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") has been 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 Mangystau 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 September 30, 2014 (December 31, 2013: 63.22%). 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 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, 2013.

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 September 30, 2014 and December 31, 2013 was 181.90 and 153.61 Tenge to the US Dollar, respectively.

The majority of the foreign currency exchange gain recorded by the Company during nine months ended September 30, 2014 relates to the devaluation of Tenge that occurred on February 11, 2014. The exchange rates before and after devaluation were around 155 Tenge to the US dollar and ranged from 181 to 185 Tenge to the US dollar, respectively.

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. SIGNIFICANT NON-CASH TRANSACTIONS

During the nine months ended September 30, 2014 the Company excluded from the condensed consolidated interim statement of cash flows a non-cash transaction related to the offset of withholding income tax payable against the interest receivable on financial assets in the amount of 1,421 million Tenge (nine months ended September 30, 2013: 921 million Tenge).

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

Tenge million unless otherwise stated

5. 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, 2013, 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, 2014:

- IAS 32 Presentation - Offsetting Financial Assets and Financial Liabilities;
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets;
- IFRIC 21 Levies;
- IFRS 10, IFRS 12, IAS 27 Investment Entities;
- IAS 39 Financial instruments: Novation of Derivatives and Continuation of Hedge Accounting.

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

6. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended September 30, 2014 the Company prepaid for and purchased property, plant and equipment with a cost of 85,182 million Tenge (during nine months ended September 30, 2013: 83,103 million Tenge).

Property, plant and equipment with the net book value of 2,369 million Tenge were disposed of by the Company during the nine months ended September 30, 2014, resulting in a net loss on disposal of 2,068 million Tenge (during the nine months ended September 30, 2013: 3,184 million Tenge and 2,840 million Tenge, respectively).

In April 2014 management of the Company updated its formal assessment of the recoverable amount of JSC "Ozenmunaigas". The result of this assessment indicated that the carrying value of JSC "Ozenmunaigas" assets exceeded the estimated recoverable amount, and therefore management made an impairment charge of 27 billion Tenge in the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2014. This impairment charge relates primarily to increases in employee benefit costs and an increase in export customs duty from 60 US Dollar per ton to 80 US Dollar per ton.

In October 2014 management of the Company has again carried out a formal assessment of the recoverable amount of JSC "Ozenmunaigas" including looking at Fair Value Less Cost To Sell and Value In Use. The result of this assessment indicated that the carrying value of JSC "Ozenmunaigas" assets was not materially different from the estimated recoverable amount, and therefore management has neither reversed any of the impairment charge previously made nor made any further impairment charge for the nine months ended September 30, 2014. The results of the assessment were most sensitive to assumptions related to long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves, operating performance (which includes production and sales volumes), comparative market values and industry appropriate metrics.

7. INVESTMENTS IN JOINT VENTURES

	Ownership share	September 30, 2014	December 31, 2013
		Unaudited	Audited
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	75,940	64,201
Interest in JV Ural Group Limited BVI ("UGL")	50%	26,323	22,627
Interest in JV KS EP Investments BV ("KS EP Investments")	51%	–	2,139
		102,263	**88,967**

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

Tenge million unless otherwise stated

7. INVESTMENTS IN JOINT VENTURES (continued)

Movement in investment in joint ventures during the period:

	Nine months ended September 30,	
	2014	**2013**
Carrying amount at 1 January	88,967	89,252
Share of total comprehensive income and loss	29,909	30,573
Amortization of the fair valuation of the licenses, net of tax	(2,788)	(11,866)
Dividends received	(27,377)	(19,032)
Exchange difference and other adjustments	13,079	1,523
Share in additional paid-in-capital	473	3,244
Carrying amount at September 30	**102,263**	**93,694**

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:

	September 30, 2014	**December 31, 2013**
	Unaudited	**Audited**
Cash and cash equivalents	64,205	27,801
Other current assets	16,766	57,122
Non-current assets	97,624	89,535
	178,595	**174,458**
Current liabilities	42,873	76,845
Non-current liabilities	21,930	12,651
	64,803	**89,496**
Net assets	**113,792**	**84,962**
Proportion of the company's ownership	**50%**	**50%**
Net assets share	**56,896**	**42,481**
Purchase price premium	19,044	21,720
Carrying value of the investment	**75,940**	**64,201**

