

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

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 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, 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 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 exchange rate of the Kazakhstan Tenge to the US Dollar at September 30, 2015 and December 31, 2014 was 270.4 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 impact on the financial position or performance of the Company.

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5. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended September 30, 2015 the Company prepaid for and purchased property, plant and equipment with a cost of 72,645 million Tenge (during nine months ended September 30, 2014: 85,182 million Tenge).

Property, plant and equipment with the net book value of 3,556 million Tenge were disposed of by the Company during the nine months ended September 30, 2015, resulting in a net loss on disposal of 71 million Tenge (during the nine months ended September 30, 2014: 2,369 million Tenge and 2,068 million Tenge, respectively).

6. INVESTMENTS IN JOINT VENTURES

	Ownership share	September 30, 2015	December 31, 2014
		Unaudited	Audited
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	87,812	69,052
Interest in JV Ural Group Limited BVI ("UGL")	50%	59,308	26,125
Interest in JV KS EP Investments BV ("KS EP Investments")	51%	–	–
		147,120	95,177

Movement in investment in joint ventures during the reporting period:

	Nine months ended September 30,	
	2015	2014
Carrying amount at 1 January (audited)	95,177	88,967
Share of total comprehensive income and loss	7,891	27,121
Dividends received	(13,822)	(27,377)
Foreign currency translation difference	42,942	13,079
Share in additional paid-in-capital	14,932	473
Carrying amount at September 30 (unaudited)	147,120	102,263

Unrecognized share in loss of KS EP Investments amounted to 4,689 million Tenge for the nine months ended September 30, 2015 (the nine months ended September 30, 2014: 1,747 million Tenge). As at August 31, 2015 the loan receivable from KS EP Investments amounted to 46,358 thousand US dollars (11,017 million Tenge) and was fully provided for at that date. The Company decided to create this valuation allowance due to the default of KS EP Investments on payment of interest and principal on December 31, 2014 (repayment date), absence of loan agreement extension to date, absence of evidence of further extension of Karpovskiy Severniy exploration license (current expiration date is December 29, 2016), and no commercial finding announcement to date.

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.

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6. INVESTMENTS IN JOINT VENTURES (continued)

Kazgermunai (continued)

The following table illustrates the summarized financial information of Kazgermunai based on its IFRS financial statements reflecting equity method accounting adjustments:

	September 30, 2015	December 31, 2014
	Unaudited	Audited
Cash and cash equivalents	20,391	37,630
Other current assets	31,492	15,425
Non-current assets	171,107	136,167
	222,990	189,222
Current liabilities	19,155	27,694
Non-current liabilities	28,211	23,424
	47,366	51,118
Net assets	175,624	138,104
Proportion of the company's ownership	50%	50%
Carrying value of the investment	87,812	69,052

	Nine months ended September 30,	
	2015	2014
	Unaudited	Unaudited
Revenues	101,100	200,717
Operating expenses	(64,789)	(91,729)
- including depreciation and amortization	(12,906)	(9,886)
- including equity method accounting adjustments	(628)	(5,350)
Profit from operations	36,311	108,988
Finance income	450	776
Finance cost	(558)	(379)
Profit before tax	36,203	109,385
Income tax expense	(20,359)	(48,307)
Profit and other comprehensive income for the period	15,844	61,078
Company's share of the comprehensive income for the period	7,922	30,539

Kazgermunai is unable to distribute its profits unless it obtains consent from both 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 obtained a production license for the Rozhkovskoye field which expires in April 2040.

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

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6. INVESTMENTS IN JOINT VENTURES (continued)

UGL (continued)

The following table illustrates the summarized financial information of UGL reflecting equity method accounting adjustments:

	September 30, 2015	December 31, 2014
	Unaudited	Audited
Cash and cash equivalents	747	214
Other current assets	68	17
Non-current assets	165,290	105,155
	166,105	105,386
Current liabilities	2,613	515
Non-current financial liabilities	41,127	49,942
Non-current liabilities	3,749	2,680
	47,489	53,137
Net assets	118,616	52,249
Proportion of the company's ownership	50%	50%
Carrying value of the investment	59,308	26,125

	Nine months ended September 30,	
	2015	2014
	Unaudited	Unaudited
Revenues	9	88
Operating expenses	(500)	(1,445)
Loss from operations	(491)	(1,357)
Finance income	423	6
Finance cost	-	(393)
Loss before tax	(68)	(1,744)
Income tax benefit/(expense)	6	(14)
Loss and other comprehensive loss for the period	(62)	(1,758)
Company's share of the comprehensive loss for the period	(31)	(879)

During nine months ended September 30, 2015 the Company provided interest free loans in the amount of 13,300 thousand US dollars (2,605 million Tenge) to UGL (nine months ended September 30, 2014: 5,000 thousand US dollars or 892 million Tenge). On initial recognition the loans were recognized at the fair value of 3,868 thousand US dollars (758 million Tenge) determined by discounting future cash flows for the loans using a discount rate of 15%. Investments in UGL were adjusted accordingly to recognize effect of discounting.

