

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Tenge million unless otherwise stated

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

KazMunaiGas Exploration Production Joint Stock Company (the “Company”) is incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company’s direct majority shareholder is Joint Stock Company National Company KazMunaiGas (“NC KMG” or the “Parent Company”), which represents the state’s interests in the Kazakh oil and gas industry and which holds 63.21% of the Company’s outstanding shares as at March 31, 2015 (December 31, 2014: 63.21%). The Parent Company is 100% owned by Joint Stock Company Samruk-Kazyna Sovereign Welfare Fund (“Samruk-Kazyna SWF”), which is in turn 100% owned by the government of the Republic of Kazakhstan (the “Government”).

The Company conducts its principal operations through the wholly owned subsidiaries JSC “Ozenmunaigas” and JSC “Embamunaigas”. In addition the Company has oil and gas interests in the form of other wholly owned subsidiaries, jointly controlled entities, associate and certain other controlling and non-controlling interests in non-core entities. These consolidated financial statements reflect the financial position and results of operations of all of the above interests.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting (“IAS 34”) and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2014.

These condensed consolidated interim financial statements are presented in Tenge and all values are rounded to the nearest million unless otherwise stated.

Exchange rates

The official rate of the Kazakhstan Tenge to the US Dollar at March 31, 2015 and December 31, 2014 was 185.65 and 182.35 Tenge to the US Dollar, respectively. Any translation of Tenge amounts to US Dollar or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

3. SEASONALITY OF OPERATIONS

The Company’s operating costs are subject to seasonal fluctuations, with higher capital expenditures and expenses for materials and repair, maintenance and other services usually expected in the later part of the year than in the first half of the year. These fluctuations are mainly due to the requirement to conduct formal public tenders in accordance with procurement rules set by Samruk-Kazyna SWF.

4. ACCOUNTING POLICIES

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied in the preparation of the annual consolidated financial statements for the year ended December 31, 2014, except as discussed below.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2015:

- IAS 19 Defined Benefit Plans: Employee Contributions (Amendments);
- Improvements to IFRSs 2010-2012 cycle;
- Improvements to IFRSs 2011-2013 cycle;

The adoption of these standards and amendments did not have any material impact on the financial position or performance of the Company.

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5. PROPERTY, PLANT AND EQUIPMENT

During the three months ended March 31, 2015 the Company prepaid for and purchased property, plant and equipment with a cost of 22,401 million Tenge (three months ended March 31, 2014: 33,017 million Tenge).

Property, plant and equipment with the net book value of 282 million Tenge were disposed of by the Company during the three months ended March 31, 2015, resulting in a net loss on disposal of 72 million Tenge (three months ended March 31, 2014: 318 million Tenge and 223 million Tenge, respectively).

6. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY

	Ownership share	March 31, 2015	December 31, 2014
		Unaudited	Audited
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	72,889	69,052
Interest in JV Ural Group Limited BVI ("UGL")	50%	40,382	26,125
Interest in JV KS EP Investments BV ("KS EP Investments")	51%	–	–
		113,271	95,177
Receivable from jointly controlled entity		19,455	18,466
		132,726	113,643

Movement in investment in joint ventures during the period:

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Carrying amount at 1 January	95,177	88,967
Share of total comprehensive income and loss	6,821	8,152
Dividends received	(4,626)	–
Exchange difference and other adjustments	1,493	13,105
Unrecognized loss of KS EP Investments	434	–
Share in additional paid in capital	13,972	31
Carrying amount at March 31	113,271	110,255

Kazgermunai, UGL and KS EP Investments are non-listed companies and there is no quoted market price available for their shares.

Kazgermunai

On April 24, 2007 the Company acquired from NC KMG a 50% participation interest in Kazgermunai, which is involved in oil and natural gas production in south central Kazakhstan.