	Nine months ended September 30,	
	2014	**2013**
	Unaudited	**Unaudited**
Revenues	200,717	274,862
Operating expenses	(86,379)	(168,272)
- *including depreciation and amortization*	(9,886)	(4,237)
Profit from operations	114,338	106,590
Finance income	776	303
Finance cost	(379)	(436)
Profit before tax	**114,735**	**106,457**
Income tax expense	(48,307)	(42,226)
Profit for the period	**66,428**	**64,231**
Other comprehensive income	–	–
Total comprehensive income	**66,428**	**64,231**
Company's share of the comprehensive income for the period	**33,214**	**32,116**

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

Tenge million unless otherwise stated

7. INVESTMENTS IN JOINT VENTURES (continued)

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. UOG has completed its exploration stage and is currently in the process of obtaining a production license.

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

	September 30, 2014	December 31, 2013
	Unaudited	**Audited**
Cash and cash equivalents	381	2,539
Other current assets	26	13
Non-current assets	59,222	45,378
	59,629	**47,930**
Current liabilities	265	1,862
Non-current financial liabilities	47,873	35,652
Non-current liabilities	2,663	2,165
	50,801	**39,679**
Net assets	**8,828**	**8,251**
Proportion of the company's ownership	**50%**	**50%**
Net assets share	**4,414**	**4,126**
Purchase price premium	21,909	18,501
Carrying value of the investment	**26,323**	**22,627**

	Nine months ended September 30,	
	2014	**2013**
	Unaudited	**Unaudited**
Revenues	88	9
Operating expenses	(1,445)	(1,590)
Loss from operations	(1,357)	(1,581)
Finance income	6	24
Finance cost	(393)	(426)
Loss before tax	**(1,744)**	**(1,983)**
Income tax expense	(14)	(20)
Loss for the period	**(1,758)**	**(2,003)**
Other comprehensive income	–	–
Total comprehensive loss	**(1,758)**	**(2,003)**
Company's share of the comprehensive loss for the period	**(879)**	**(1,002)**

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

Tenge million unless otherwise stated

8. INVESTMENTS IN ASSOCIATE

	Ownership share	September 30, 2014	December 31, 2013
		Unaudited	**Audited**
Interest in Petrokazakhstan Inc. ("PKI")	33%	145,162	107,095

PKI is 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.

Movement in investment in associate during the period:

	Nine months ended September 30, 2014	2013
Carrying amount at 1 January	107,095	118,959
Share of the total comprehensive income	22,262	20,532
Amortization of fair value of licenses, net of tax	(4,156)	(3,481)
Dividends received	–	(20,116)
Exchange difference and other adjustments	19,961	2,319
Carrying amount at September 30	**145,162**	**118,213**

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

	September 30, 2014	December 31, 2013
	Unaudited	**Audited**
Cash and cash equivalents	80,466	8,241
Other current assets	79,774	98,237
Non-current assets	349,784	299,243
	510,024	**405,721**
Current liabilities	114,466	86,826
Non-current liabilities	54,810	86,323
	169,276	**173,149**
Net assets	**340,748**	**232,572**
Proportion of the company's ownership	**33%**	**33%**
Net assets share	**112,447**	**76,749**
Purchase price premium	32,715	30,346
Carrying value of the investment	**145,162**	**107,095**

	Nine months ended September 30, 2014	2013
	Unaudited	**Unaudited**
Revenues	209,300	218,369
Operating expenses	(121,879)	(147,633)
- *including depreciation and amortization*	(24,295)	(24,187)
Profit from operations	87,421	70,736
Share in profit of joint ventures	32,509	38,643
Finance income	596	574
Finance cost	(2,792)	(2,244)
Profit before tax	117,734	107,709
Income tax expense	(41,106)	(44,514)
Profit for the period	**76,628**	**63,195**
Other comprehensive (loss) / income	(9,166)	(972)
Total comprehensive income	**67,462**	**62,223**
Company's share of the comprehensive income for the period	**22,262**	**20,534**

9. FINANCIAL ASSETS

Other financial assets

	September 30, 2014	December 31, 2013
	Unaudited	**Audited**
US dollar denominated held to maturity deposits	17,009	12,957
Tenge denominated held to maturity deposits	2,169	8,752
Other	2	2
Total non-current	**19,180**	**21,711**
US dollar denominated held to maturity deposits	394,297	406,013
Tenge denominated held to maturity deposits	32,932	75,961
Great Britain pound denominated held to maturity deposits	1,632	–
Euro denominated held to maturity deposits	35	32
Total current	**428,896**	**482,006**
	448,076	**503,717**

As at September 30, 2014 the non-current US dollar denominated held to maturity deposits include restricted deposits in the amount of 16,911 million Tenge (December 31, 2013: 12,957 million Tenge), which are kept in blocked accounts designated as a liquidation fund per requirements of subsoil use contracts.