During nine months ended September 30, 2015 the Company extended its expectations regarding repayment of the loans from UGL from 2015-2018 to 2020-2024. Discounting of updated cash flows resulted in decrease of the carrying amount of these loans by 14,956 million Tenge. Effect of discounting was treated by the Company as an increase in investments in UGL. Carrying value of the loans from UGL totaled to 78,866 thousand US dollars (21,325 million Tenge) at September 30, 2015 (December 31, 2014: 141,149 thousand US dollars or 25,738 million Tenge).

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7. INVESTMENTS IN ASSOCIATE

	Ownership share	September 30, 2015	December 31, 2014
		Unaudited	Audited
Interest in Petrokazakhstan Inc. ("PKI")	33%	144,587	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:

	Nine months ended September 30,	
	2015	2014
Carrying amount at 1 January (audited)	116,054	107,095
Share of the total comprehensive (loss)/ income	(19,927)	18,106
Foreign currency translation difference	48,460	19,961
Carrying amount at September 30 (unaudited)	144,587	145,162

The following table illustrates the summarized financial information of PKI based on its IFRS financial statements reflecting equity method accounting adjustments:

	September 30, 2015	December 31, 2014
	Unaudited	Audited
Cash and cash equivalents	48,922	23,371
Other current assets	67,874	73,831
Non-current assets	533,002	416,493
	649,798	513,695
Current liabilities	123,988	86,751
Non-current liabilities	87,669	75,266
	211,657	162,017
Net assets	438,141	351,678
Proportion of the company's ownership	33%	33%
Carrying value of the investment	144,587	116,054

	Nine months ended September 30,	
	2015	2014
	Unaudited	Unaudited
Revenues	91,184	209,300
Operating expenses	(118,235)	(134,473)
- including depreciation and amortization	(28,519)	(24,295)
- including equity method accounting adjustments	(14,570)	(12,594)
(Loss)/ profit from operations	(27,051)	74,827
Share in profit of joint ventures	5,308	32,509
Finance income	165	596
Finance cost	(3,964)	(2,792)
(Loss)/ profit before tax	(25,542)	105,140
Income tax expense	(8,938)	(41,106)
(Loss)/ profit for the period	(34,480)	64,034
Other comprehensive loss	(25,908)	(9,166)
Total comprehensive (loss)/ income	(60,388)	54,868
Company's share of the comprehensive (loss) / income for the period	(19,927)	18,106

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8. FINANCIAL ASSETS

Other financial assets

	September 30, 2015	December 31, 2014
	Unaudited	Audited
US dollar denominated held to maturity deposits	25,171	16,848
Tenge denominated held to maturity deposits	2,335	1,717
Other	3	2
Total non-current	27,509	18,567
US dollar denominated term deposits	777,315	525,277
Great Britain pound denominated term deposits	2,270	1,571
Tenge denominated term deposits	–	8,632
Euro denominated term deposits	–	33
Total current	779,585	535,513
	807,094	554,080

As at September 30, 2015 the non-current US dollar denominated held to maturity deposits include restricted deposits in the amount of 25,171 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

	September 30, 2015	December 31, 2014
	Unaudited	Audited
Trade receivables	46,936	56,633
Other	824	1,022
Allowance for doubtful receivables	(945)	(1,085)
	46,815	56,570

As at September 30, 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 38,957 million Tenge (December 31, 2014: 45,133 million Tenge). Of this amount none is overdue (December 31, 2014: nil).

Cash and cash equivalents

	September 30, 2015	December 31, 2014
	Unaudited	Audited
US dollar denominated term deposits with banks	34,903	77,519
Tenge denominated term deposits with banks	29,365	29,401
US dollar denominated cash in banks and on hand	70,400	67,355
Tenge denominated cash in banks and on hand	5,968	5,951
Great Britain pound denominated cash in bank and on hand	223	19
	140,859	180,245

9. SHARE CAPITAL

Shares outstanding

During the nine months ended September 30, 2015 the weighted average number of all shares outstanding amounted to 68,162,635 shares (nine months ended September 30, 2014: 68,159,654 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, 2015 the amount per outstanding share is 23,460 Tenge (December 31, 2014: 19,598 Tenge).