The following table illustrates the summarized financial information of Kazgermunai and reconciliation with the Company's carrying value of investment:

	March 31, 2015	December 31, 2014
	Unaudited	Audited
Cash and cash equivalents	34,342	37,630
Other current assets	17,516	15,425
Non-current assets	139,024	136,167
	190,882	189,222
Current liabilities	23,117	27,694
Non-current liabilities	21,987	23,424
	45,104	51,118
Net assets	145,778	138,104
Proportion of the company's ownership	50%	50%
Net assets share	72,889	69,052

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6. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (continued)

Kazgermunai (continued)

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Revenues	34,963	67,042
Operating expenses	(18,469)	(27,486)
- including depreciation and amortization	(3,871)	(3,176)
- including equity method accounting adjustments	3,600	(1,867)
Profit from operations	16,494	39,556
Finance income	154	316
Finance cost	(200)	(161)
Profit before tax	16,448	39,711
Income tax expense	(1,404)	(18,655)
Profit for the period	15,044	21,056
Other comprehensive income	-	-
Total comprehensive income	15,044	21,056
Company's share of the comprehensive income for the period	7,522	10,528

Kazgermunai cannot distribute its profits until it obtains consent from the two venture partners.

UGL

On April 15, 2011 the Company acquired from Exploration Venture Limited (EVL) 50% of the common shares of UGL. UGL holds 100% equity interest in Ural Oil and Gas LLP (UOG), which is involved in oil and gas exploration in west Kazakhstan. In April 2015 UOG has obtained a production license for Rozhkovskoye field for the next 25 years.

The following table illustrates the summarized financial information of UGL and reconciliation with the Company's carrying value of investment:

	March 31, 2015	December 31, 2014
	Unaudited	Audited
Cash and cash equivalents	140	214
Other current assets	37	17
Non-current assets	108,429	105,155
	108,606	105,386
Current liabilities	259	515
Non-current financial liabilities	25,082	49,942
Non-current liabilities	2,501	2,680
	27,842	53,137
Net assets	80,764	52,249
Proportion of the company's ownership	50%	50%
Carrying value of the investment	40,382	26,125

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Operating expenses	(287)	(748)
Loss from operations	(287)	(748)
Finance income	2	1
Finance cost	(264)	(97)
Loss before tax	(549)	(844)
Income tax expense	14	(10)
Loss for the year	(535)	(854)
Other comprehensive income	-	-
Total comprehensive loss	(535)	(854)
Company's share of the comprehensive loss for the year	(268)	(427)

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6. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (continued)

UGL (continued)

The operating activities of UGL are dependent upon continued financing in the form of shareholder loans to enable UGL to meet its current obligations and to continue its activities. As a result the Company has provided financing in the form of additional shareholder loans in the amount of 1,500 thousand US dollars (277 million Tenge) during the period ended March 31, 2015 (three months ended March 31, 2014: nil). The fair value on initial and additional shareholder loans, which are given on an interest free basis, is determined by discounting future cash flows for the loans using a discount rate of 15%. During three months ended March 31, 2015 the Company has changed its expectations regarding repayment of loans receivable. The carrying amount of these loans at March 31, 2015, amounted to 70,178 thousand US dollars (13,029 million Tenge) (December 31, 2014: 141,149 thousand US dollars or 25,738 million Tenge).

7. INVESTMENTS IN ASSOCIATE

	Ownership share	March 31, 2015	December 31, 2014
		Unaudited	Audited
Interest in Petrokazakhstan Inc. ("PKI")	33%	115,185	116,054

PKI is a non-listed company and there is no quoted market price available for its shares. PKI is involved in field exploration, and development, oil and gas production, acquisition of oil fields and selling of crude oil and oil products. PKI's main oil and natural gas production assets are located in south central Kazakhstan. The Company acquired a 33 percent stake in PKI in December 2009.

