11,133	7,044	6,580	69%	Share in income from KGM	41,672	28,399	47%
604	3,563	4,754	-87%	Share in income from PKI	21,735	22,126	-2%
(261)	(204)	1,078	-124%	Share in (loss)/income from UOG	(722)	3,167	-123%
(10)	(30)	(870)	-99%	Share in loss from KS	(2,494)	(2,826)	-12%
11,466	**10,373**	**11,542**	**-1%**	**Share in Income in associate and JV's**	**60,191**	**50,866**	**18%**

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 oil production in 2014 was 3,000 ktonnes (50% share is 1,500 ktonnes), which is 107 ktonnes or 3% lower than in 2013.

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

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(US$ thousand, unless otherwise stated)					(US$ thousand, unless otherwise stated)		
274,215	343,915	634,403	-57%	Revenue	1,399,617	2,447,741	-43%
(114,903)	(158,908)	(381,851)	-70%	Operating expenses	(635,662)	(1,485,796)	-57%
(51)	531	778	-107%	Finance income/(cost), net	2,174	(99)	100%
(7,354)	(20,170)	5,074	-245%	Foreign exchange gain/(loss), net	29,084	(1,113)	100%
(18,571)	(80,137)	(76,861)	-76%	Income tax expense	(289,423)	(355,438)	-19%
133,336	85,231	181,543	-27%	Net income	505,790	605,295	-16%
783	713	799	-2%	Crude oil production, ktonnes	3,000	3,107	-3%

The decrease in 2014 revenue mainly resulted from lower export volumes in comparison to 2013 with corresponding volumes reallocated to the domestic market, as well as a decrease in the average export price in comparison with 2013.

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

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(thousand tonnes)					(thousand tonnes)		
596	442	–	100%	Domestic market	1,943	–	100%
184	257	701	-74%	Export via KCP	942	2,684	-65%
–	2	95	-100%	Export via Aktau	132	412	-68%
780	**701**	**796**	**-2%**	**Total crude oil sales, ktonnes**	**3,017**	**3,096**	**-3%**

A decrease in export sales volumes from the reallocation to the domestic route has also resulted in a decrease in operating expenses, particularly rent tax (by US$402.3 million), MET (by US$201.4 million) and transportation expenses (by US$131 million).

Export customs duty expenses decreased by US$86.3 million due to a lower average export price and decreased export sales, which were partially offset by an increase in the ECD tariff from US$40 to US$60 per tonne in April 2013 and from US$60 to US$80 per tonne effective from April 2014.

Fines and penalties decreased by US$53 million in 2014 compared with 2013, due to the large fines resulting from the complex tax audit for 2009 – 2012 being accrued in 2013.

The large foreign exchange gain in 2014 resulted from the Tenge devaluation in February 2014, as KGM's reporting currency is US dollars while the majority of its liabilities are Tenge denominated.

Operating expenses on per barrel sold basis are as follows:

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
		(US$ per bbl sold*)				(US$ per bbl sold*)	
2.2	9.6	22.9	-90%	Rent tax	7.4	24.1	-69%
3.4	4.0	10.1	-66%	Transportation expenses	5.1	10.5	-51%
2.2	4.3	12.3	-82%	Mineral extraction tax	3.9	12.2	-68%
2.3	3.8	7.8	-71%	Export customs duty	3.4	6.9	-51%
3.6	3.5	2.1	71%	DD&A	3.3	2.3	43%
1.5	1.3	1.6	-6%	Employee benefits	1.3	1.3	0%
1.7	1.2	1.5	13%	Repairs and maintenance	1.1	1.0	10%
0.8	0.7	0.5	60%	Materials and supplies	0.6	0.6	0%
–	0.2	2.2	-100%	Fines and penalties	–	2.2	-100%
1.4	0.8	0.5	180%	Other	1.2	1.1	9%
19.1	**29.4**	**61.5**	**-69%**	**Total operating expenses**	**27.3**	**62.2**	**-56%**

* Converted at 7.7 barrels per tonne of crude oil.