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9. SHARE CAPITAL (continued)

Dividends declared

On May 19, 2015 the Company held an Annual General Meeting, where shareholders approved the annual dividend in the amount of 440 Tenge per one ordinary and preferred share (nine months ended September 30, 2014: 1,976 Tenge per one ordinary and preferred share) with a record date of June 1, 2015.

10. PROVISIONS

	September 30, 2015	December 31, 2014
	Unaudited	Audited
Taxes	52,594	932
Asset retirement obligation	18,688	16,613
Environmental remediation	18,379	17,450
Other	13,839	8,221
	103,500	43,216

As at September 30, 2015 tax provision includes 32,950 million Tenge (Note 17) related to the 2009-2012 Comprehensive Tax audit comprising of 16,125 million Tenge of principal and 16,825 million Tenge of fines and penalties. In addition, the Company with its tax advisors has undertaken a review of its tax accounts from the period covered by the audit to the date of these financial statements and has made an additional provision of 19,644 million Tenge for amounts that are believed to be more likely than not to be ultimately paid. This amount comprises of 17,027 million Tenge of principal and 2,617 million of penalties. The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions, but in light of the current environment (see Note 17) and recent court outcomes management has modified its estimate on the ultimate amounts of additional tax charges and claims.

11. REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	Unaudited	Unaudited	Unaudited	Unaudited
Export:				
Crude oil	71,776	190,516	244,142	592,186
Gas products	105	761	708	2,196
Domestic:				
Crude oil	31,362	26,492	90,227	74,987
Gas products	1,813	3,473	4,895	8,621
Refined products	251	596	1,061	2,392
Other sales and services	2,925	3,991	8,304	9,892
	108,232	225,829	349,337	690,274

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12. PRODUCTION EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	Unaudited	Unaudited	Unaudited	Unaudited
Employee benefits	38,260	36,925	113,911	93,256
Repairs and maintenance	5,483	6,331	14,006	16,711
Materials and supplies	4,025	5,280	13,756	13,963
Energy	4,576	4,098	13,742	12,281
Transportation services	1,435	1,498	3,890	4,322
Processing expenses	165	267	555	713
Change in estimate of environmental remediation obligation	186	–	473	(2,096)
Change in crude oil balance	(5,011)	(832)	197	(515)
Decrease in asset retirement obligation in excess of capitalized asset	(86)	–	(3,999)	–
Other	1,832	2,569	3,506	5,985
	50,865	56,136	160,037	144,620

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	Unaudited	Unaudited	Unaudited	Unaudited
Transportation expenses	13,814	18,643	45,601	52,524
Fines and penalties (Note 10)	14,762	265	22,345	2,630
Employee benefits	5,011	4,368	13,741	11,893
Management fees and commissions	1,112	1,112	3,338	3,338
Consulting and audit services	242	282	1,130	1,333
Repairs and maintenance	228	237	603	631
Sponsorship	257	158	445	436
Other	1,389	947	3,057	2,647
	36,815	26,012	90,260	75,432

14. TAXES OTHER THAN ON INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	Unaudited	Unaudited	Unaudited	Unaudited
Mineral extraction tax	25,414	24,508	51,046	72,982
Export customs duty	11,563	21,465	42,940	57,234
Rent tax	9,423	43,263	31,385	131,901
Property tax	1,725	1,644	4,531	4,465
Other taxes	886	752	1,682	3,227
	49,011	91,632	131,584	269,809

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15. INCOME TAX EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	Unaudited	Unaudited	Unaudited	Unaudited
Corporate income tax	62,644	6,332	68,485	52,566
Excess profit tax	1,696	1,517	6,207	10,433
Current income tax	64,340	7,849	74,692	62,999
Corporate income tax	(4,006)	1,665	(3,048)	(8,742)
Excess profit tax	(263)	(154)	21	(1,609)
Deferred income tax	(4,269)	1,511	(3,027)	(10,351)
Income tax expense	60,071	9,360	71,665	52,648

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 nine months ended September 30, 2015 and 2014 and the balances with related parties at September 30, 2015 and December 31, 2014 are as follows:

