KazMunaiGas Exploration Production Joint Stock Company

Consolidated Financial Statements

For the year ended December 31, 2013
with independent auditors' report

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Independent auditors' report

To the shareholders and management of KazMunaiGas Exploration Production Joint Stock Company

We have audited the accompanying consolidated financial statements of KazMunaiGas Exploration Production Joint Stock Company and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

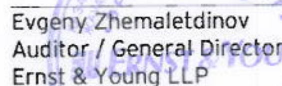
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KazMunaiGas Exploration Production Joint Stock Company and its subsidiaries as at 31 December 2013, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner



Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

18 February 2014

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Statement of Financial Position

Tenge million

	Notes	As at December 31, 2013	2012
ASSETS			
Non-current assets			
Property, plant and equipment	5	350,675	325,520
Intangible assets	6	12,064	19,584
Investments in joint ventures	8	88,967	89,252
Investments in associate	9	107,095	118,959
Receivable from a jointly controlled entity	8	13,222	14,326
Loans receivable from joint ventures	8	18,402	13,150
Other financial assets	7	21,711	1,085
Deferred tax asset	20	34,356	31,968
Other assets		19,542	17,200
Total non-current assets		**666,034**	**631,044**
Current assets			
Inventories	10	27,422	25,058
Income taxes prepaid		43,684	17,806
Taxes prepaid and VAT recoverable		72,169	56,257
Mineral extraction and Rent tax prepaid		1,967	8,073
Prepaid expenses		22,067	15,539
Trade and other receivables	7	153,219	101,168
Receivable from a jointly controlled entity	8	3,969	3,895
Loans receivable from joint ventures	8	3,933	–
Other financial assets	7	482,006	550,556
Cash and cash equivalents	7	119,036	154,705
Total current assets		**929,472**	**933,057**
Total assets		**1,595,506**	**1,564,101**
EQUITY			
Share capital	11	162,969	162,952
Other capital reserves		2,482	2,474
Retained earnings		1,185,815	1,154,335
Other components of equity		22,509	18,009
Total equity		**1,373,775**	**1,337,770**
LIABILITIES			
Non-current liabilities			
Borrowings		4,291	4,848
Deferred tax liability	20	881	–
Provisions	13	34,203	36,927
Total non-current liabilities		**39,375**	**41,775**
Current liabilities			
Borrowings		2,503	2,462
Provisions	13	20,067	17,319
Income taxes payable		29,341	32,103
Mineral extraction tax and rent tax payable		61,956	50,417
Trade and other payables		68,489	82,255
Total current liabilities		**182,356**	**184,556**
Total liabilities		**221,731**	**226,331**
Total liabilities and equity		**1,595,506**	**1,564,101**

The notes on pages 5 to 37 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Tenge million

	Notes	For the year ended December 31, 2013	2012
Revenue	14	816,712	797,170
Share of results of associate and joint ventures	8, 9	50,866	67,442
Finance income	19	20,577	34,528
Total revenue and other income		**888,155**	**899,140**
Production expenses	15	(162,035)	(140,362)
Selling, general and administrative expenses	16	(92,360)	(93,088)
Exploration expenses		(13,125)	(6,104)
Depreciation, depletion and amortization	5, 6	(47,144)	(53,747)
Taxes other than on income	17	(311,688)	(274,171)
Impairment of property, plant and equipment	18	(60,099)	(77,012)
Loss on disposal of property, plant and equipment		(4,475)	(3,189)
Finance costs	19	(8,085)	(7,231)
Foreign exchange gain, net		11,216	9,513
Profit before tax		**200,360**	**253,749**
Income tax expense	20	(58,531)	(92,926)
Profit for the year		**141,829**	**160,823**
Exchange difference on translating foreign operations		4,500	3,655
Other comprehensive income for the period to be reclassified to profit and loss in subsequent periods		**4,500**	**3,655**
Total comprehensive income for the year, net of tax		**146,329**	**164,478**
EARNINGS PER SHARE – Tenge thousands			
Basic and diluted	12	2.08	2.32

The notes on pages 5 to 37 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Tenge million

	Notes	For the year ended December 31, 2013	2012
Cash flows from operating activities			
Profit before tax		200,360	253,749
Adjustments to add / (deduct) non-cash items			
Depreciation, depletion and amortization	5, 6	47,144	53,747
Share of results of associate and joint ventures	8, 9	(50,866)	(67,442)
Loss on disposal of property, plant and equipment (PPE)		4,475	3,189
Impairment of PPE	18	60,099	77,012
Dry well expense on exploration and evaluation assets	6	10,971	4,321
Recognition of share-based payments		145	354
Forfeiture of share-based payments		(137)	(4)
Unrealised foreign exchange gain on non-operating activities		(5,533)	(6,835)
Other non-cash income and expense		7,898	420
Add finance costs	19	8,085	7,231
Deduct finance income	19	(20,577)	(34,528)
Working capital adjustments			
Change in other assets		376	101
Change in inventories		(549)	(2,267)
Change in taxes prepaid and VAT recoverable		(16,436)	(33,519)
Change in prepaid expenses		(6,525)	(3,577)
Change in trade and other receivables		(51,906)	(16,599)
Change in trade and other payables		(20,371)	13,925
Change in mineral extraction and rent tax payable and prepaid		11,128	(8,564)
Change in provisions		(1,805)	10,663
Income tax paid		(77,544)	(96,498)
Net cash generated from operating activities		**98,432**	**154,879**
Cash flows from investing activities			
Purchases of PPE		(140,402)	(99,240)
Proceeds from sale of PPE		582	1,054
Purchases of intangible assets		(8,628)	(8,874)
Loans provided to the joint ventures	8	(11,252)	(5,081)
Dividends received from joint ventures and associate, net of withholding tax	8, 9	64,138	114,207
Interest received from investment in Debt Instruments of NC KMG	7	4,734	11,280
Proceeds from repayment of investment in Debt Instruments of NC KMG	7	135,243	–
Purchase of financial assets held to maturity		(78,520)	(85,257)
Proceeds from sale of other financial assets		–	5,546
Repayments of loans receivable from related parties		4,088	7,657
Proceeds from disposal of subsidiary		–	3,601
Interest received		7,130	2,976
Net cash used in investing activities		**(22,887)**	**(52,131)**
Cash flows from financing activities			
Share buy back	11	–	(36,203)
Repayment of borrowings		(1,079)	(81,406)
Dividends paid to Company's shareholders	3, 11	(109,979)	(33,971)
Interest paid		–	(2,975)
Net cash used in financing activities		**(111,058)**	**(154,555)**
Net change in cash and cash equivalents		(35,513)	(51,807)
Cash and cash equivalents at the beginning of the year	7	154,705	206,512
Net foreign exchange difference on cash and cash equivalents		(156)	–
Cash and cash equivalents at the end of the year	7	**119,036**	**154,705**

The notes on pages 5 to 37 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Tenge million

	Share capital	Treasury stock	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total Equity
As at December 31, 2011	**263,095**	**(64,643)**	**2,124**	**1,083,749**	**14,354**	**1,298,679**
Profit for the year	–	–	–	160,823	–	160,823
Other comprehensive income	–	–	–	–	3,655	3,655
Total comprehensive income	**–**	**–**	**–**	**160,823**	**3,655**	**164,478**
Recognition of share-based payments (Note 11)	–	–	354	–	–	354
Forfeiture of share-based payments (Note 11)	–	–	(4)	–	–	(4)
Exercise of employee options (Note 11)	–	703	–	–	–	703
Share buy back (Note 11)	–	(36,203)	–	–	–	(36,203)
Dividends (Note 11)	–	–	–	(90,237)	–	(90,237)
As at December 31, 2012	**263,095**	**(100,143)**	**2,474**	**1,154,335**	**18,009**	**1,337,770**
Profit for the year	–	–	–	141,829	–	141,829
Other comprehensive income	–	–	–	–	4,500	4,500
Total comprehensive income	**–**	**–**	**–**	**141,829**	**4,500**	**146,329**
Recognition of share-based payments (Note 11)	–	–	145	–	–	145
Forfeiture of share-based payments (Note 11)	–	–	(137)	–	–	(137)
Exercise of employee options (Note 11)	–	17	–	–	–	17
Dividends (Note 11)	–	–	–	(110,349)	–	(110,349)
As at December 31, 2013	**263,095**	**(100,126)**	**2,482**	**1,185,815**	**22,509**	**1,373,775**