Share in KGM income, reflected in the audited consolidated financial statements of the Company, represents a proportionate share of the results of KGM for 2014, adjusted for the impact of amortisation of the fair valuation of the licenses, partially offset by a related deferred tax benefit, of KZT 3.6 billion (KZT 17.6 billion in 2013).

For the capital expenditure analysis of JV's and associates 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 2014 PKI produced 4,883 ktonnes (33% share: 1,611 ktonnes) which is 8% less than in 2013. The decline in production was due to a reserve depletion of some of PKI's mature fields. PKI's key financial and operational indicators (100%) are shown on the following page:

Operating and financial review continued

PKI's key financial and operational indicators:

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(US$ thousand, unless otherwise stated)					(US$ thousand, unless otherwise stated)		
490,941	606,564	955,384	-49%	Revenue	2,468,829	3,724,706	-34%
(326,057)	(357,995)	(695,277)	-53%	Operating expenses	(1,472,762)	(2,590,525)	-43%
(5,045)	(7,415)	(7,841)	-36%	Finance cost, net	(25,420)	(25,121)	1%
(72,886)	(160,809)	(133,539)	-45%	Income tax expense	(454,061)	(573,461)	-21%
86,953	80,345	118,727	-27%	Net income	516,586	535,599	-4%
1,219	**1,208**	**1,354**	**-10%**	**Crude oil production, ktonnes**	**4,883**	**5,330**	**-8%**

The decrease in revenue in 2014 in comparison with 2013 took place mainly due to a reduction in production, the reallocation of export volumes to the domestic market and the decrease in average Brent price.

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

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
			(ktonnes)				(ktonnes)
813	736	232	250%	Domestic sales	2,867	1,070	168%
244	224	505	-52%	Export via KCP (PKKR 100%)	1,089	1,867	-42%
92	128	350	-74%	Export via KCP (KGM 50%)	471	1,342	-65%
38	47	119	-68%	Export via KCP (TP 50%)	171	453	-62%
38	35	44	-14%	Export via KCP (Kolzhan 100% & PKVI 75%)	152	171	-11%
–	1	48	-100%	Export Aktau (KGM 50%)	66	206	-68%
11	6	30	-63%	Export Uzbekistan (TP 50%)	47	143	-67%
1,236	**1,177**	**1,328**	**-7%**	**Total crude oil sales, ktonnes**	**4,863**	**5,252**	**-7%**

Operating expenses decreased mainly due to lower export sales that resulted in lower rent tax (by US$443.2 million), MET (by US$186.4 million) and transportation expenses (by US$110 million). Export customs duty expenses decreased by US$76.7 million due to lower export sales, which were partially offset by an increase in the ECD tariff from US$40 to US$60 per tonne in April 2013 and from US$60 to US$80 per tonne effective from April 2014.

Fines and penalties decreased by US$303.9 million in 2014 compared with 2013, due to the significant fines accrued as a result of an environmental audit in the prior period. During 2014 PKI appealed the results of the environmental audit and reversed emission fees and fines for US$26 million.

Operating expenses on per barrel sold basis are as follows:

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
		(US$ per bbl sold*)				(US$ per bbl sold*)	
4.7	8.3	18.9	-75%	Rent tax	8.5	18.7	-55%
9.7	9.4	2.5	288%	DD&A	9.0	8.3	8%
4.6	5.1	5.6	-18%	Transportation expenses	5.0	7.3	-32%
2.7	4.1	8.0	-66%	Mineral extraction tax	4.0	8.3	-52%
3.4	3.9	6.2	-45%	Export customs duty	3.7	5.3	-30%
3.6	3.2	0.9	300%	Repairs and maintenance	3.1	2.6	19%
2.1	2.1	2.2	-5%	Employee benefits	2.2	2.2	0%
1.7	1.4	1.4	21%	Materials and supplies	1.4	1.2	17%
(3.7)	0.6	19.1	-119%	Fines and penalties to budget	(0.7)	6.8	-110%
5.2	1.2	2.8	86%	Other	2.9	2.8	4%
34.0	**39.3**	**67.6**	**-50%**	**Total operating expenses**	**39.1**	**63.5**	**-38%**

* Converted at 7.75 barrels per tonne of crude oil.