Movement in investment in associate during the reporting period:

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Carrying amount at 1 January	116,054	107,095
Share of the total comprehensive (loss)/income	(2,952)	4,703
Exchange difference and other adjustments	2,083	19,971
Carrying amount at March 31	115,185	131,769

The following table illustrates the summarized financial information of PKI and reconciliation with the Company's carrying value of investment:

	March 31, 2015	December 31, 2014
	Unaudited	Audited
Cash and cash equivalents	29,384	23,371
Other current assets	63,219	73,831
Non-current assets	414,575	416,493
	507,178	513,695
Current liabilities	81,860	86,751
Non-current liabilities	76,274	75,266
	158,134	162,017
Net assets	349,044	351,678
Proportion of the company's ownership	33%	33%
Carrying value of the investment	115,185	116,054

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

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7. INVESTMENTS IN ASSOCIATE (continued)

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Revenues	29,144	74,155
Operating expenses	(35,711)	(47,656)
- including depreciation and amortization	(8,893)	(7,452)
- including equity method accounting adjustments	(4,576)	(3,767)
(Loss)/Profit from operations	(6,567)	26,499
Share in profit of joint ventures	4,520	8,453
Finance income	49	231
Finance cost	(1,007)	(959)
(Loss)/Profit before tax	(3,005)	34,224
Income tax expense	(5,182)	(10,052)
(Loss)/Profit for the period	(8,187)	24,172
Other comprehensive loss	(759)	(9,921)
Total comprehensive (loss)/income	(8,946)	14,251
Company's share of the comprehensive (loss)/income for the period	(2,952)	4,703

8. FINANCIAL ASSETS

Other financial assets

	March 31, 2015	December 31, 2014
	Unaudited	Audited
US dollar denominated held to maturity deposits	17,207	16,848
Tenge denominated held to maturity deposits	2,322	1,717
Other	3	2
Total non-current	19,532	18,567
US dollar denominated term deposits	566,557	525,277
Euro denominated term deposits	1,532	33
Tenge denominated term deposits	400	8,632
Great Britain pound denominated term deposits	30	1,571
Total current	568,519	535,513
	588,051	554,080

As at March 31, 2015 the non-current US dollar denominated held to maturity deposits include restricted deposits in the amount of 17,021 million Tenge (December 31, 2014: 16,719 million Tenge), which are kept in blocked accounts designated as a liquidation fund per requirements of subsoil use contracts.

Trade and other receivables

	March 31, 2015	December 31, 2014
	Unaudited	Audited
Trade receivables	58,654	56,633
Other	970	1,022
Allowance for doubtful receivables	(1,026)	(1,085)
	58,598	56,570

As at March 31, 2015 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGaz Trading AG ("KMG Trading"), a subsidiary of the Parent Company, of 49,101 million Tenge (December 31, 2014: 45,133 million Tenge). Of this amount none is overdue (December 31, 2014: nil).

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

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8. FINANCIAL ASSETS (continued)

Trade and other receivables (continued)

Starting from April 1, 2015 the Company will receive penalties at the rate of 6 months LIBOR + 3.17% for each calendar day starting from the 31st day from the date of consignment.

Cash and cash equivalents

	March 31, 2015	December 31, 2014
	Unaudited	Audited
US dollar denominated term deposits with banks	54,399	77,519
US dollar denominated cash in banks and on hand	31,212	67,355
Tenge denominated term deposits with banks	23,877	29,401
Tenge denominated cash in banks and on hand	5,794	5,951
Great Britain pound denominated cash in bank and on hand	22	19
	115,304	180,245

9. SHARE CAPITAL

Shares outstanding

During the three months ended March 31, 2015 the weighted average number of all shares outstanding amounted to 68,162,635 shares (three months ended March 31, 2014: 68,159,309 shares).

Book value per share

The Kazakhstan Stock Exchange has enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets per shares outstanding as at period end. As at March 31, 2015 the amount per share outstanding is 19,628 Tenge (December 31, 2014: 19,598 Tenge).