Trade and other receivables

	September 30, 2014	December 31, 2013
	Unaudited	**Audited**
Trade receivables	111,171	153,519
Other	1,294	820
Allowance for doubtful receivables	(1,125)	(1,120)
	111,340	**153,219**

As at September 30, 2014 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 98,221 million Tenge (December 31, 2013: 148,246 million Tenge). Of this amount none is overdue (December 31, 2013: 54,992 million Tenge).

Significant decrease of overdue receivables occurred due to amendments into the sales agreement with KMG Trading implemented in April 2014. According to the amendments payments terms for the receivables from KMG Trading for the crude oil that was sold subsequently to Rompetrol Refinare S.A. refinery, a related party, were increased from two months to three months. Additionally, under the new payment terms the Company receives fees at the rate of 3 months LIBOR + 2% for each calendar day starting from the 31st to the 60th day from the date of consignment and at the rate of 6 months LIBOR + 3% for each calendar day starting from the 61st to the 90th day from the date of consignment, and penalties at the rate of 6 months LIBOR + 3% for each delayed day from the 91st day from the date of consignment.

Cash and cash equivalents

	September 30, 2014	December 31, 2013
	Unaudited	**Audited**
US dollar denominated term deposits with banks	191,816	81,888
Tenge denominated term deposits with banks	38,021	24,431
US dollar denominated cash in banks and on hand	33,372	5,626
Tenge denominated cash in banks and on hand	8,997	5,561
Great Britain pound denominated cash in bank and on hand	143	1,530
	272,349	**119,036**

As at September 30, 2014 the US dollar denominated cash in banks and on hand include 2,187 million Tenge (December 31, 2013: 1,223 million Tenge), which are kept in an escrow account.

10. SHARE CAPITAL

Shares outstanding

During the nine months ended September 30, 2014 the weighted average number of all shares outstanding amounted to 68,159,654 shares (nine months ended September 30, 2013: 68,158,387 shares). Under the employee remuneration program during the nine months ended September 30, 2014 stock options for 3,326 ordinary shares were exercised (nine months ended September 30, 2013: 988 ordinary 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 September 30, 2014 the amount per outstanding share is 22,450 Tenge (December 31, 2013: 20,102 Tenge).

Dividends declared

On May 13, 2014 the Company held an Annual General Meeting, where shareholders approved the annual dividend in the amount of 1,976 Tenge per one ordinary or preferred share (nine months ended September 30, 2013: 1,619 Tenge per one ordinary or preferred share) with a record date as per share register at May 23, 2014. Commencing date for dividend payments was June 24, 2014.

11. PROVISIONS

	September 30, 2014	**December 31, 2013**
	Unaudited	**Audited**
Asset retirement obligation	16,523	16,195
Environmental remediation	15,361	17,520
Taxes (Note 18)	12,136	14,625
Other	6,942	5,930
	50,962	**54,270**

The Company has changed its estimate for the environmental remediation provision (Note 13), 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 “Ozenmunaigas”) with the Ministry of the Environment and Water Resources and Ministry of Oil and Gas in June 2014. The MOC agrees the scope and timing of the remediation plan to be executed over a period of seven years till 2021.