The share of PKI income reflected in the Company's audited consolidated financial statements represents a proportionate share of the results of PKI in 2014 adjusted for the impact of amortisation of the fair valuation of the licences for the amount of KZT5.7 billion (KZT4.8 billion in 2013). On top of those adjustments the Management of the Company has performed an assessment of the recoverable value of investments in PKI based on the indicators of decreasing export and domestic crude oil prices. As a result, the Company has recognised a KZT 3.1 billion impairment charge of PKI's investments in JSC Turgai Petroleum.

For the capital expenditure analysis of JV's and associates please refer to "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 ("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, 2014 the Company had KZT18.3 billion (US$101 million) as a receivable from CCEL. The Company has accrued KZT 3 billion (US$16.9 million) of interest income in 2014, relating to the US$26.87 million annual priority return from CCEL.

In 2014 CCEL produced around 2,132 ktonnes (50% share: 1,066 ktonnes) of crude oil, which is 4% higher than production in 2013.

Operating and financial review continued

CCEL's key financial and operational indicators:

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(US$ thousand, unless otherwise stated)					(US$ thousand, unless otherwise stated)		
226,302	287,746	369,369	-39%	Revenue	1,172,474	1,440,449	-19%
(195,795)	(239,235)	(303,810)	-36%	Operating expenses	(903,682)	(1,170,366)	-23%
(6,637)	(6,682)	(6,082)	9%	Finance cost, net	(26,550)	(22,845)	16%
(8,803)	(25,676)	(19,036)	-54%	Income tax expense	(69,054)	(56,634)	22%
15,067	16,153	40,441	-63%	Net income	173,188	190,604	-9%
539	542	524	3%	Crude oil production, ktonnes	2,132	2,052	4%

The decrease in revenue in 2014 is mainly a result of a reallocation of export volumes to the domestic market and shipments to Russia as well as a decrease in export sale prices.

CCEL crude oil sales split by routes:

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(ktonnes)					(ktonnes)		
221	263	175	26%	Export via Novorossiysk	872	1,008	-13%
165	57	–	100%	Export via Ust-Luga	438	–	100%
–	–	147	-100%	Export via Primorsk	186	658	-72%
–	–	135	-100%	Export via Batumi	–	135	-100%
127	129	75	69%	Domestic market	485	274	77%
45	79	–	100%	Shipments of crude oil to Russia	124	–	100%
558	**528**	**532**	**5%**	**Total crude oil sales, ktonnes**	**2,105**	**2,075**	**1%**

Total operating expenses in 2014 decreased by 23% compared to 2013 mainly due to the decrease in MET, rent tax and DD&A which was partially offset by an increase in employee benefits, repairs and maintenance and export customs duty.

MET for 2014 was recalculated and adjusted in June, since on June 18, 2014 Karazhanbas oilfield obtained the MET preference rate by Government regulation, effective from January 1, 2014. Rent tax has also decreased in 2014 compared to 2013 mainly as a result of decreased export sales and the decrease in average Brent price.

Employee benefit expenses increased due to the adjustment of salaries to a Unified System of Wages, annual 7% indexation of salaries and an additional 10% increase in wages.

Export customs duty expenses increased due to the increase in the rate from US$40 to US$60 per tonne in April 2013 and from US$60 to US$80 per tonne effective from April 2014, partially offset by a decrease in export sales volume in 2014 compared to 2013.

Repairs and maintenance increased mainly due to the increase in tariffs of the service companies.