10. PROVISIONS

	March 31, 2015	December 31, 2014
	Unaudited	Audited
Asset retirement obligation	18,102	16,613
Environmental remediation	17,995	17,450
Taxes	6,658	932
Other	13,318	8,221
	56,073	43,216

11. REVENUE

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Export:		
Crude oil	97,863	190,155
Gas products	365	908
Domestic:		
Crude oil	13,529	24,060
Gas products	1,642	2,167
Refined products	242	934
Other sales and services	3,091	2,600
	116,732	220,824

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12. PRODUCTION EXPENSES

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Employee benefits	41,535	26,307
Materials and supplies	5,207	4,392
Energy	4,810	4,356
Change in crude oil balance	3,178	1,031
Repairs and maintenance	3,138	4,653
Transportation services	1,291	1,264
Processing expenses	118	236
Decrease in asset retirement obligation in excess of capitalised asset	(3,851)	–
Other	2,538	1,554
	57,964	43,793

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Transportation expenses	16,982	16,073
Employee benefits	4,525	3,285
Fines and penalties	2,393	260
Management fee and commissions	1,113	1,113
Consulting and audit services	342	305
Repairs and maintenance	173	167
Sponsorship	65	144
Other	847	897
	26,440	22,244

14. TAXES OTHER THAN ON INCOME

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Export customs duty	21,039	14,308
Mineral extraction tax	13,928	22,900
Rent tax	11,823	41,202
Property tax	1,184	1,372
Other taxes	405	498
	48,379	80,280

15. INCOME TAX EXPENSE

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Corporate income tax	4,787	36,519
Excess profit tax	58	3,963
Current income tax	4,845	40,482
Corporate income tax	(581)	(3,446)
Excess profit tax	52	(269)
Deferred income tax	(529)	(3,715)
Income tax expense	4,316	36,767

Notes to the Condensed Consolidated Interim Financial Statements (unaudited) (continued)

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16. RELATED PARTY TRANSACTIONS

The category ‘entities under common control’ comprises entities controlled by the Parent Company. The category ‘other state controlled entities’ comprises entities controlled by Samruk-Kazyna SWF.

Sales and purchases with related parties during the three months ended March 31, 2015 and 2014 and the balances with related parties at March 31, 2015 and December 31, 2014 are as follows:

	Three months ended March 31,	
	2015	2014
	Unaudited	Unaudited
Sales of goods and services (Note 11)		
Entities under common control	113,046	242,028
Joint ventures	1,557	904
Other state controlled entities	9	12
Purchases of goods and services (Note 12 and 13)		
Entities under common control	10,042	8,454
Other state controlled entities	4,524	4,118
Parent Company	1,113	1,113
Interest earned on financial assets		
Interest earned on loans to Joint ventures	1,192	856
Average interest rate on loans to Joint ventures	1.13%	1.11%
Fair value loss on loans provided		
Joint ventures	14,291	31
Salaries and other short-term benefits		
Members of the Board of Directors	45	41
Members of the Management Board	66	57

	March 31, 2015	December 31, 2014
	Unaudited	Audited
Trade and other receivables (Note 8)		
Entities under common control	60,000	58,305
Joint ventures	41,339	52,677
Other state-controlled entities	2,241	2,274
Trade payables		
Parent Company	1,113	–
Entities under common control	1,377	1,907
Other state controlled entities	49	454

17. COMMITMENTS AND CONTINGENCIES

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Russian Federation market obligation

According to an inter-governmental agreement between Kazakhstan and the Russian Federation, Kazakhstan fulfills counter deliveries to the Russian Federation. JSC “KazMunaiGas Refinery and Marketing”, a related party, was determined as an operator and the Company was determined as one of the suppliers through governmental quotas. Based on this inter-governmental agreement in September 2014 the Company has concluded a contract with JSC “KazMunaiGas Refinery and Marketing” to supply crude oil to the Russian Federation. The contract was valid till December 31, 2014 without pre-determined volumes. In March 2015 the Company has concluded the same contract for 2015 year. During the three months ended March 31, 2015 the Company has counter delivered 20 thousand tons of crude oil (three months ended March 31, 2014: nil). These supplies are additional to the obligation of the Company to supply crude oil to the local market.