12. REVENUE

	Three months ended September 30,		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Export:				
Crude oil	190,516	198,162	592,186	526,410
Gas products	761	641	2,196	1,402
Domestic:				
Crude oil	26,492	16,803	74,987	59,206
Gas products	3,473	3,052	8,621	7,506
Refined products	596	1,049	2,392	2,937
Other sales and revenues	3,991	2,762	9,892	8,845
	225,829	**222,469**	**690,274**	**606,306**

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

Tenge million unless otherwise stated

13. PRODUCTION EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Employee benefits	36,925	24,319	93,256	71,168
Repairs and maintenance	6,331	6,711	16,711	15,522
Materials and supplies	5,280	4,652	13,963	12,125
Energy	4,098	3,872	12,281	11,885
Transportation services	1,498	1,482	4,322	4,175
Processing expenses	267	236	713	827
Change in crude oil balance	(832)	419	(515)	4,644
Change in estimate of environmental remediation obligation (Note 11)	–	–	(2,096)	–
Other	2,569	2,147	5,985	5,820
	56,136	**43,838**	**144,620**	**126,166**

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Transportation expenses	18,643	16,613	52,524	45,893
Employee benefits	4,368	3,586	11,893	9,202
Management fees and commissions	1,112	1,004	3,338	3,013
Accrual of fines and penalties (Note 18)	265	276	2,630	5,498
Consulting and audit services	282	585	1,333	985
Repairs and maintenance	237	248	631	651
Sponsorship	158	377	436	1,292
Other	947	1,060	2,647	3,342
	26,012	**23,749**	**75,432**	**69,876**

15. TAXES OTHER THAN ON INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Rent tax	43,263	45,469	131,901	121,083
Mineral extraction tax	24,508	23,317	72,982	62,016
Export customs duty	21,465	14,860	57,234	34,804
Property tax	1,644	1,325	4,465	3,916
Environmental tax	224	121	1,034	4,790
Other taxes	528	278	2,193	1,905
	91,632	**85,370**	**269,809**	**228,514**

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

Tenge million unless otherwise stated

16. INCOME TAX EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Corporate income tax	6,332	12,888	52,566	37,742
Excess profit tax	1,517	2,642	10,433	7,223
Current income tax	**7,849**	**15,530**	**62,999**	**44,965**
Corporate income tax	1,665	533	(8,742)	(8,980)
Excess profit tax	(154)	(235)	(1,609)	4,684
Deferred income tax	**1,511**	**298**	**(10,351)**	**(4,296)**
Income tax expense	**9,360**	**15,828**	**52,648**	**40,669**

17. 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, except for banks, controlled by Samruk-Kazyna SWF. Alliance Bank is related party since it is controlled by Samruk-Kazyna.

Sales and purchases with related parties during the nine months ended September 30, 2014 and 2013 and the balances with related parties at September 30, 2014 and December 31, 2013 are as follows:

	Nine months ended September 30,	
	2014	**2013**
	Unaudited	**Unaudited**
Revenue and other income		
Entities under common control	699,082	592,460
Joint ventures	4,219	2,186
Parent Company	155	–
Other state controlled entities	23	8
Purchases of goods and services		
Entities under common control	27,956	22,660
Other state controlled entities	12,935	13,317
Parent Company	3,338	3,013
Interest earned on financial assets		
Interest earned on Debt Instrument	–	4,557
Effective interest rate on Investments in Debt Instrument of NC KMG – indexed USD/KZT	–	7.00%
Alliance Bank	–	10
Average interest rate on deposits	–	7.00%
Fair value loss on loans provided		
Joint ventures	476	3,173
Salaries and other short-term benefits		
Members of the Board of Directors	116	73
Members of the Management Board	257	198
Share-based payments		
Members of the Management Board	–	2

17. RELATED PARTY TRANSACTIONS (continued)

	September 30, 2014	December 31, 2013
	Unaudited	**Audited**
Cash and cash equivalents		
Alliance Bank	2	212
Prepaid expenses and trade and other receivables		
Entities under common control	113,091	155,473
Joint ventures	52,314	40,175
Other state-controlled entities	2,237	1,248
Trade payables		
Parent Company	3,338	−
Entities under common control	959	1,734
Other state controlled entities	183	482

Counter deliveries of crude oil to Russian Federation

Sales to 'entities under common control' include revenue from counter sale of 50 thousand tons of crude oil (nine months ended September 30, 2013: null) to the Russian Federation (Note 18) through JSC "KazMunaiGas Refinery and Marketing". The sales of crude oil are priced by reference to Platt's index quotations and adjusted for spreads between Brent and Urals, and less Russian export customs duty, trader's margin, differential and difference between transportation expenses to Russia-Belarus boarder and to Russia-Kazakhstan boarder. For these counter deliveries of crude oil the Company received an average price per ton of approximately 54,629 Tenge in nine months ended September 30, 2014 (nine months ended September 30, 2013: nil).

