

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Tenge million unless otherwise stated

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

KazMunaiGas Exploration Production Joint Stock Company (the “Company”) has been incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangystau basins of western Kazakhstan. The Company’s direct majority shareholder is Joint Stock Company National Company KazMunaiGas (“NC KMG” or the “Parent Company”), which represents the state’s interests in the Kazakh oil and gas industry and which holds 63.21% of the Company’s outstanding shares as at June 30, 2014 (December 31, 2013: 63.22%). The Parent Company is 100% owned by Joint Stock Company Samruk-Kazyna Sovereign Welfare Fund (“Samruk-Kazyna SWF”), which is in turn 100% owned by the government of the Republic of Kazakhstan (the “Government”).

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

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting (“IAS 34”) and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2013.

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

Exchange rates

The official rate of the Kazakhstan Tenge to the US Dollar at June 30, 2014 and December 31, 2013 was 183.51 and 153.61 Tenge to the US Dollar, respectively.

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

3. SEASONALITY OF OPERATIONS

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

4. SIGNIFICANT NON-CASH TRANSACTIONS

During the six months ended June 30, 2014 the Company excluded from the condensed consolidated interim statement of cash flows a non-cash transaction related to the offset of withholding income tax payable against the interest receivable on financial assets in the amount of 1,022 million Tenge (six months ended June 30, 2013: 528 million Tenge).

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5. ACCOUNTING POLICIES

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied in the preparation of the annual consolidated financial statements for the year ended December 31, 2013, except as discussed below.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2014:

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

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

6. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2014 the Company prepaid for and purchased property, plant and equipment with a cost of 63,704 million Tenge (during six months ended June 30, 2013: 55,671 million Tenge).

Property, plant and equipment with the net book value of 1,044 million Tenge were disposed of by the Company during the six months ended June 30, 2014, resulting in a net loss on disposal of 808 million Tenge (during the six months ended June 30, 2013: 2,257 million Tenge and 1,916 million Tenge, respectively).

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

In July 2014 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 six months ended June 30, 2013. The results of the assessment were most sensitive to assumptions related to production, pricing and the KZT/USD exchange rate.

7. INVESTMENTS IN JOINT VENTURES

	Ownership share	June 30, 2014	December 31, 2013
		Unaudited	Audited
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	78,664	64,201
Interest in JV Ural Group Limited BVI ("UGL")	50%	26,764	22,627
Interest in JV KS EP Investments BV ("KS EP Investments")	51%	–	2,139
		105,428	88,967

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7. INVESTMENTS IN JOINT VENTURES (continued)

Movement in investment in joint ventures during the period:

	Six months ended June 30,	
	2014	2013
Carrying amount at 1 January	88,967	89,252
Share of total comprehensive income and loss	22,640	19,921
Amortization of the fair valuation of the licenses, net of tax	(2,368)	(7,277)
Dividends received	(18,201)	(7,564)
Exchange difference and other adjustments	13,923	685
Share in additional paid-in-capital	467	2,462
Carrying amount at June 30	105,428	97,479

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

Kazgermunai

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

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

	June 30, 2014	December 31, 2013
	Unaudited	Audited
Cash and cash equivalents	40,335	27,801
Other current assets	31,129	57,122
Non-current assets	100,424	89,535
	171,888	174,458
Current liabilities	33,062	76,845
Non-current liabilities	21,308	12,651
	54,370	89,496
Net assets	117,518	84,962
Proportion of the company's ownership	50%	50%
Net assets share	58,759	42,481
Purchase price premium	19,905	21,720
Carrying value of the investment	78,664	64,201

	Six months ended June 30,	
	2014	2013
	Unaudited	Unaudited
Revenues	137,725	182,360
Operating expenses	(53,794)	(114,020)
- including depreciation and amortization	(6,455)	(4,218)
Profit from operations	83,931	68,340
Finance income	638	188
Finance cost	(339)	(286)
Profit before tax	84,230	68,242
Income tax expense	(33,611)	(25,517)
Profit for the period	50,619	42,725
Other comprehensive income	-	-
Total comprehensive income	50,619	42,725
Company's share of the comprehensive income for the period	25,310	21,363

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7. INVESTMENTS IN JOINT VENTURES (continued)

UGL

On April 15, 2011 the Company acquired from Exploration Venture Limited (EVL) 50% of the common shares of UGL. UGL holds 100% equity interest in Ural Oil and Gas LLP (UOG).