The notes on pages 5 to 37 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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 63.22% of the Company's outstanding shares as at December 31, 2013 (2012: 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except for financial instruments. These consolidated financial statements are presented in Tenge and all values are rounded to the nearest million unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Adopted accounting standards and interpretations

The Company has adopted the following new and amended IFRS during the year, which did not have any material effect on the financial performance or position of the Company:

- IAS 28 — Investments in associates and joint ventures (2011);
- IFRS 10 — Consolidated financial statements;
- IFRS 11 — Joint arrangements.;
- IFRS 12 — Disclosure of interest in other entities;
- IAS 27 — Separate financial statements (2011). The Company does not present separate financial statements;
- IFRS 13 — Fair value measurement;
- IAS 19 — Employee benefits (Revised);
- IAS 1 — Clarification of the requirement for comparative information – amendment;
- IAS 32 — Tax effects of distribution of equity instruments - amendment;
- IAS 34 — Interim financial reporting and segment information for total assets and liabilities - amendment;
- IFRS 7 — Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – amendment;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements listed below, are those that the Company reasonably expects will have an impact on the disclosures, financial position or performance when applied at future date. The Company intends to adopt these standards and interpretations, if applicable when they become effective.

- IFRS 9 — Financial instruments: classification and measurement;
- 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;
- Improvements to IFRSs — 2011-2013 cycle

2.2 Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are consistent with those of the Company.

Investment in associates and interests in joint arrangements

The Company's investment in its associates and joint ventures are accounted for using the equity method. An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Company is a party of joint arrangement when it exercises joint control over arrangement by acting collectively with other parties and decisions about the relevant activities require unanimous consent of the parties sharing control. The joint arrangement is either a joint operation or a joint venture depending on the rights and obligations of the parties to the arrangement.

In relation to interest in joint operations the Company recognises: (i) its assets, including its share of any assets held jointly, (ii) liabilities, including its share of any liabilities incurred jointly, (iii) revenue from the sale of its share of the output arising from the joint operation, (iv) its share of the revenue from the sale of the output by the joint operations, and (v) its expenses, including its share of any expenses incurred jointly.

Under the equity method, the investment in the associate and joint ventures are carried in the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the associates and joint ventures.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

Investment in associates and interests in joint arrangements (continued)

The Company's investment in associates includes purchase price premium identified on acquisition, which is primarily attributable to the value of the licenses based on their proved reserves. The licenses are amortized over the proved developed reserves of the associate and joint ventures using the unit-of-production method.

The consolidated statement of comprehensive income reflects the share of the results of operations of each associate and joint venture. Where there has been a change recognised directly in the equity of an associate or joint venture, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and its associates are eliminated to the extent of the interest in the associate.

The share of profit of associates and joint ventures are shown on the face of the consolidated statement of comprehensive income. This is the profit attributable to equity holders of the associates and joint ventures and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associates or joint ventures. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

Upon loss of joint control and provided the former jointly controlled entity does not become a subsidiary or associate, the Company measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

2.3 Foreign currency translation

The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge"), which is the Company's functional and presentation currency. Each subsidiary, associate and joint venture of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into Tenge at the rate of exchange ruling at the reporting date and their statements of comprehensive income are translated at the exchange rates at the date of transaction. The exchange differences arising on the translation are recognised in other comprehensive income or loss. On disposal of a foreign entity, the accumulated foreign currency translation reserve relating to that particular foreign operation is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Oil and natural gas exploration and development expenditure

Exploration license costs

Exploration license costs are capitalized within intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned. If no future activity is planned, the remaining balance of the license cost is written off. Upon determination of economically recoverable reserves ("proved reserves" or "commercial reserves"), amortization ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, and all licenses and approvals are obtained from the appropriate regulatory bodies, then the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized within intangible assets (exploration and evaluation assets) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel and energy used, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development then, the costs continue to be carried as an asset.

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, except for expenditure related to development or delineation wells which do not find commercial quantities of hydrocarbons and are written off as dry hole expenditures in the period, is capitalized within property, plant and equipment.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas properties are depreciated using a unit-of-production method over proved developed reserves. Certain oil and gas property assets with useful lives less than the remaining life of the fields are depreciated on a straight-line basis over useful lives of 4-10 years.

Other property, plant and equipment principally comprise buildings and machinery and equipment which are depreciated on a straight-line basis over average useful lives of 24 and 7 years respectively.

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Impairment of non-financial assets

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.7 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses. Intangible assets include capitalized expenditure for exploration and evaluation and other intangible assets, which are mainly comprised of computer software. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Computer software costs have an estimated useful life of 3 to 7 years and are amortized on a straight line basis over this period.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

2.8 Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held to maturity investments, available for sale financial assets, loans and trade and other receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Held to maturity investments

Non derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost using the effective interest method.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement trade and other receivables are carried at amortized cost using the effective interest method less any allowance for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

Available for sale financial investments

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss until the investment is derecognized or determined to be impaired at which time the cumulative reserve is recognized in profit or loss.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available for sale financial investments

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available for sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Inventories

Inventories are stated at the lower of cost determined on a first-in first-out ("FIFO") basis and net realizable value. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortization ("DD&A") and overheads based on normal capacity. Net realizable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale. Materials and supplies inventories are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

2.10 Value added tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT recoverable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

2.12 Share capital

Share Capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Treasury Shares

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until such time as the shares are cancelled or reissued. No gain or loss is recognized in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Share-based payment transactions

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This is then capitalized or expensed as appropriate.

The cost of equity-settled transactions with employees for awards granted on or after July 1, 2007 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using a Black-Scholes-Merton option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The expense or credit for a period, in the statement of comprehensive income, represents the movement in cumulative expense recognized as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Share capital (continued)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. All cancellations of equity-settled transaction awards are treated equally. Where the share-based award is cancelled on forfeiture any cost previously recognized is reversed through equity.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2.13 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

2.16 Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

The Company withholds 10% from the salary of its employees as the employees' contribution to their pension fund. The pension deductions are limited to a maximum of 139,950 Tenge per month in 2013 (2012: 130,793 Tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. Starting from 1 January 2014 the Company is required to contribute an additional 5% of the salary for a majority of its employees to their pension funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

The Company sells crude oil under short-term agreements priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. Title typically passes and revenues are recognized when crude oil is physically placed onboard a vessel or off loaded from the vessel, transferred into pipe or other delivery mechanism depending on the contractually agreed terms.

The Company's crude oil sale contracts generally specify maximum quantities of crude oil to be delivered over a certain period. Crude oil shipped but not yet delivered to the customer is recorded as inventory in the statement of financial position.

2.19 Income taxes

Excess profit tax (EPT) is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation enacted as of January 1, 2009, the Company accrues and pays EPT in respect of each subsurface use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsurface use contract. The ratio of aggregate annual income to deductions in each tax year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsurface use contract in excess of 25% of the deductions attributable to each contract.

3. SIGNIFICANT NON-CASH TRANSACTIONS

During the year ended December 31, 2013 the Company excluded from the consolidated 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 1,365 million Tenge (2012: 856 million Tenge) and against dividends received from the associate in the amount of 1,766 million Tenge (2012: 2,763 million Tenge).