18. COMMITMENTS AND CONTINGENCIES

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 (Note 17). The contract extends to December 31, 2014 without pre-determined volumes. Under this contract the Company has already supplied 50 thousand tons of crude oil and is expecting to supply another 190 thousand tons in October and November 2014. Quotas for December 2014 sales were not received by the Company as of the date of these financial statements. The Company is expecting that the same contract will be concluded for 2015. These supplies are additional to the obligation of the Company to supply crude oil to the local market.

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 September 30, 2014.

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

18. COMMITMENTS AND CONTINGENCIES (continued)

Taxation (continued)

On July 12, 2012 the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan completed the 2006-2008 comprehensive tax audit of the Company. As a result of the tax audit, which was commenced in October 2011, the tax authorities provided a tax assessment to the Company of 16,938 million Tenge, including 5,800 million Tenge of principal, 7,160 million Tenge of administrative fines and 3,978 million Tenge of late payment interest. Matters involved in the assessment relate mainly to reallocation of certain revenues and expenditures among the subsoil use contracts, timing of recognition of demurrage expenses and adjustment of revenues based on transfer pricing regulations.

As the results of the limited scope tax audit conducted in February of 2014 the final notification of the 2006-2008 tax audit was issued by the Tax Committee of the Ministry of Finance in March 2014. The total tax assessments have been reduced from 16,938 million Tenge to 12,133 million Tenge including 4,568 million Tenge of principal, 4,645 million Tenge of administrative fines and 2,920 million Tenge of interest.

The Company has not agreed with the final notification of the Tax Committee of the Ministry of Finance and appealed all of the tax assessments to the Specialized Interdistrict Economic Court of Astana. However, on April 24, 2014 the decision to dismiss the appeal in full was issued by the Court of the first instance. The Company has filed an appeal with the Judicial Panel of Appeals of the Civil and Administrative Matters Court of Astana. Upon consideration of appeal, on July 25, 2014 the decision to dismiss the appeal was issued by the court of second instance. Thus, the decision of the court of first instance was upheld, whereby the Company has to pay the amount of principal and interest according to the final notification to the budget within the period set by the legislation. Upon receipt of the decision of the Judicial Panel of Appeals, on August 27, 2014 the Company has filed an appeal to the Cassation Board of Astana. Upon consideration of the cassation appeal, on October 8, 2014, the decision to dismiss the appeal was issued. The Company is planning to appeal the abovementioned decision to the Supreme Court of the Republic of Kazakhstan.

As at September 30, 2014 existing provision for tax contains 12,136 million Tenge, including principal of 4,809 million Tenge, fines of 2,615 million Tenge and late payment interest of 4,712 million Tenge. Management believes that the Company will be successful in appealing the remaining balances of principal, fines, and late payment interest of the assessments.

Mineral extraction tax (MET)

On July 2, 2013 the Tax Committee of Yessil district of Astana provided a notification to the Company of 8,785 million Tenge for alleged discrepancies between data reported in the Company's MET tax returns and data supplied by the Ministry of Oil and Gas of the Republic of Kazakhstan for the period from 2009 to 2012. These alleged discrepancies were caused by the fact that the sliding rates of tax in the 2012 MET tax returns were determined based on volumes of production for the period when subsoil use contracts belonged to the Company (when the Company carried out its activities on the license area through its production branches), whereas the information provided by the Ministry of Oil and Gas of the Republic of Kazakhstan included production volumes of the Company and its subsidiaries JSC "Ozenmunaigas" and JSC "Embamunaigas" combined.

According to the tax authorities, for the purposes of determination of the sliding tax rate the Company should have included production volumes of JSC "Ozenmunaigas" and JSC "Embamunaigas" as well, even though transfer of subsoil use contracts took place during 2012. However, based on norms stipulated in the Kazakh tax legislation the Company believes that the MET rate should be determined based upon production for the period when it directly owned the subsoil use contracts.

The Company disagrees with the above notification and has provided the written explanations of its position. The tax authorities have not yet audited the Company on this matter and hence no tax assessment was done yet. Should the tax authorities audit the Company and assess additional MET liabilities, the Company will appeal such assessment. As management believes that it is more likely than not that the Company will be successful in its appeal, no provisions in relation to this matter have been made in the consolidated financial statements as at September 30, 2014.