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

	June 30, 2014	December 31, 2013
	Unaudited	Audited
Cash and cash equivalents	922	2,539
Other current assets	22	13
Non-current assets	58,093	45,378
	59,037	47,930
Current liabilities	438	1,862
Non-current financial liabilities	46,625	35,652
Non-current liabilities	2,653	2,165
	49,716	39,679
Net assets	9,321	8,251
Proportion of the company's ownership	50%	50%
Net assets share	4,661	4,126
Purchase price premium	22,103	18,501
Carrying value of the investment	26,764	22,627

	Six months ended June 30,	Six months ended June 30,
	2014	2013
	Unaudited	Unaudited
Revenues	84	7
Operating expenses	(1,177)	(715)
Loss from operations	(1,093)	(708)
Finance income	4	22
Finance cost	(242)	(343)
Loss before tax	(1,331)	(1,029)
Income tax expense	(9)	(12)
Loss for the period	(1,340)	(1,041)
Other comprehensive income	-	-
Total comprehensive loss	(1,340)	(1,041)
Company's share of the comprehensive loss for the period	(670)	(521)

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8. INVESTMENTS IN ASSOCIATE

	Ownership share	June 30, 2014 Unaudited	December 31, 2013 Audited
Interest in Petrokazakhstan Inc. ("PKI")	33%	142,646	107,095

PKI is non-listed company and there is no quoted market price available for its shares. PKI is involved in field exploration and development, oil and gas production, acquisition of oil fields and selling of crude oil and oil products.

Movement in investment in associate during the period:

	Six months ended June 30,	
	2014	2013
Carrying amount at 1 January	107,095	118,959
Share of the total comprehensive income	16,988	16,519
Amortization of fair value of licenses, net of tax	(2,746)	(2,343)
Dividends received	–	(12,512)
Exchange difference and other adjustments	21,309	801
Carrying amount at June 30	142,646	121,424

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

	June 30, 2014 Unaudited	December 31, 2013 Audited
Cash and cash equivalents	69,855	8,241
Other current assets	80,518	98,237
Non-current assets	354,732	299,243
	505,105	405,721
Current liabilities	128,557	86,826
Non-current liabilities	48,589	86,323
	177,146	173,149
Net assets	327,959	232,572
Proportion of the company's ownership	33%	33%
Net assets share	108,226	76,749
Purchase price premium	34,420	30,346
Carrying value of the investment	142,646	107,095

	Six months ended June 30,	
	2014	2013
	Unaudited	Unaudited
Revenues	143,850	143,252
Operating expenses	(83,445)	(94,710)
- including depreciation and amortization	(15,556)	(14,965)
Profit from operations	60,405	48,542
Share in profit of joint ventures	23,420	27,734
Finance income	416	339
Finance cost	(1,797)	(1,408)
Profit before tax	82,444	75,207
Income tax expense	(20,889)	(25,555)
Profit for the period	61,555	49,652
Other comprehensive (loss) / income	(10,077)	405
Total comprehensive income	51,478	50,057
Company's share of the comprehensive income for the period	16,988	16,519

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9. FINANCIAL ASSETS

Other financial assets

	June 30, 2014	December 31, 2013
	Unaudited	Audited
US dollar denominated held to maturity deposits	16,870	12,957
Tenge denominated held to maturity deposits	2,179	8,752
Other	2	2
Total non-current	19,051	21,711
US dollar denominated held to maturity deposits	424,796	406,013
Tenge denominated held to maturity deposits	51,159	75,961
Great Britain pound denominated held to maturity deposits	1,723	–
Euro denominated held to maturity deposits	38	32
Total current	477,716	482,006
	496,767	503,717

As at June 30, 2014 the non-current US dollar denominated held to maturity deposits include restricted deposits in the amount of 16,870 million Tenge (December 31, 2013: 12,957 million Tenge), which are kept in blocked accounts designated as a liquidation fund per requirements of subsoil use contracts.

Trade and other receivables

	June 30, 2014	December 31, 2013
	Unaudited	Audited
Trade receivables	176,948	153,519
Other	1,104	820
Allowance for doubtful receivables	(1,235)	(1,120)
	176,817	153,219

As at June 30, 2014 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGaz Trading AG ("KMG Trading"), a subsidiary of the Parent Company, of 165,706 million Tenge (December 31, 2013: 148,246 million Tenge). Of this amount 29 million Tenge is overdue (December 31, 2013: 54,992 million Tenge).