On May 29, 2012 the Company declared dividends of 1,300 Tenge per share outstanding as at June 11, 2012 (Note 11). Pursuant to the NC KMG Debt Instrument agreement, on July 16, 2012 the Company performed a non-cash off-set of the declared dividends payable to Parent Company against part of the Debt Instrument (Note 7) for the amount of 56,013 million Tenge including principal of 55,785 million Tenge and interest of 228 million Tenge.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Company's computation of DD&A. The Company estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under SPE methodology, the Company uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions, are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A. The Company has included in proved reserves only those quantities that are expected to be produced during the initial license period. This is due to the uncertainties surrounding the outcome of such renewal procedures,

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Oil and gas reserves (continued)

since the renewal is ultimately at the discretion of the Government. An increase in the Company's license periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

Recoverability of oil and gas assets

The Company assesses each asset or cash generating unit (CGU) every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as 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 and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for oil and gas assets is generally determined as the present value of estimated future cash flows arising from the continued use of the assets, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment charge of 75 billion Tenge was made in the Consolidated Financial Statements for the year ended December 31, 2012 as a result of a formal assessment of the recoverable amount of JSC "Ozenmunaigas" carried out by management of the Company. This formal assessment was made due to the presence of impairment indicators. The main indicators were the level of production being materially lower than planned in the previous two years and the increasing levels of operational and capital expenditure. In April 2013 management of the Company updated the formal assessment of the recoverable amount of JSC "Ozenmunaigas", and an additional impairment charge of 56 billion Tenge was made in the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2013. The additional impairment charge related primarily to the increase in export customs duty from 40 US Dollar per ton to 60 US Dollar per ton that occurred on April 12, 2013.

For the year ended December 31, 2013 management of the Company has again carried out a formal assessment of the recoverable amount of JSC "Ozenmunaigas". 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 year ended December 31, 2013. The results of the assessment were most sensitive to assumptions related to production, pricing and the KZT/USD exchange rate.

The assumed production profile was based on the Company's latest Business Plan that envisages growth of 7% in production within five years. If the production profile had been assumed to be 5% higher or lower than the assumed production profile used in the assessment, this would have had the effect of increasing the estimated recoverable amount by more than 65 billion Tenge or reducing the estimated recoverable amount by more than 65 billion Tenge, respectively. If production had been assumed to have remained fixed at the 2013 level, this would have had the effect of reducing the estimated recoverable amount by more than 65 billion Tenge.

Brent crude oil price assumptions were based on market expectations together with the expectations of independent industry analysis and research organizations, adjusted for the average realized historical discount on quoted price. If Brent crude oil prices had been assumed to be 5% higher or lower than the price assumptions used in the assessment, this would have had the effect of increasing the estimated recoverable amount by more than 40 billion Tenge or reducing the estimated recoverable amount by more than 45 billion Tenge, respectively. If the Brent crude oil price had been assumed to have remained at $108.3 per barrel, which was the price at the date of the impairment assessment, this would have had the effect of increasing the estimated recoverable amount by more than 40 billion Tenge.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of oil and gas assets (continued)

An assumed KZT/USD exchange rate of 185 was used to convert US Dollar denominated sales. This was based on a statement issued by the National Bank of Kazakhstan on 11 February 2014 stating that it would establish a corridor for the movement of the exchange rate at 185 Tenge per US Dollar plus/minus 3 Tenge. If the KZT/USD exchange rate had been assumed to be 5% higher or lower than that used in the assessment, this would have had the effect of increasing the estimated recoverable amount by more than 35 billion Tenge or reducing the estimated recoverable amount by more than 35 billion Tenge, respectively.

The projection of cash flows was limited by the date of license expiry in 2021. Expenditure cash flows up to 2018 were obtained from the approved budget and business plan of the Company together with management's current assessment of probable changes in operational and capital expenditure following the February 2014 devaluation of the Tenge. Most of the projections beyond that period were inflated using Kazakhstan inflation estimates, except for capital expenditure projections, which represent management's best available estimate as at the date of impairment assessment. For the purposes of the assessment it was assumed that management would not be able to significantly reduce operational or capital expenditure in the final years before license expiry in order to make cost savings. All the derived cash flows were discounted using after tax weighted average cost of capital ("WACC") of 13.09%.

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each license period.

If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The Company calculates asset retirement obligations separately for each contract.

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company reviews site restoration provisions at each reporting date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are several years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 15.72% and 15.80% of the provision at December 31, 2013 and 2012 relates to final closure costs. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the carrying value of obligation at December 31, 2013 were 5.0% and 7.9% respectively (2012: 5.0% and 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 13.

Environmental remediation

The Company also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Environmental remediation (continued)

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on a discounted basis based on management's expectations with regard to timing of the procedures required. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan. As at the date of these financial statements the scope and timing of the remediation plan has not been formally agreed with the Government, except as agreed in the annual budget. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology.

Further uncertainties related to environmental remediation obligations are detailed in Note 24. Movements in the provision for environmental remediation obligations are disclosed in Note 13.

Taxation

Deferred tax is calculated with respect to both corporate income tax ("CIT") and excess profit tax ("EPT"). Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates. Both deferred CIT and EPT bases are calculated under the terms of the tax legislation enacted in the tax code disclosed in Note 20. Further uncertainties related to taxation are detailed in Note 24.

5. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Other assets	Construction work-in-progress	Total
Net book amount at January 1, 2012	**289,939**	**38,554**	**10,367**	**338,860**
Additions	1,383	2,694	113,310	117,387
Change in ARO estimate	(1,865)	–	–	(1,865)
Disposals	(3,541)	(1,001)	(2,137)	(6,679)
Transfers from construction work-in-progress	79,008	13,496	(92,504)	–
Internal transfers	(562)	22	540	–
Depreciation charge	(40,580)	(4,591)	–	(45,171)
Impairment (Note 18)	(64,696)	(7,872)	(4,444)	(77,012)
Net book amount at December 31, 2012	**259,086**	**41,302**	**25,132**	**325,520**
Additions	1,417	4,104	132,957	138,478
Change in ARO estimate	(63)	–	–	(63)
Disposals	(4,179)	(1,307)	(2,550)	(8,036)
Transfers from construction work-in-progress	99,996	23,858	(123,854)	–
Internal transfers	182	(1,900)	1,718	–
Depreciation charge	(40,626)	(4,499)	–	(45,125)
Impairment (Note 18)	(49,603)	(5,802)	(4,694)	(60,099)
Net book amount at December 31, 2013	**266,210**	**55,756**	**28,709**	**350,675**
At December 31, 2013				
Cost	654,545	102,441	30,841	787,827
Accumulated depreciation	(267,116)	(25,534)	–	(292,650)
Accumulated impairment	(121,219)	(21,151)	(2,132)	(144,502)
Net book amount	**266,210**	**55,756**	**28,709**	**350,675**
At December 31, 2012				
Cost	559,004	83,247	30,151	672,402
Accumulated depreciation	(234,895)	(25,558)	–	(260,453)
Accumulated impairment	(65,023)	(16,387)	(5,019)	(86,429)
Net book amount	**259,086**	**41,302**	**25,132**	**325,520**

6. INTANGIBLE ASSETS

	Exploration and evaluation assets	Other intangibles	Total
2012			
Net book amount at January 1, 2012	**24,035**	**2,603**	**26,638**
Additions	12,143	2,137	14,280
Dry well write-off	(4,321)	–	(4,321)
Loss of control over subsidiary	(8,190)	–	(8,190)
Disposals	(210)	(37)	(247)
Amortization charge	(7,668)	(908)	(8,576)
Net book amount at December 31, 2012	**15,789**	**3,795**	**19,584**
Additions	4,955	889	5,844
Dry well write-off	(10,447)	–	(10,447)
Disposals	(887)	(11)	(898)
Amortization charge	(998)	(1,021)	(2,019)
Net book amount at December 31, 2013	**8,412**	**3,652**	**12,064**
At December 31, 2013			
Cost	41,998	8,782	50,780
Accumulated amortization	(21,267)	(5,025)	(26,292)
Accumulated impairment	(12,319)	(105)	(12,424)
Net book amount	**8,412**	**3,652**	**12,064**
At December 31, 2012			
Cost	40,292	8,170	48,462
Accumulated amortization	(20,281)	(4,330)	(24,611)
Accumulated impairment	(4,222)	(45)	(4,267)
Net book amount	**15,789**	**3,795**	**19,584**

In 2013 the Company recognized dry well expenses related to the exploratory wells drilled on East Zharkamys, Karaton-Sarkamys blocks and the White Bear prospect. In 2012 the Company recognized dry well expenses related to exploratory wells drilled on its East Zharkamys, NBK and Bodrai blocks.