	Nine months ended September 30,	
	2015	2014
	Unaudited	Unaudited
Revenue and other income		
Entities under common control	348,479	699,082
Joint ventures	3,810	4,219
Parent Company	–	155
Other state controlled entities	28	23
Associates	19	17
Purchases of goods and services		
Entities under common control	29,666	27,956
Other state controlled entities	13,759	12,935
Parent Company	3,338	3,338
Joint ventures	45	57
Interest earned on financial assets		
Interest earned on loans to Joint ventures	2,815	2,938
Average interest rate on loans to Joint ventures	1.05%	0.88%
Salaries and other short-term benefits		
Members of the Board of Directors	123	116
Members of the Management Board	353	257

	September 30, 2015	December 31, 2014
	Unaudited	Audited
Prepaid expenses and trade and other receivables		
Entities under common control	49,821	58,305
Joint ventures	48,742	52,677
Other state-controlled entities	2,664	2,274
Associates	19	15
Trade payables		
Parent Company	3,338	–
Entities under common control	1,231	1,907
Other state controlled entities	441	454

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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.

Local market obligation and sales

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. The price for such supplies of crude oil is subject to agreement with the Parent Company and 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.

The Company supplies oil and gas products to the local market by selling to JSC "KazMunaiGas Refinery and Marketing", a subsidiary of the Parent Company. Prices for local market sales are determined through an annual negotiation process with JSC "KazMunaiGas Refinery and Marketing" and the Parent Company. These prices are finally approved by the Independent Non-Executive Directors of the Company ("INEDs"), as required by the Charter of the Company.

In December 2014 the Company concluded contracts with JSC "KazMunaiGas Refinery and Marketing" for crude oil supply to Atyrau Oil Refinery Plant ("ANPZ") at a price not to exceed 52,000 Tenge per ton and to Pavlodar Oil Refinery Plant ("PNHZ") at a price not to exceed 59,000 Tenge per ton during 2015. On February 11, 2015 the Company received a letter from NC KMG with instructions to reduce domestic prices to 22,400 Tenge per ton for ANPZ and 30,000 Tenge per ton for PNHZ for the 2015 calendar year.

In June 2015 the Company received a notification from NC KMG specifying domestic crude oil sale prices for the period starting from 1 July 2015 until the end of the year. According to this instruction the prices for ANPZ were determined at 24,000 Tenge per ton and 32,000 Tenge per ton for PNHZ.

In September 2015 the Company received a notification from NC KMG specifying domestic crude oil sale prices for September 2015. According to this instruction the prices for ANPZ were increased up to 26,800 Tenge per ton and 34,200 Tenge per ton for PNHZ.

The Company's INEDs have not agreed to lower the prices, therefore addendums to the sales contracts are not enacted. JSC "KazMunaiGas Refinery and Marketing" has been paying at the rates established in the letters from NC KMG from January 1, 2015 to the date of these financial statements.

The Company's management made a decision to recognize revenue in the financial statements at the fair value of the consideration received.

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 concluded a contract with JSC "KazMunaiGas Refinery and Marketing" to supply crude oil to the Russian Federation. The contract was valid until December 31, 2014 without pre-determined volumes. In March 2015 the Company concluded an additional contract for 2015. During the nine months ended September 30, 2015 the Company has counter delivered 916 thousand tons of crude oil (nine months ended September 30, 2014: 50). These supplies are additional to the obligation of the Company to supply crude oil to the local market and were completed in August of 2015.

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, 2015.

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17. COMMITMENTS AND CONTINGENCIES (continued)

2009-2012 Comprehensive tax audit

On September 2, 2015 the Company received the final tax assessment related to the 2009-2012 Comprehensive tax audit for 38,511 million Tenge (Note 10), including additional taxes of 18 620 million Tenge, 9,697 million Tenge penalty and 10,194 million Tenge of fine. As of September 28, 2015 as per the decision of the Committee of the State Revenues, fines were reduced from 10,194 million Tenge to 9,306 million Tenge. The Company does not agree with the results of the tax audit and has sent an appeal of the additional charges to the Committee of the State Revenues on September 7, 2015. Pending the results of the appeal management will consider further actions including but not limited to appealing to the appropriate courts.

Value-added-tax (VAT) recoverability

As at September 30, 2015 total recoverable VAT related to the Company's sale of assets to JSC "Ozenmunaigas" and JSC "Embamunaigas" in 2012 is 46,558 million Tenge. The tax authorities have conducted various audits and have repeatedly denied the Company's requests to have these VAT amounts recognized as recoverable. The Company disagrees with the tax authorities position and initiated court proceedings.