Operating expenses on per barrel sold basis are as follows:

4Q 2014	3Q 2014	4Q 2013	Change		2014	2013	Change
(US$ per bbl sold*)					(US$ per bbl sold*)		
9.2	14.0	21.7	-58%	Rent tax	15.2	22.2	-32%
0.7	12.0	2.1	-67%	DD&A	8.7	11.4	-24%
13.3	12.4	12.8	4%	Employee benefits	11.3	10.2	11%
8.9	7.8	7.4	20%	Export customs duty	8.1	6.8	19%
7.1	6.1	9.3	-24%	Trantsportation expenses	7.1	8.4	-15%
4.5	4.2	5.3	-15%	Energy	4.6	5.0	-8%
4.7	5.0	3.4	38%	Repairs and maintenance	4.7	3.3	42%
0.9	1.0	1.3	-31%	Materials and supplies	0.9	1.2	-25%
0.4	0.5	12.5	-97%	Mineral extraction tax	0.5	9.8	-95%
2.8	**4.3**	**9.6**	**-71%**	**Other**	**3.1**	**6.1**	**-49%**
52.5	**67.3**	**85.4**	**-39%**	**Total operating expenses**	**64.2**	**84.4**	**-24%**

* Converted at 6.68 barrels per tonne of crude oil.

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

Operating and financial review continued

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	20,320	51,522	140,709
Materials	13,394	50,101	13,029
Repair and maintenance	16,669	83,522	65,614
Energy	11,204	32,439	65,262
Other	5,804	54,915	12,728
Total lifting expenses (US$ thousand)	**67,391**	**272,499**	**297,342**
Production (ktonnes)	**3,000**	**4,883**	**2,132**
Lifting cost US$ per bbl*	**2.9**	**7.2**	**20.9**

* 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)	99.0	99.0	99.0
Price differential and premium of bbl difference, net	(4.9)	(6.8)	(4.6)
Average realised price	**94.1**	**92.2**	**94.4**
Rent tax	(20.9)	(20.6)	(19.7)
Export customs duty	(9.5)	(9.0)	(10.6)
Transportation expenses	(9.4)	(7.8)	(9.1)
Netback price	**54.3**	**54.8**	**55.0**

* 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)		
Realised price	**39.7**	**46.0**	**46.4**
Transportation expenses	(2.4)	(1.6)	(0.9)
Netback price	**37.3**	**44.4**	**45.5**

* 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	**42.3**
Transportation expenses	(7.7)
Netback price	**34.6**

* Tonne / bbl conversion factor for shipments to Russia 7.23 is used

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a key and integral part of the activities of the Company. From 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 remains the same: to develop the regions in which it operates.

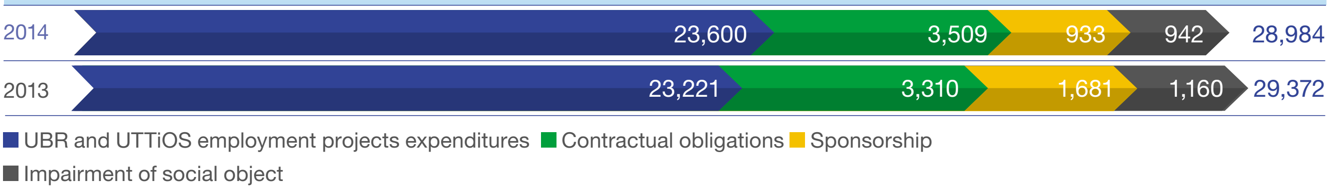
In 2012 two service units – UBR and UTTiOS were created to employ approximately 2,000 people in the Mangistau region. In 2014 the Company incurred KZT 22.2 billion of operating expenses at UBR and UTTiOS, including KZT 17.1 billion of employee benefit expenses and KZT 5.1 billion for materials, supplies and other expenses.

The Company has invested around KZT 1.4 billion for the enlargement and 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 2014, which totalled KZT 6.3 billion (KZT 3.1 billion in 2013).

In 2014 the Company spent KZT0.9 billion on sponsorship and supporting charities. The majority of this was used to finance social funds and support sports organisations.