7. FINANCIAL ASSETS

Other financial assets

	2013	2012
US dollar denominated held to maturity deposits	12,957	–
Tenge denominated held to maturity deposits	8,752	1,083
Other	2	2
Total non-current	**21,711**	**1,085**
US dollar denominated term deposits	406,013	333,218
Tenge denominated term deposits	75,961	40,382
Euro denominated term deposits	32	–
Investments in Debt Instrument of NC KMG (Note 3, 22)	–	134,360
Held to maturity financial assets	–	42,596
Total current	**482,006**	**550,556**
	503,717	**551,641**

The weighted average interest rate on US dollar denominated term deposits in 2013 was 2.2% (2012: 2.4%). The weighted average interest rate on Tenge denominated term deposits in 2013 was 5.0% (2012: 1.4%).

7. FINANCIAL ASSETS (continued)

Investments in Debt Instrument of NC KMG

On June 24, 2013 the outstanding principal balance of the Debt Instrument of NC KMG and related accrued interest were fully repaid by the Parent Company in the amount of 135,243 million Tenge and 4,734 million Tenge, respectively.

Trade and other receivables

	2013	2012
Trade receivables	153,519	100,698
Other	820	980
Allowance for doubtful receivables	(1,120)	(510)
	153,219	**101,168**

As at December 31, 2013 the Company's trade receivables included receivables from sales of crude oil to KazMunayGas Trading AG ("KMG Trading"), former Vector Energy AG, a subsidiary of the Parent Company, of 148,246 million Tenge (2012: 96,401 million Tenge), including 54,992 million Tenge that is overdue (2012: 32,657 million Tenge).

Payments for oil delivered shall be made by KMG Trading on the 30-th day after the date of delivery. In case of untimely payment KMG Trading shall pay an interest penalty at one month LIBOR plus 2%. If oil is designated to be delivered to Rompetrol Rafinare S.A., an interest penalty at three month LIBOR plus 2% is paid from the 31-st to the 60-th day after the date of delivery and at six month LIBOR plus 3% from the 61-st day after the date of delivery accrued.

As at December 31, 2013 the Company's trade receivables are 97% denominated in USD (2012: 95%).

The ageing analysis of trade and other receivables is as follows as at December 31:

	2013	2012
Current	97,859	68,409
0-30 days overdue	40,921	9,637
30-60 days overdue	14,439	21,555
60-90 days overdue	–	–
90 and more days overdue	–	1,567
	153,219	**101,168**

Cash and cash equivalents

	2013	2012
US dollar denominated term deposits with banks	81,888	30,681
Tenge denominated term deposits with banks	24,431	38,813
Euro denominated term deposits with banks	–	75
US dollar denominated cash in banks and on hand	5,626	51,951
Tenge denominated cash in banks and on hand	5,561	29,519
Great Britain pound denominated cash in bank and on hand	1,530	3,666
	119,036	**154,705**

Cash with banks earns interest based on daily bank deposit rates. Deposits with banks are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective deposit rates.

The weighted average interest rate on Tenge denominated deposits in 2013 was 3.5% (2012: 1.3%). The weighted average interest rate on US dollar denominated deposits in 2013 was 0.3% (2012: 0.4%).

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

	Ownership share	2013	2012
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	64,201	65,287
Interest in JV Ural Group Limited BVI ("UGL")	50%	22,627	19,066
Interest in JV KS EP Investments BV ("KS EP Investments")	51%	2,139	4,899
Receivable from jointly controlled entity		17,191	18,221
		106,158	**107,473**

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

Movement in investment in joint ventures during the reporting period:

	2013	2012
Carrying amount at 1 January	89,252	116,526
Share of total comprehensive income and loss	43,608	44,586
Amortization of the fair valuation of the licenses, net of tax	(19,750)	(12,607)
Change in ownership in KS EP Investments	–	5,709
Dividends received	(30,570)	(67,170)
Exchange difference and other adjustments	1,545	469
Share in additional paid in capital	4,882	1,739
Carrying amount at December 31	**88,967**	**89,252**

Kazgermunai, UGL and KS EP Investments are non-listed companies and there is no quoted market price available for their shares. The joint ventures' reporting period is the same as the Company's reporting period.

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, based on its IFRS financial statements, and reconciliation with the Company's carrying value of investment:

	2013	2012
Cash and cash equivalents	27,801	22,158
Other current assets	57,122	40,021
Non-current assets	89,535	76,466
	174,458	**138,645**
Current liabilities	76,845	75,872
Non-current liabilities	12,651	10,929
	89,496	**86,801**
Net assets	**84,962**	**51,844**
Proportion of the company's ownership	**50%**	**50%**
Net assets share	**42,481**	**25,922**
Purchase price premium	**21,720**	**39,365**
Carrying value of the investment	**64,201**	**65,287**

	2013	2012
Revenues	372,392	344,477
Operating expenses	(226,214)	(182,171)
- including depreciation and amortization	(10,146)	(11,640)
Profit from operations	146,178	162,306
Finance income	589	178
Finance cost	(604)	(507)
Profit before tax	146,163	161,977
Income tax expense	(54,075)	(70,618)
Profit for the year	**92,088**	**91,359**
Other comprehensive income	–	–
Total comprehensive income	**92,088**	**91,359**
Company's share of the comprehensive income for the year	**46,044**	**45,680**

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

8. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (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 has an exploration license for the Fedorovskyi hydrocarbons field located in western Kazakhstan.

The following table illustrates the summarized financial information of UGL, based on its IFRS financial statements, and reconciliation with the Company's carrying value of investment:

	2013	**2012**
Cash and cash equivalents	2,539	1,478
Other current assets	13	52
Non-current assets	45,378	27,872
	47,930	**29,402**
Current liabilities	1,862	3,639
Non-current financial liabilities	35,652	22,132
Non-current liabilities	2,165	1,810
	39,679	**27,581**
Net assets	**8,251**	**1,821**
Proportion of the company's ownership	**50%**	**50%**
Net assets share	**4,126**	**911**
Purchase price premium	18,501	18,155
Carrying value of the investment	**22,627**	**19,066**

	2013	**2012**
Revenues	5	3
Operating expenses	(2,413)	(641)
Loss from operations	(2,408)	(638)
Finance income	37	15
Finance cost	(589)	(338)
Loss before tax	(2,960)	(961)
Income tax expense	(14)	(283)
Loss for the year	**(2,974)**	**(1,244)**
Other comprehensive income	–	–
Total comprehensive loss	**(2,974)**	**(1,244)**
Company's share of the comprehensive loss for the year	**(1,487)**	**(622)**

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 59,450 thousand US dollars (9,045 million Tenge) during the year ended December 31, 2013 (2012: 22,250 thousand US dollars or 3,318 million Tenge). 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%.

KS EP Investments

On November 16, 2012 the Company sold 49% share in its 100% subsidiary KS EP Investments to Karpinvest Oil and Gas Ltd. ("Karpinvest"), a subsidiary of MOL Hungarian Oil and Gas Plc. KS EP Investments owns a 100% interest in LLP Karpovskiy Severniy ("KS LLP"), which is a subsoil use right holder under the Contract for Exploration of Oil, Gas and Condensate at Karpovskiy Severniy contract area in western Kazakhstan. Under the terms of a shareholders agreement, joint control has been established over the operations of KS EP Investments and no single shareholder is in a position to control the activity unilaterally, making it a jointly controlled entity for both shareholders.