18. COMMITMENTS AND CONTINGENCIES (continued)

Value-added-tax (VAT) recoverability

In 2012 as part of the creation of new subsidiaries on the basis of the production branches of the Company the Company's production assets were sold to JSC "Ozenmunaigas" and JSC "Embamunaigas". This sale was subject to VAT according to Kazakh tax legislation. The VAT paid to the tax authorities upon completion of the reorganization was recorded as VAT recoverable in the financial accounts of both JSC "Ozenmunaigas" and JSC "Embamunaigas". Upon various tax audits of the subsidiaries' accounts the tax authorities determined that the amounts paid were non recoverable.

The Company disagreed with this interpretation of the VAT law and filed a complaint with the Tax Committee of the Ministry of Finance. On August 27, 2014 the Company received final notification from the Tax Committee of the Ministry of Finance that the decision to not refund the VAT was upheld.

Currently the Company is preparing to apply to the courts in Mangystau and Atyrau regions to recover the VAT amounts. As at September 30, 2014 VAT recoverable includes 31,955 million Tenge for JSC "Ozenmunaigas" and 14,602 million Tenge for JSC "Embamunaigas". Management believes that the Company will be successful in recovering the VAT and has not provided for any allowances on these amounts as at September 30, 2014.

Turgai Petroleum comprehensive tax audits

In September-December 2013, Kyzylorda Tax department of the Tax Committee of the Ministry of Finance (the "Tax department") conducted a complex tax audit of Turgai Petroleum (50% joint venture of PKI) for 2009-2012. As a result of the complex tax audit the Tax department assessed additional corporate income tax of 3,562 million Tenge including transfer pricing effect of 2,733 million Tenge, additional excess profit tax of 8,793 million Tenge including transfer pricing effect of 5,275 million Tenge, additional other taxes of 117 million Tenge and aggregate late payment interest of 5,228 million Tenge.

Turgai Petroleum disagreed with the complex tax audit results and filed a claim with the Tax Committee of the Ministry of Finance. Management of PKI believes that Turgai Petroleum has a strong position on this issue except for the transfer pricing effect of 8,008 million Tenge and related late payment interest of 3,568 million Tenge. Therefore PKI recognized a provision of 5,788 million Tenge (50% PKI's share of 8,008 million Tenge transfer pricing and related late payment interest of 3,568 million Tenge) in its 2013 consolidated financial statements.

PetroKazakhstan Kumkol Resources (PKKR) comprehensive tax audit

In September 2013 the Tax department initiated a complex tax audit for 2009-2012 of PKKR (100% subsidiary of PKI). On April 16, 2014 the Tax department issued the Act and notification on the result of complex tax audit. As a result of the complex tax audit the Tax department assessed additional corporate income tax of 2,676 million Tenge, additional excess profit tax of 4,775 million Tenge, additional other taxes of 66 million Tenge and aggregate late payment interest of 2,521 million Tenge, wherein the amount of the mineral extraction tax is reduced by 499 million Tenge. PKKR disagreed with the complex tax audit results and filed a claim with the Tax Committee of the Ministry of Finance. PKI Management believes that PKKR has a strong position and therefore PKI has not recognized any provisions in its financial statements in relation to this matter.

As part of complex tax audit for 2009-2012, on January 13, 2014 the Tax department issued a separate notification for environmental emissions for 10,665 million Tenge and related fines and penalties for 8,758 million Tenge.

PKKR disagreed with the thematic tax audit results and filed a claim with the Tax Committee of the Ministry of Finance. As a result on February 12, 2014 the Central Tax Committee of the Ministry of Finance made a decision in favour of Kyzylorda Regional Tax Department. PKKR has not agreed with the decision of Tax Committee of the Ministry of Finance and appealed the results of the tax audit to the court. Specialized Interdistrict Economic Court of Kyzylorda Region rejected application of PKKR on appealing of notification. PKKR has not agreed with the decision of the Court of the first instance and filed the claim to the Judicial Panel of Appeals against decision of the Specialized Interdistrict Economic Court of Kyzylorda Region. Judicial Panel of Appeals rejected the appeal of PKKR and the decision of the Court of first instance was left without changes. PKI management assessed the risk of unfavourable outcome of this claim as probable and recognized a provision for 19,423 million Tenge in its 2013 consolidated financial statements.