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17. COMMITMENTS AND CONTINGENCIES (continued)

Local market obligation

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. While the price for such supplies of crude oil is agreed with the Parent Company, this price may be materially below international market prices. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Company's business, prospects, financial condition and results of operations.

During the three months ended March 31, 2015 the Company's subsidiaries delivered 555,061 tons of oil (three months ended March 31, 2014: 521,252 tons) to the domestic market. The Company's share in the delivery of oil to the domestic market of its joint venture Kazgermunai comprised 225,000 tons in the first quarter of 2015 (three months ended March 31, 2014: 224,000). The Company's share in the delivery of oil to the domestic market of its associate PetroKazakhstan Inc. comprised 213,562 tons in three months ended March 31, 2015 (three months ended March 31, 2014: 189,170 tons).

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at March 31, 2015.

The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions.

Environment

Environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Other than those amounts provided for in provisions (Note 10) management believes that there are no probable environmental liabilities, which could have a material adverse effect on the Company's financial position, statement of comprehensive income or cash flows.

Oilfield licenses

The Company is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation. The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, statement of income or statement of cash flows.

The Company's oil and gas fields are located on land belonging to the Mangistau and Atyrau regional administrations. Licenses were issued by the Ministry of Oil and Gas of the Republic of Kazakhstan. The Company pays mineral extraction and excess profits tax to explore and produce oil and gas from these fields.

On February 25, 2015 JSC "Embamunaigas" received the extension of their licenses. On March 5, 2015 JSC "Ozenmunaigas" obtained the preliminary approval of its oilfield license extension to 2036 from the working group of the Ministry of Energy of the Republic of Kazakhstan. Currently the final decision of the Ministry of Energy of the Republic of Kazakhstan on JSC "Ozenmunaigas" oilfield license extension is pending, however, these accounts have been prepared as if the license has been extended.

The principle licenses of the Company and their expiry dates are:

Field	Contract	Expiry date
Uzen (8 fields)	No. 40	2021
Emba (1 field)	No. 37	2041
Emba (1 field)	No. 61	2048
Emba (23 fields)	No. 211	2037
Emba (15 fields)	No. 413	2043

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17. COMMITMENTS AND CONTINGENCIES (continued)

Commitments arising from oilfield licenses

Year	Capital expenditures	Operational expenditures
2015 (remaining)	60,133	4,651
2016	63,285	3,403
2017	4,394	3,323
2018	494	3,323
2019-2048	–	6,640
	128,306	21,340

Crude oil supply commitments

The Company has obligations to supply oil and oil products to the local market under government directives.

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at March 31, 2015:

Year	Capital expenditures	Operational expenditures
2015 (remaining)	9,181	3,556

Commitments of UGL

The Company's share in the commitments of UGL is as follows as at March 31, 2015 :

Year	Capital expenditures	Operational expenditures
2015 (remaining)	11,577	1,004

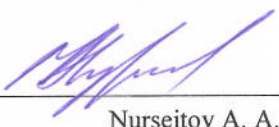
Commitments of PKI

The Company's share in the commitments of PKI is as follows as at March 31, 2015:

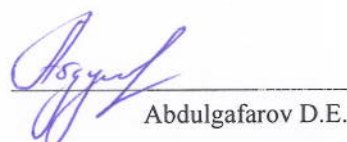
Year	Capital expenditures
2015 (remaining)	1,940

These condensed consolidated interim financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on April 28, 2015:

Chief Executive Officer


Nurseitov A. A.

Chief Financial Officer


Abdulgafarov D.E.

Contact information

The Company's registered office is:

KazMunaiGas Exploration Production Joint Stock Company

Left Bank, Kabanbay Batyr ave., Building 17

Astana 010000

Republic of Kazakhstan

Telephone: +7 (7172) 975 433

Fax: +7 (7172) 975 445

www.kmgp.kz