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

KS EP Investments (continued)

At the date of loss of control net assets of KS EP Investments were as follows:

	Assets and liabilities as at November 16, 2012
Cash and cash equivalents	1,884
Other current assets	100
Non-current assets	8,360
	10,344
Current liabilities	113
Non-current liabilities	3,821
	3,934
Net assets	**6,410**

Consideration received from Karpinvest for 49% share in KS EP Investments amounted to 36,455 thousand US Dollars (5,485 million Tenge). The resulting gain on disposal of investment amounted to 4,784 million Tenge. As a result of this transaction the Company has derecognized the assets and liabilities of the former subsidiary, when the control was lost and recognized under the equity method its retained 51% interest in KS EP Investments at its fair value of 5,709 million Tenge.

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

	2013	**2012**
Cash and cash equivalents	409	161
Other current assets	56	732
Non-current assets	7,741	4,619
	8,206	**5,512**
Current financial liabilities	7,712	–
Other current liabilities	511	1,084
Non-current financial liabilities	–	3,031
Other non-current liabilities	–	–
	8,223	**4,115**
Net assets	**(17)**	**1,397**
Proportion of the company's ownership	**51%**	**51%**
Net assets share	**(9)**	**712**
Purchase price premium	**2,148**	**4,187**
Carrying value of the investment	**2,139**	**4,899**

	2013	**2012**
Revenues	–	–
Operating expenses	(1,114)	(814)
- *including depreciation and amortization*	(1,054)	(442)
Loss from operations	(1,114)	(814)
Finance income	5	3
Finance cost	(696)	(113)
Loss before tax	(1,805)	(924)
Income tax expense	(55)	(1)
Loss for the year	**(1,860)**	**(925)**
Other comprehensive income	–	–
Total comprehensive loss	**(1,860)**	**(925)**
Company's share of the comprehensive loss for the year	**(949)**	**(472)**

The operating activities of KS LLP are dependent upon continued financing in the form of shareholder loans to enable KS LLP 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 to KS EP Investments in the amount of 14,510 thousand US dollars (2,207 million Tenge) during the year ended December 31, 2013 (2012: 11,828 thousand US dollars or 1,763 million Tenge). The fair value of shareholder loans, which are given at 6.5% interest rate, is determined by discounting future cash flows for the loans using a discount rate of 15%.

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

Receivable from jointly controlled entity CITIC Canada Energy Limited ("CCEL")

In 2007 the Company purchased a 50% interest in a jointly controlled entity, CCEL, whose investments are involved in oil and natural gas production in western Kazakhstan, from its co-investor, State Alliance Holdings Limited, a holding company ultimately belonging to CITIC Group, a company listed on the Hong Kong Stock Exchange.

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 the Company is contractually obliged to transfer any dividends received from CCEL, in excess of a Guaranteed Amount, to CITIC, up to the Total Maximum Amount, which amounts to 536.3 million US dollars (82,375 million Tenge) as at December 31, 2013 (2012: 572.3 million US dollars or 86,273 million Tenge). The Total Maximum Amount represents the balance of the Company's share of the original purchase price funded by CITIC plus accrued interest. The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Company recognizes in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total Maximum Guaranteed Amount. The carrying amount of this receivable at December 31, 2013, amounted to 110.9 million US dollars (17,033 million Tenge) (2012: 119.7 million US dollars or 18,039 million Tenge).

Additionally, the Company has the right, subject to certain conditions precedent, to exercise a put option and return the investment to CITIC in exchange for 150 million US dollars plus annual interest of 8% less the cumulative amount of the guaranteed payments received.

On November 17, 2008, the annual Guaranteed Amount has been increased from 26.2 million US dollars to 26.9 million US dollars, payable in two equal installments not later than June 12 and December 12 of each year. After the above amendment the effective interest rate on the receivable from CCEL is 15% per annum.

9. INVESTMENTS IN ASSOCIATE

	Ownership share	2013	2012
Interest in Petrokazakhstan Inc. ("PKI")	33%	107,095	118,959

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. The Company acquired a 33 percent stake in PKI in December 2009.

The associate's reporting period of the financial statements is the same as Company's reporting period.

Movement in investment in associate during the reporting period:

	2013	2012
Carrying amount at 1 January	118,959	133,228
Share of the total comprehensive income	25,979	43,508
Amortization of fair value of licenses, net of tax	(4,764)	(10,143)
Dividends received	(35,334)	(49,800)
Exchange difference and other adjustments	2,255	2,166
Carrying amount at December 31	**107,095**	**118,959**

9. INVESTMENTS IN ASSOCIATE (continued)

PKI (continued)

The following table illustrates the summarized financial information of PKI, based on its IFRS financial statements, and reconciliation with the Company's carrying value of investment:

	2013	2012
Cash and cash equivalents	8,241	32,987
Other current assets	98,237	83,222
Non-current assets	299,243	280,619
	405,721	**396,828**
Current liabilities	86,826	71,461
Non-current liabilities	86,323	69,624
	173,149	**141,085**
Net assets	**232,572**	**255,743**
Proportion of the company's ownership	**33%**	**33%**
Net assets share	**76,749**	**84,395**
Purchase price premium	**30,346**	**34,564**
Carrying value of the investment	**107,095**	**118,959**

	2013	2012
Revenues	295,928	320,681
Operating expenses	(205,670)	(184,462)
- including depreciation and amortization	(24,395)	(25,478)
Profit from operations	90,258	136,219
Share in profit of joint ventures	53,585	65,638
Finance income	695	766
Finance cost	(3,344)	(3,370)
Profit before tax	141,194	199,253
Income tax expense	(59,709)	(66,323)
Profit for the year	**81,485**	**132,930**
Other comprehensive income	**(2,761)**	**(1,089)**
Total comprehensive income	78,724	131,841
Company's share of the comprehensive income for the year	**25,979**	**43,508**

10. INVENTORIES

	2013	2012
Crude oil	13,999	14,801
Materials	13,423	10,257
	27,422	**25,058**

As at December 31, 2013 the Company had 303,157 tons (2012: 361,521 tons) of crude oil in storage and transit.

11. SHARE CAPITAL

	Shares outstanding	
	Number of shares	**Tenge million**
As at January 1, 2012	**70,293,388**	**198,452**
Reduction of treasury stock due to exercise of share options	70,127	703
Increase of treasury stock due to share repurchases	(2,205,813)	(36,203)
As at December 31, 2012	**68,157,702**	**162,952**
Reduction of treasury stock due to exercise of share options	1,607	17
As at December 31, 2013	**68,159,309**	**162,969**

11. SHARE CAPITAL (continued)

11.1 Share capital

Authorized shares

The total number of authorized shares is 74,357,042 (2012: 74,357,042). 43,087,006 of the outstanding shares are owned by the Parent Company as at December 31, 2013 (2012: 43,087,006). The shares of the Company have no par value.

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognized as distributions to equity holders during 2013 amounted to 1,619 Tenge per share (2012: 1,300 Tenge per share) for both the outstanding ordinary and preferred shares as at May 31, 2013, the date of record.

11.2 Employee share option plans

The expense recognized for share option plans related to employee services received during the year is 145 million Tenge (2012: 354 million Tenge).

Employee option plans

Under the employee option plan 1 (“EOP 1”), an award of global depositary receipt (“GDR”) options with an exercise price equal to the market value of GDRs at the time of award was made to executives. The exercise of options is not subject to performance conditions and vests 1/3 each year over 3 years and is exercisable till the fifth anniversary from the vesting date.

Under the employee option plan 2 (“EOP 2”), share options are granted to incentivize and reward key employees, senior executives and members of the Board of Directors of the Company, except for independent directors. The exercise price of the options is equal to the market price of GDRs on the date of grant. The exercise of these options is not subject to the attainment of performance conditions. Options granted on or after July 1, 2007 vest on the third anniversary of the date of the grant and are exercisable till the fifth anniversary from the vesting date.