Tenge million unless otherwise stated

18. COMMITMENTS AND CONTINGENCIES (continued)

PetroKazakhstan Kumkol Resources (PKKR) comprehensive tax audit (continued)

PKKR has filed a cassation to the Judicial Panel of Cassation of Kyzylorda Regional Court. As at reporting date cassation is still under review. In July and August 2014 PKKR has paid in full the environmental emissions fees and related fines and penalties.

Embamunaigas Gas flaring.

On January 23, 2014 the Company received a notification from the Department of Ecology of Atyrau Region to pay a fine of 37,150 million Tenge for environmental damage caused by violations of ecology law, including associated gas flaring. The total amount was determined as a result of an inspection that covered the period 2008 to 2013.

The Company disagreed with this notification and appealed the claim of the Department of Ecology of Atyrau Region. On June 3, 2014 the Company received the final assessment with reduced amount of ecological damages and the liability to pay 1,959 million Tenge. The amount was accrued and paid during June 2014.

Ozenmunaigas environmental audit 2012-2013

On January 24, 2014 JSC "Ozenmunaigas" received a notification from the Department of Ecology of Mangystau Region to pay a fine of 212,625 million Tenge for environmental damage caused by the disposal of excessive waste to the environment in 11 waste collectors. The total amount was determined as a result of an inspection that covered 2012 and 2013. However, these wastes have historical origins. According to the current legislation of the Republic Kazakhstan, the environmental permit is issued for a newly formed and disposed waste.

In accordance with the above, on February 7, 2014 JSC "Ozenmunaigas" filed a claim and on February 21, 2014 Specialized Administrative Court of Mangystau region satisfied in full in favor of the Company. This decision is not appealable, but may be challenged by Prosecutor offices.

In addition, on February 19, 2014 the Department of Ecology of Mangystau Region claimed an administrative fine for environmental damage of 327,880 million Tenge.

JSC "Ozenmunaigas" appealed the claim in the Specialized Interdistrict Economic Court of Mangystau Region that concluded on March 6, 2014 that the act of inspection was illegal and the administrative fine was fully cancelled. On April 22, 2014 the Judicial Panel of Appeals of Mangystau Regional Court rejected an appeal of the Department of Ecology of Mangystau Region against the decision of the Specialized Interdistrict Economic Court of Mangystau Region.

On June 25, 2014 by the resolution of the Judicial Panel of Cassation of Mangystau Regional Court, decisions of Specialized Administrative Court of Mangystau region dated on March 6, 2014 and the Judicial Panel of Appeals of Mangystau Regional Court dated April 22, 2014, were upheld.

Management of the Company believes that JSC "Ozenmunaigas" will successfully defend its position in further appeals by the Ecology Department on this matter, and therefore no provision has been accrued for this matter as at September 30, 2014.

Commitments arising from oilfield and exploration licenses

Year	Capital expenditures	Operational expenditures
2014 (remaining)	36,206	2,147
2015	63,628	3,895
2016	61,966	3,396
2017	3,135	3,316
2018-2024	267	9,948
	165,202	**22,702**

18. COMMITMENTS AND CONTINGENCIES (continued)

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at September 30, 2014:

Year	Capital expenditures	Operational expenditures
2014 (remaining)	4,364	1,572

Commitments of UGL

The Company's share in the commitments of UGL is as follows as at September 30, 2014:

Year	Capital expenditures	Operational expenditures
2014 (remaining)	1,268	1,618

Commitments of KS EP Investments

The Company's share in the commitments of KS EP Investments is as follows as at September 30, 2014:

Year	Capital expenditures	Operational expenditures
2014 (remaining)	3,705	91

19. SUBSEQUENT EVENTS

Dividends received from Kazgermunai

On October 27, 2014 the partners of Kazgermunai agreed to distribute 200 million US Dollars as a dividend payment for the results of the first half of 2014. The Company expects to receive its 50% share of the above dividend amount in November of 2014.

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 October 30, 2014:

Chief Executive Officer — Nurseitov A. A.

Financial Director – Financial Controller — Drader Sh., CA.

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