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

Cash and cash equivalents

	June 30, 2014	December 31, 2013
	Unaudited	Audited
US dollar denominated term deposits with banks	103,990	81,888
Tenge denominated term deposits with banks	8,292	24,431
US dollar denominated cash in banks and on hand	34,417	5,626
Tenge denominated cash in banks and on hand	8,678	5,561
Great Britain pound denominated cash in bank and on hand	163	1,530
	155,540	119,036

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10. SHARE CAPITAL

Shares outstanding

During the six months ended June 30, 2014 the weighted average number of all shares outstanding amounted to 68,159,417 shares (six months ended June 30, 2013: 68,158,233 shares). Under the employee remuneration program during the six months ended June 30, 2014 stock options for 500 ordinary shares were exercised (six months ended June 30, 2013: 988 ordinary shares).

Book value per share

The Kazakhstan Stock Exchange has enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets per shares outstanding as at period end. As at June 30, 2014 the amount per outstanding share is 22,030 Tenge (December 31, 2013: 20,102 Tenge).

Dividends declared

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

11. PROVISIONS

	June 30, 2014	December 31, 2013
	Unaudited	Audited
Asset retirement obligation	17,162	16,195
Environmental remediation	15,577	17,520
Taxes (Note 18)	11,969	14,625
Other	6,926	5,930
	51,634	54,270

The Company has changed its estimate for the environmental remediation provision (Note 13), which relates to certain soil contamination and oil waste disposal, in accordance with a memorandum of cooperation (“MOC”) signed by the Parent Company (comprising the Company and JSC “Ozenmunaigas”) with the Ministry of the Environment and Water Resources and Ministry of Oil and Gas in June 2014. The MOC agrees the scope and timing of the remediation plan to be executed over a period of seven years till 2021.

12. REVENUE

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	Unaudited	Unaudited	Unaudited	Unaudited
Export:				
Crude oil	211,515	150,188	401,670	328,248
Gas products	527	377	1,435	761
Domestic:				
Crude oil	24,435	23,164	48,495	42,403
Gas products	2,981	2,885	5,148	4,454
Refined products	862	679	1,796	1,888
Other sales and revenues	3,301	4,359	5,901	6,083
	243,621	181,652	464,445	383,837

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13. PRODUCTION EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	Unaudited	Unaudited	Unaudited	Unaudited
Employee benefits	30,024	23,430	56,331	46,849
Repairs and maintenance	5,727	5,401	10,380	8,811
Materials and supplies	4,291	3,775	8,683	7,473
Energy	3,827	3,852	8,183	8,013
Transportation services	1,560	1,373	2,824	2,693
Processing expenses	210	249	446	591
Change in crude oil balance	(714)	(460)	317	4,225
Change in estimate of environmental remediation obligation (Note 11)	(2,096)	–	(2,096)	–
Other	1,862	1,907	3,416	3,673
	44,691	39,527	88,484	82,328

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	Unaudited	Unaudited	Unaudited	Unaudited
Transportation expenses	17,808	14,265	33,881	29,280
Employee benefits	4,240	2,614	7,525	5,616
Accrual of fines and penalties (Note 18)	2,105	3,375	2,365	5,222
Management fees and commissions	1,113	1,005	2,226	2,009
Consulting and audit services	746	197	1,051	400
Repairs and maintenance	227	251	394	403
Sponsorship	134	701	278	915
Other	803	1,661	1,700	2,282
	27,176	24,069	49,420	46,127

15. TAXES OTHER THAN ON INCOME

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	Unaudited	Unaudited	Unaudited	Unaudited
Rent tax	47,436	34,419	88,638	75,614
Mineral extraction tax	25,574	18,631	48,474	38,699
Export customs duty	21,461	10,955	35,769	19,944
Environmental tax	685	147	810	4,669
Property tax	1,449	1,345	2,821	2,591
Other taxes	1,292	1,408	1,665	1,627
	97,897	66,905	178,177	143,144

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16. INCOME TAX EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	Unaudited	Unaudited	Unaudited	Unaudited
Corporate income tax	9,715	11,154	46,234	24,854
Excess profit tax	4,953	1,152	8,916	4,581
Current income tax	14,668	12,306	55,150	29,435
Corporate income tax	(6,961)	1,086	(10,407)	(9,513)
Excess profit tax	(1,186)	1,107	(1,455)	4,919
Deferred income tax	(8,147)	2,193	(11,862)	(4,594)
Income tax expense	6,521	14,499	43,288	24,841

17. RELATED PARTY TRANSACTIONS

The category 'entities under common control' comprises entities controlled by the Parent Company. The category 'other state controlled entities' comprises entities controlled by Samruk-Kazyna SWF, except for banks, controlled by Samruk-Kazyna SWF. Alliance Bank is related party since it is controlled by Samruk-Kazyna.