Movement in the year

The following table illustrates the number of GDR’s (No.) and weighted average exercise prices in US dollars per GDR (WAEP) of and movements in share options during the year:

	2013		2012	
	No.	WAEP	No.	WAEP
Outstanding at January 1	1,677,948	19.47	2,118,984	18.26
Granted during the year	–	–	–	–
Exercised during the year	(8,867)	13,00	(420,763)	13.12
Forfeited during the year	(314,774)	19,01	(20,273)	26.08
Outstanding at December 31	1,354,307	19,61	1,677,948	19.47
Exercisable at December 31	1,346,462	19,59	636,760	19.77

The weighted average remaining contractual life for share options outstanding as at December 31, 2013 is 3.76 years (2012: 4.53 years). The range of exercise price for options outstanding at December 31, 2013 was 13.00 US Dollars – 26.47 US dollars per GDR (2012: 13.00 US Dollars – 26.47 US Dollars). The EOP 1 and EOP 2 are equity settled plans and the fair value is measured at the grant date.

11.3 Kazakhstan Stock Exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets (Note 6) per shares outstanding as at year end. As at December 31, 2013 the amount per share outstanding is 20,102 Tenge (December 31, 2012: 19,572 Tenge).

12. EARNINGS PER SHARE

	2013	2012
Weighted average number of all shares outstanding	68,158,471	69,301,529
Profit for the year	141,829	160,823
Basic and diluted earnings per share	2.08	2.32

The above presentation includes both ordinary and preferred shares as preferred shareholders equally share distributable profits, which results in identical earnings per share for both classes of shares.

13. PROVISIONS

	Environmental remediation	Taxes	Asset retirement obligation	Other	Total
At January 1, 2012	**18,528**	**12,127**	**15,848**	**6,249**	**52,752**
Additional provisions	–	9,619	281	3,068	12,968
Unused amounts reversed	–	(8,801)	–	–	(8,801)
Unwinding of discount	–	–	1,254	–	1,254
Changes in estimate	(958)	–	(1,865)	–	(2,823)
Used during the year	(266)	–	(399)	(439)	(1,104)
At December 31, 2012	**17,304**	**12,945**	**15,119**	**8,878**	**54,246**
Current portion	2,940	12,945	809	625	17,319
Non-current portion	14,364	–	14,310	8,253	36,927
Additional provisions	–	9,937	791	–	10,728
Unused amounts reversed	–	(2,215)	–	(2,445)	(4,660)
Unwinding of discount	1,372	–	1,199	–	2,571
Changes in estimate	(260)	–	(63)	–	(323)
Used during the year	(896)	(6,042)	(851)	(503)	(8,292)
At December 31, 2013	**17,520**	**14,625**	**16,195**	**5,930**	**54,270**
Current portion	3,703	14,625	1,035	704	20,067
Non-current portion	13,817	–	15,160	5,226	34,203

14. REVENUE

	2013	2012
Export:		
Crude oil	712,343	720,262
Gas products	2,628	557
Domestic (Note 24):		
Crude oil	76,049	60,559
Gas products	10,315	7,143
Refined products	3,514	2,109
Other sales and services	11,863	6,540
	816,712	**797,170**

15. PRODUCTION EXPENSES

	2013	2012
Employee benefits	92,318	82,959
Repairs and maintenance	22,619	18,162
Materials and supplies	16,920	14,176
Energy	15,908	12,884
Transportation services	5,633	5,758
Processing expenses	1,099	393
Change in crude oil balance	727	(984)
Other	6,811	7,014
	162,035	**140,362**

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
Transportation expenses	61,810	53,122
Employee benefits	12,986	13,936
Fines and penalties	5,191	8,302
Management fees and commissions	3,750	4,169
Sponsorship	1,681	6,778
Consulting and audit services	1,354	1,382
Repairs and maintenance	1,093	1,339
Other	4,495	4,060
	92,360	**93,088**

17. TAXES OTHER THAN ON INCOME

	2013	2012
Rent tax	165,307	159,822
Mineral extraction tax	84,433	70,792
Export customs duty	48,981	36,429
Property tax	5,473	4,373
Environmental tax	4,893	1,096
Other taxes	2,601	1,659
	311,688	**274,171**

18. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

	2013	2012
Impairment (Note 4)	56,275	75,000
Social objects impairment	2,285	1,593
Individual impairment	1,539	419
	60,099	**77,012**

19. FINANCE INCOME / COSTS

19.1 Finance income

	2013	2012
Interest income on deposits with banks	10,489	7,306
Interest income on receivable from jointly controlled entities	5,163	4,821
Interest income on Debt Instrument of NC KMG (Note 21)	4,557	11,403
Interest income on held to maturity financial assets	330	663
Gain on sale of other financial assets	–	5,546
Capital gain on sale of subsidiary (Note 8)	–	4,784
Other	38	5
	20,577	**34,528**

19.2 Finance costs

	2013	2012
Interest expense	5,261	5,601
Unwinding of discount on ecology remediation obligation	1,372	–
Unwinding of discount on asset retirement obligation	1,199	1,254
Other	253	376
	8,085	**7,231**

20. INCOME TAXES

Income tax expense comprised the following for the years ended December 31:

	2013	2012
Corporate income tax	51,695	77,993
Excess profit tax	8,343	38,541
Current income tax	**60,038**	**116,534**
Corporate income tax	(6,494)	(19,175)
Excess profit tax	4,987	(4,433)
Deferred income tax	**(1,507)**	**(23,608)**
Income tax expense	**58,531**	**92,926**

The following table provides a reconciliation of the Kazakhstan income tax rate to the effective tax rate of the Company on profit before tax.

	2013	2012
Profit before tax	200,360	253,749
Income tax	58,531	92,926
Effective tax rate	**29%**	**37%**

Statutory income tax	20%	20%
Increase / (decrease) resulting from		
Capital Gain on reorganization of the Company	–	5%
Withholding tax	1%	1%
Excess profit tax	7%	12%
Corporate income tax of prior years	–	3%
Share of result of associate and joint ventures	(5%)	(5%)
Non-taxable income	(1%)	(2%)
Tax provisions	1%	1%
Non-deductible expenses	6%	2%
Effective tax rate	**29%**	**37%**

During 2012 the Company underwent a reorganization, when former production branches "Ozenmunaigas" and "Embamunaigas" were separated into wholly owned subsidiaries JSC "Ozenmunaigas" and JSC "Embamunaigas". All fixed assets of the former production branches were transferred to newly created companies at fair value in accordance with Kazakhstan legislation. As a result the Company has recognized a significant amount of taxable capital gain, which has also resulted in an increase in excess profit tax for Uzen, Tengiz and the 23 fields contracts.

In 2013 excess profit tax relates mainly to the current excess profit tax of JSC "Embamunaigaz", as well as deferred excess profit tax asset write-off for JSC "Ozenmunaigaz". Non-deductible expenses include dry-well write-off expenses and ecology tax and related fines and penalties.

The movements in the deferred tax assets and liabilities relating to CIT and EPT were as follows:

Deferred tax assets:

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2012	**(9,252)**	**1,644**	**12,676**	**4,382**	**9,450**
Loss of control over subsidiary (Note 8)	959	–	–	–	959
Recognized in profit and loss	19,675	518	1,295	71	21,559
At December 31, 2012	**11,382**	**2,162**	**13,971**	**4,453**	**31,968**
Recognized in profit and loss	3,503	(1,234)	(348)	467	2,388
At December 31, 2013	**14,885**	**928**	**13,623**	**4,920**	**34,356**

20. INCOME TAXES (continued)

Deferred tax liabilities:

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2012	**(2,049)**	**–**	**–**	**–**	**(2,049)**
Recognized in profit and loss	2,049	–	–	–	2,049
At December 31, 2012	–	–	–	–	–
Recognized in profit and loss	(943)	68	1	(7)	(881)
At December 31, 2013	**(943)**	**68**	**1**	**(7)**	**(881)**

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

21. 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. BTA Bank and Alliance Bank are related parties since they are controlled by Samruk-Kazyna SWF and Kazkommertsbank is a related party due to Samruk Kazyna SWF holding 21.3% of the bank’s ordinary shares. Starting from 2012, Halyk Group is no longer a related party to the Company since the group is no longer controlled by a member of the management board of Samruk-Kazyna SWF.