The court of first instance, Courts of Appeal and Cassation of Mangistau region all ruled in favor of JSC "Ozenmunaigas". These court rulings were not complied with by the tax authorities. On July 24, 2015 JSC "Ozenmunaigas" received a backdated tax notification which specifically referenced JSC "Ozenmunaigas"'s claim with respect to the VAT paid on the sale of assets as the original VAT claim was for that amount in addition to VAT paid in relation to operating activities. It is management's understanding that according to the legislated procedures such a notification should have been issued no later than September 15, 2014 in order to be considered valid.

On July 28, 2015 the Tax authorities based on the above notification filed an appeal of the court of first instance's judgment to the Supreme court. On October 7, 2015 the Supreme Court ruled in favor of the Tax authorities and refused to refund the VAT paid on the sale of assets, thereby cancelling the previous decisions issued by the courts of Mangistau region in favor of JSC "Ozenmunaigas". JSC "Ozenmunaigas" is currently organizing its appeal of the notification that it deems to be invalid and concurrently is preparing to apply to the courts for the non-refunded VAT amount if the challenge of the notification is unsuccessful.

As a result of the complaint by the JSC "Embamunaigas" on January 29, 2015 the Specialized Interdistrict Economic Court of Atyrau region ruled to dismiss the VAT claim in its entirety. On July 31, 2015 JSC "Embamunaigas" filed an appeal of this decision to the Cassation court of Atyrau region. On September 16, 2015 the Cassation court ruled that the case should be returned back to the first instance court for further consideration.

The Company believes that it is more probable than not that it will ultimately be successful in each of the above cases and consequently has classified the amounts as long term in these financial statements. Based on expectations with respect to the ultimate timing of the receipt of the VAT amounts the receivable has been discounted at 7.93% over the period ending December 31, 2016.

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.

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

Tenge million unless otherwise stated

17. COMMITMENTS AND CONTINGENCIES (continued)

Commitments arising from oilfield licenses

On February 25, 2015 JSC “Embamunaigas” and on July 9, 2015 JSC “Ozenmunaigas” received the extensions of their licenses.

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

Field	Contract	Expiry date
Uzen (8 fields)	No. 40	2036
Emba (1 field)	No. 37	2041
Emba (1 field)	No. 61	2048
Emba (23 fields)	No. 211	2037
Emba (15 fields)	No. 413	2043

Year	Capital expenditures	Operational expenditures
2015 (<i>remaining</i>)	30,847	1,790
2016	78,376	3,560
2017	3,784	3,480
2018	1,027	3,480
2019-2048	463	6,819
	114,497	19,129

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 September 30, 2015:

Year	Capital expenditures	Operational expenditures
2015 (<i>remaining</i>)	8,511	1,838

Commitments of UGL

The Company’s share in the commitments of UGL is as follows as at September 30, 2015:

Year	Capital expenditures	Operational expenditures
2015 (<i>remaining</i>)	6,302	1,145

Commitments of PKI

The Company’s share in the commitments of PKI is as follows as at September 30, 2015:

Year	Capital expenditures
2015 (<i>remaining</i>)	1,230

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

Tenge million unless otherwise stated

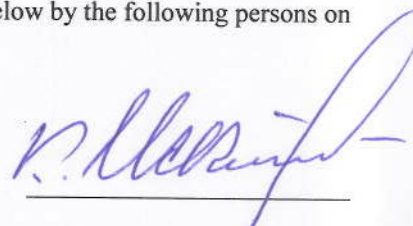
18. SUBSEQUENT EVENTS

Supreme Court ruling on 2006-2008 tax audit

On October 20, 2015 the Supreme Court of the Republic of Kazakhstan referred the 2006-2008 comprehensive tax audit case to the Astana appellation court for further consideration. As at the reporting date the amount appealed of 12,136 million Tenge has been fully provided for.

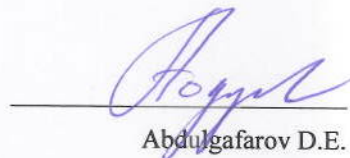
These condensed consolidated interim financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on November 3, 2015:

Chief Executive Officer



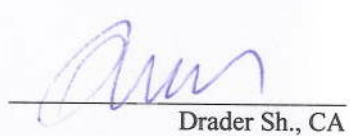
Iskaziye K. O.

Chief Financial Officer



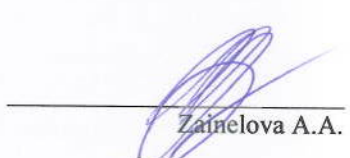
Abdulgafarov D.E.

Financial Director – Financial Controller



Drader Sh., CA

Chief Accountant



Zainelova A.A.

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Contact information

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