Obligations from exploration and production licences are arising from contracts for subsoil use and include payments to the social programs fund, the environmental fund and the commitment to train personnel. In 2014 the social expenses of the Company related to the execution of contractual obligations amounted to KZT 3.5 billion, including the social programs and environmental fund that amounted to KZT 2.2 billion as well as the training of local specialists which amounted to KZT 1.3 billion.

Social evxpenditures
(million KZT)



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. Management believes that the Company has an adequate liquidity position to meet its obligations and pursue investment opportunities.

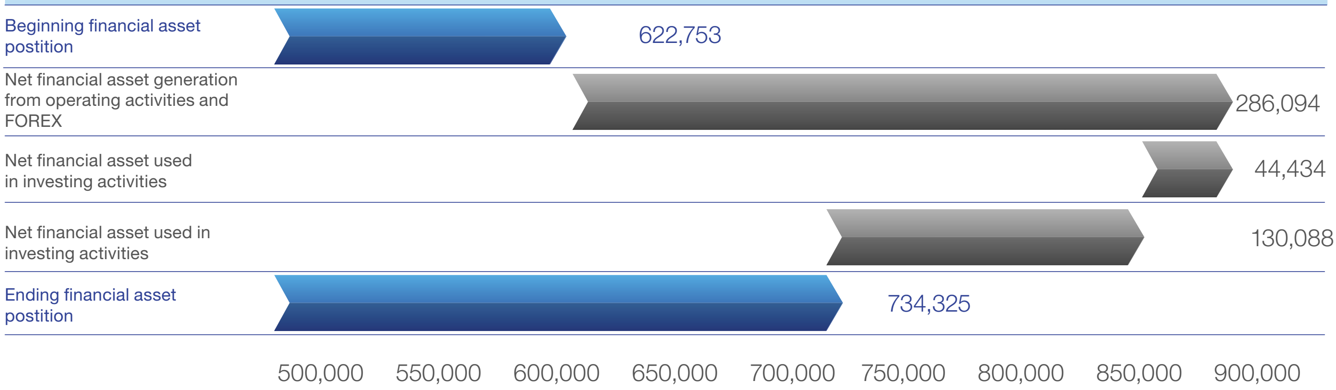
During 2014 net financial assets generated from operating activities amounted to KZT 286.1 billion or KZT 181.1 billion more than in 2013. The increase is primarily attributable to tenge devaluation in 1Q 2014 which led to the recognition of a significant foreign exchange gain as well as higher realised sales price in KZT per tonne terms. Another reason for the greater operating cash flows was the KZT 96.7 billion decrease in the Company's trade receivables balance during 2014 (the increase of trade receivables balance was KZT 51.9 billion in 2013).

Net financial asset outflow from investing activity in 2014 was KZT 44.4 billion versus an outflow of KZT 77.6 billion in 2013. Decrease in net outflows resulted from higher dividends received from JV's and associates (KZT 9.8 billion), lower amount of purchases of PPE in 2014 compared to 2013 (KZT 8.2 billion), lower purchases of intangible assets (KZT 6.6 billion) and lower loans provided to JV's (KZT 7.4 billion).

Net financial asset outflow from financing activities in 2014 was KZT 130.1 billion (outflow of KZT 111.1 billion in 2013). The increase in outflows is mainly associated with greater dividend payments made in 2014 compared to 2013 (KZT 19 billion).

Operating and financial review continued

The movement of financial assets for 2014
in million tenge



Net cash position

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

	As at December 31, 2014	As at December 31, 2013	Change
	(KZT million, unless otherwise stated)		%
Current portion	3,000	2,503	20%
Non-current portion	4,218	4,291	-2%
Total borrowings	**7,218**	**6,794**	**6%**
Cash and cash equivalents	180,245	119,036	51%
Other current financial assets	535,513	482,006	11%
Non-current financial assets	18,567	21,711	-14%
Total financial assets	**734,325**	**622,753**	**18%**
Foreign currency denominated cash and financial assets, %	**94%**	**82%**	
Net cash	**727,107**	**615,959**	**18%**

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 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.