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

	Six months ended June 30,	
	2014	2013
	Unaudited	Unaudited
Revenue and other income		
Entities under common control	480,414	374,358
Joint ventures	2,816	1,548
Parent Company	155	–
Other state controlled entities	12	3
Purchases of goods and services		
Entities under common control	17,480	15,285
Other state controlled entities	8,461	8,624
Parent Company	2,226	2,009
Interest earned on financial assets		
Interest earned on Debt Instrument	–	4,557
Effective interest rate on Investments in Debt Instrument of NC KMG – indexed USD/KZT	–	7.00%
Alliance Bank	–	7
Average interest rate on deposits	–	7.00%
Fair value loss on loans provided		
Joint ventures	471	2,391
Salaries and other short-term benefits		
Members of the Board of Directors	82	51
Members of the Management Board	172	106
Share-based payments		
Members of the Management Board	–	2

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17. RELATED PARTY TRANSACTIONS (continued)

	June 30, 2014	December 31, 2013
	Unaudited	Audited
Cash and cash equivalents (Note 9)		
Alliance Bank	2	212
Prepaid expenses and trade and other receivables		
Entities under common control	178,348	155,473
Joint ventures	51,173	40,175
Other state-controlled entities	2,278	1,248
Trade payables		
Parent Company	2,226	–
Entities under common control	937	1,734
Other state controlled entities	425	482

18. COMMITMENTS AND CONTINGENCIES

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 June 30, 2014.

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

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

As the results of the limited scope tax audit conducted in February of 2014 the final notification of the 2006-2008 tax audit was issued by the Tax Committee of the Ministry of Finance in March 2014. The total tax assessments have been reduced from 16,938 million Tenge to 12,169 million Tenge including 4,568 million Tenge of principal, 4,681 million Tenge of administrative fines and 2,920 million Tenge of interest.

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

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18. COMMITMENTS AND CONTINGENCIES (continued)

Taxation (continued)

As at June 30, 2014 existing provision for tax contains 11,969 million Tenge, including principal of 4,809 million Tenge, fines of 2,615 million Tenge and late payment interest of 4,545 million Tenge. Management believes that the Company will be successful in appealing the remaining balances of principal, fines, and late payment interest of the assessments.

Mineral extraction tax (MET)

On July 2, 2013 the Tax Committee of Yessil district of Astana provided a notification to the Company of 8,785 million Tenge for alleged discrepancies between data reported in 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 liabilities, the Company will appeal such assessment. As management believes that it is more likely than not that the Company will be successful in its appeal, no provisions in relation to this matter have been made in the consolidated financial statements as at June 30, 2014.

Turgai Petroleum comprehensive tax audits

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

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

PetroKazakhstan Kumkol Resources (PKKR) comprehensive tax audit

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

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

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18. COMMITMENTS AND CONTINGENCIES (continued)

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

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

Embamunaigas Gas flaring.

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

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

Ozenmunaigas environmental audit 2012-2013

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

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

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

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

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

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

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

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

Tenge million unless otherwise stated

18. COMMITMENTS AND CONTINGENCIES (continued)

Commitments arising from oilfield and exploration licenses

Year	Capital expenditures	Operational expenditures
2014 (remaining)	73,600	3,941
2015	64,044	3,954
2016	51,463	3,399
2017	248	3,319
2018-2024	267	9,955
	189,622	24,568

Commitments of Kazgermunai

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

Year	Capital expenditures	Operational expenditures
2014 (remaining)	9,211	2,580

Commitments of UGL

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

Year	Capital expenditures	Operational expenditures
2014 (remaining)	551	1,281

Commitments of KS EP Investments

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

Year	Capital expenditures	Operational expenditures
2014 (remaining)	3,775	128


19. SUBSEQUENT EVENTS

Dividends received from Kazgermunai

On July 10, 2014 the partners of Kazgermunai agreed to distribute 100 million US Dollars as a dividend payment for the results of the 1st quarter 2014. The Company received its 50% share of the above dividend amount on July 14, 2014.

These condensed consolidated interim financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on August 12, 2014:

Chief Executive Officer


Nurseitov A. A.

Acting Chief Financial Officer


Fraser B., ACA.

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