Sales and purchases with related parties during the years ended December 31, 2013 and 2012 and the balances with related parties at December 31, 2013 and 2012 are as follows:

	2013	2012
Revenue and other income (Note 14)		
Entities under common control	796,817	788,545
Other state controlled entities	26	4,863
Joint ventures	2,866	329
Purchases of goods and services (Note 15 and 16)		
Entities under common control	33,120	23,410
Other state controlled entities	18,032	14,120
Parent Company	3,750	4,018
Interest earned on financial assets		
Interest earned on Debt Instrument	4,557	11,403
Effective interest rate on Investments in Debt Instrument of NC KMG – indexed USD/KZT	7.00%	7.00%
Interest earned on loans to Joint ventures	2,411	2,090
Average interest rate on loans to Joint ventures	15.00%	15.00%
Kazkommertsbank	3,154	1,082
Average interest rate on deposits	4.84%	4.69%
Alliance Bank of Kazakhstan	5	10
Average interest rate on deposits	7.00%	7.00%
Fair value loss on loans provided		
Joint ventures	4,814	2,049
Salaries and other short-term benefits		
Members of the Board of Directors	109	121
Members of the Management Board	247	207
Share-based payments		
Members of the Management Board	2	10

21. RELATED PARTY TRANSACTIONS (continued)

	December 31, 2013	December 31, 2012
Cash and cash equivalents (Note 7)		
Alliance Bank	212	208
Kazkommertsbank	37	110
BTA Bank	2	4
Financial assets (Note 7)		
Kazkommertsbank	78,789	38,207
Investments in Debt Instrument of NC KMG – indexed USD/KZT	–	134,360
Trade and other receivables (Note 7 and Note 8)		
Entities under common control	155,473	104,593
Joint ventures	40,175	31,506
Other state controlled entities	1,248	1,106
Trade payables		
Entities under common control	1,734	1,349
Other state controlled entities	482	101
Parent Company	–	1,125

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. Export sales to related parties represented 6,017,228 tons of crude oil in 2013 (2012: 6,078,074 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, trader's margin and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 121,340 Tenge in 2013 (2012: 122,103 Tenge).

In addition, the Company supplies oil and gas products to the local market through a subsidiary of the Parent Company at the directive of the Kazakhstan government, the ultimate controlling shareholder of the Parent Company. Those supplies to the domestic market represented 1,900,000 tons of crude oil production in 2013 (2012: 1,595,399 tons). Prices for the local market sales are determined by agreement with the Parent Company. For deliveries to the local market in 2013 the Company received an average price per produced crude oil ton of around 40,000 Tenge (2012: 37,906 Tenge). Trade and other receivables from related parties principally comprise amounts related to export sales transactions.

Purchases and payables

Management fees to the Parent Company amounted to 3,750 million Tenge in 2013 (2012: 4,018 million Tenge). Transportation services related to the shipment of 6,061,163 tons of crude oil in 2013 (2012: 5,198,600 tons) were purchased from a subsidiary of the Parent Company for 26,485 million Tenge in 2013 (2012: 18,457 million Tenge). The remaining services purchased from subsidiaries of NC KMG include primarily payments for security services, processing and demurrage expenditures.

Share based payments to members of the Management Board

Share based payments to members of the Management Board represents the amortization of share based payments over the vesting period. During 2013 the Company granted no options (2012: no options).

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company has various financial liabilities such as borrowings, trade and other payables. The Company also has various financial assets such as trade receivables, short and long-term deposits and cash and cash equivalents.

The Company is exposed to interest rate risk, foreign currency risk, credit risk, liquidity risk and commodity price risk. The Company's Finance Committee assists management in the oversight of the monitoring and where it is deemed appropriate, mitigation of these risks in accordance with approved policies such as the treasury policy.

Interest rate risk

As of December 31, 2013 the Company has no floating interest rate borrowings and no exposure to interest rate risk.

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates mainly to the Company's operating activities, as the majority of its sales are denominated in US dollars whilst almost all of its costs are denominated in Tenge, and to its investments denominated in foreign currencies.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2013		
US dollar	+ 20.00%	149,879
US dollar	- 20.00%	(149,879)
2012		
US dollar	+ 10.00%	66,855
US dollar	- 10.00%	(66,855)

Credit risk

The Company is exposed to credit risk in relation to its trade receivables. The Company's vast majority of sales are made to an affiliate of the Parent and the Company has a significant concentration risk of the receivable from this affiliate (Notes 7, 21). An additional number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company is also exposed to credit risk in relation to its investing activities. The Company places deposits with Kazakhstan and foreign banks and purchases National Bank notes.

Credit risk from balances with financial institutions is managed by the Company's treasury department in accordance with the Company's treasury policy, which is approved by the Company's Board of Directors. The Company's maximum exposure to credit risk arising from default of the financial institutions is equal to the carrying amounts of these financial assets.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The table below shows the balances of the financial assets held in banks and Debt Instruments of NC KMG at the reporting date using Standard and Poor's credit ratings, unless otherwise stated.

		Rating[1]			
Banks	**Location**	**2013**	**2012**	**2013**	**2012**
Halyk Bank	Kazakhstan	BB (stable)	BB (stable)	137,173	131,207
Kazkommertsbank	Kazakhstan	B (stable)	B+ (negative)	78,826	38,317
BNP Paribas	France	A+ (negative)	A+ (negative)	74,359	75,319
Deutsche Bank	Germany	A (stable)	A+ (negative)	72,686	47,328
ING Bank	Netherlands	A- (stable)	A+ (negative)	51,619	41,873
Citi Bank Kazakhstan	Kazakhstan	Not available	Not available	44,087	26,247
ATF Bank (Moody's)	Kazakhstan	B- (stable)	B1 (stable)	36,128	37,696
HSBC Plc	UK	AA- (negative)	AA- (negative)	27,868	75,044
Eurasian Bank	Kazakhstan	B+ (positive)	B+ (stable)	27,327	–
Citi Bank N.A.	UK branch	A (stable)	A (negative)	25,403	21,712
HSBC Kazakhstan	Kazakhstan	Not available	BBB (stable)	15,285	7,016
Sberbank	Kazakhstan	BBB- (stable)	BBB- (stable)	11,847	–
Credit Suisse	British Virgin Islands	A (stable)	A+ (negative)	8,206	12,366
BankCenterCredit (Moody's)	Kazakhstan	B2 (stable)	B1 (negative)	6,300	1,654
RBS Kazakhstan	Kazakhstan	Not available	Not available	4,821	13,208
NurBank	Kazakhstan	BB+ (stable)	BB+ (stable)	530	–
Alliance Bank (Moody's)	Kazakhstan	CCC (negative)	B3 (negative)	212	208
Investment in Debt Instrument of NC KMG	Kazakhstan	BBB- (stable)	BBB- (stable)	–	134,360
National Bank of Republic of Kazakhstan	Kazakhstan	BBB+ (stable)	BBB+ (stable)	–	42,596
Other				76	195
				622,753	**706,346**

Liquidity risk

The Company monitors its liquidity risk using a liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables and other financial assets) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term deposits in local banks.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2013 based on contractual undiscounted payments:

Year ended December 31, 2012	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	–	271	2,262	4,646	2,002	9,181
Trade and other payables	82,255	–	–	–	–	82,255
	82,255	**271**	**2,262**	**4,646**	**2,002**	**91,436**

Year ended December 31, 2013	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	–	276	2,228	4,723	1,023	8,250
Trade and other payables	68,489	–	–	–	–	68,489
	68,489	**276**	**2,228**	**4,723**	**1,023**	**76,739**

[1] Source: Interfax – Kazakhstan, Factivia, official sites of the banks and rating agencies as at December 31 of the respective year

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Commodity price risk

The Company is exposed to the effect of fluctuations in the price of crude oil, which is quoted in US dollars on international markets. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Capital management

Capital includes total equity. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

As at December 31, 2013 the Company had a strong financial position and a conservative capital structure. Going forward, the Company intends to maintain a capital structure which allows it the flexibility to take advantage of growth opportunities as and when they arise.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy or processes during the years ended December 31, 2013 and 2012.

23. FINANCIAL INSTRUMENTS

Fair values of financial instruments such as short-term trade receivables, trade payables and fixed interest rate borrowing approximate their carrying value.

24. 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.

The Kazakhstan economy has been affected by the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company’s future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Company’s results and financial position in a manner not currently determinable.

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 and may even be set at the cost of production (Note 21). 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 current year, in accordance with their obligations, the Company delivered 1,993,861 tons of oil (2012: 1,645,926 tons) to the domestic market. The joint venture Kazgermunai did not deliver oil to the domestic market in 2013 (2012: 517,991 tons).

24. COMMITMENTS AND CONTINGENCIES (continued)

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 December 31 , 2013.

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

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.

The Company disagreed with the above assessments and filed an appeal to the Ministry of Finance. The Company's management believes its interpretations of the tax legislation were appropriate. However, as management believes the outcome of the dispute is uncertain and further believes that it is more likely than not that the Company may not be entirely successful in its appeals, due to the ambiguity contained in the tax legislation and a history of varying interpretations and inconsistent opinions of the authorities and courts, management has accrued for certain matters that arose in the assessment.

During 2013 the Tax Committee conducted a limited scope tax review that resulted in a notification dated February 10, 2014 on the basis of which the Company has reversed 1,819 million Tenge that consists of 811 million Tenge of principal, 405 million Tenge of administrative fines and 603 million Tenge of late payment interest.

As at December, 31 2013, existing provision for tax contains 14,625 million Tenge, including principal of 6,400 million Tenge, fines of 3,411 million Tenge and late payment interest of 4,814 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

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 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 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 liabilties, the Company will definitely 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 December 31, 2013.

24. COMMITMENTS AND CONTINGENCIES (continued)

Turgai Petroleum comprehensive tax audits

In September-December 2013, Kyzylorda 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 Inc.) 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 an appeal 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.

PetroKazakhstanKumkolResources JSC (PKKR) comprehensive tax audit

In September 2013 the Tax department initiated a complex tax audit for 2009-2012 of PKKR (100% subsidiary of PKI Inc.). On January 13, 2014 the Tax department issued notification for environmental emissions for 10,665 million Tenge and related fines and penalties for 8,758 million Tenge.

PKKR disagreed with the complex tax audit results and is planning to file an appeal with the Tax Committee of the Ministry of Finance. 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. PKI Management believes that PKKR has a strong position on any other potential claims as a result of tax audit for 2009-2012.

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 13) 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.

Ozenmunaigas environmental audit 2011-2012

On January 25, 2013 JSC "Ozenmunaigas", received a notification from the Department of Ecology of Mangystau Region to pay fine of 59,345 million Tenge for environmental damage. The total amount was determined as a result of an inspection that covered the period from August 2011 to November 2012. JSC "Ozenmunaigas" believes that the act was illegal and that calculations were not reliable and on February 26, 2013 filed an appeal to the Specialized Interregional Economic Court of Mangystau Region. On March 7, 2013 the Department of Ecology of Mangystau Region filed a claim with the same Court for the forced payment of the fines.

On May 22, 2013 the Court satisfied the appeal of JSC "Ozenmunaigas" in full and rejected the claim of the Department of Ecology of Mangystau Region for the forced payment of the fines. On June 6, 2013 the Department of Ecology of Mangystau Region filed an appeal to the Judicial Panel of Appeals on Civil and Administrative Cases of Mangystau Regional Court. This appeal was rejected by the Judicial Panel of Appeals on July 9, 2013. On December 23, 2013 the Department of Ecology of Mangystau Region filed an appeal to the Cassation Judicial Panel on of Mangystau Regional Court. This appeal was rejected by the Cassation Judicial Panel on February 12, 2014. The Company expects that the Department of Ecology of Mangystau Region will file further appeals to the Supreme court.

Management believes that JSC "Ozenmunaigas" has a strong position on this issue, as the inspection was carried out with violations of the laws of the Republic of Kazakhstan in relation to procedure for the inspection process, and the Department of Ecology of Mangystau Region has no reliable evidence confirming the damage to the environment, as required by the civil procedure and environmental codes of the Republic of Kazakhstan.

The Company believes that JSC "Ozenmunaigas" will continue to successfully appeal the results of the inspection and the request for payment for damages to the environment, and therefore no provision has been accrued for this matter as at December 31, 2013.

24. COMMITMENTS AND CONTINGENCIES (continued)

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. The total amount was determined as a result of an inspection that covered 2012 and 2013. JSC “Ozenmunaigas” disagreed with the notification and currently takes legal actions to appeal the claim.

Management believes that JSC “Ozenmunaigas” has a strong position on this issue, as the inspection was carried out with violations of the laws of the Republic of Kazakhstan in relation to procedure for inspection process, and the Department of Ecology of Mangystau Region has no reliable evidence confirming the damage to the environment, as required by the civil procedure and environmental codes of the Republic of Kazakhstan.

The Company believes that it can successfully appeal the results of the inspection and the request for payment for damages to the environment, and therefore no provision has been accrued for this matter as at December 31, 2013.

Embamunaigas environmental audit

In July 2013 the Department of Ecology of Atyrau Region conducted an off-schedule inspection to determine whether production activities of JSC “Embamunaigas” comply with ecological requirements, including associated gas utilization requirements. The Department of Ecology of Atyrau Region concluded that gas utilization on three oilfields does not comply with the approved technological development plans.

In a decision on September 24, 2013 the Specialized Interregional Economic Court of Atyrau Region ruled to suspend commercial development of these three oilfields until violations of ecological norms are eliminated and a positive state ecological conclusion is obtained. On October 21, 2013 JSC “Embamunaigas” filed an appeal to the Atyrau Regional Court to request the cancellation of this decision. On November 21, 2013 JSC “Embamunaigas” received positive conclusion of the state ecological examination from the Committee of Ecological Regulation and Control of the Ministry of Environment and Water Resources of the Republic of Kazakhstan and on December 10, 2013 - from the Department of Ecology of Atyrau Region. As a result, litigation under this case has finished.

Embamunaigas Gas flaring.

On January 23, 2014 JSC “Embamunaigas” 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 currently takes appropriate actions to appeal the claim of the Department of Ecology of Atyrau Region. The Company believes that it can successfully appeal the results of the inspection and the request for payment for damages to the environment, and therefore no provision has been accrued for this matter as at December 31, 2013.

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 cash flows.

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

24. COMMITMENTS AND CONTINGENCIES (continued)

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	2021
Emba (1 field)	No. 61	2017
Emba (23 fields)	No. 211	2018
Emba (15 fields)	No. 413	2020

Commitments arising from oilfield and exploration licenses

Year	Capital expenditures	Operational expenditures
2014	131,143	5,291
2015	52,798	3,237
2016	50,476	3,108
2017	–	3,028
2018-2024	–	9,601
	234,417	**24,265**

Crude oil supply commitments

The Company has obligations to supply oil and oil products to the local market under government directives (Note 21).

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2013:

Year	Capital expenditures	Operational expenditures
2014	10,260	4,745

Commitments of UGL

The Company's share in the commitments of UGL is as follows as at December 31, 2013:

Year	Capital expenditures	Operational expenditures
2014	7,612	1,113

Commitments of KS EP Investments

The Company's share in the commitments of KS EP Investments is as follows as at December 31, 2013:

Year	Capital expenditures	Operational expenditures
2014	4,278	93

25. SUBSEQUENT EVENTS

Tenge devaluation

On February 11, 2014 the Tenge was devalued against the US dollar and other major currencies. The exchange rates before and after devaluation were 155 Tenge / US dollar and 185 Tenge / US dollar respectively.

These consolidated financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on February 18, 2014:

Chief Executive Officer — Nurseitov A. A.

Acting Chief Financial Officer — B. Fraser, ACA.

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