

JSC “National Company “KazMunayGas”

Interim condensed consolidated financial statements (unaudited)

For the nine months ended September 30, 2014

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Report on review of interim condensed consolidated financial statements

Interim condensed consolidated financial statements (unaudited)

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INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In thousands of tenge</i>	Note	September 30, 2014 (unaudited)	December 31, 2013 (audited)*
ASSETS			
Non-current assets			
Property, plant and equipment	4	4,291,259,356	3,739,035,749
Exploration and evaluation assets	5	261,667,014	221,699,938
Investment property	6	27,726,925	28,243,320
Intangible assets	7	203,534,329	200,442,883
Long-term bank deposits	8	88,161,996	81,935,736
Investments in joint ventures and associates	9	1,261,912,630	998,490,176
Deferred income tax assets		42,458,687	29,688,534
VAT receivable		21,845,792	18,921,820
Advances for non-current assets		84,057,752	84,500,167
Bonds receivable from the Parent Company	28	37,087,461	36,922,676
Note receivable from a shareholder of a joint venture		17,917,727	13,222,376
Note receivable from associate	28	27,748,299	22,411,853
Loans due from related parties		30,242,954	22,558,713
Other non-current assets		34,516,453	28,237,430
		6,430,137,375	5,526,311,371
Current assets			
Inventories	10	200,893,287	204,342,042
VAT receivable		169,117,611	151,553,582
Income taxes prepaid		43,168,694	52,345,584
Trade accounts receivable	11	250,336,242	284,447,047
Short-term financial assets	12	672,385,540	814,592,127
Bonds receivable from the Parent Company	28	3,330,000	4,440,000
Note receivable from a shareholder of a joint venture		2,423,754	3,969,193
Dividends receivable from joint ventures and associate	9	36,799,174	19,262,694
Derivatives		1,570,707	—
Other current assets	11	106,782,263	74,084,738
Cash and cash equivalents	13	633,762,233	407,326,766
		2,120,569,505	2,016,363,773
Assets classified as held for sale		15,648,891	15,510,696
		2,136,218,396	2,031,874,469
TOTAL ASSETS		8,566,355,771	7,558,185,840


The accounting policies and explanatory notes on pages 10 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of tenge</i>	Note	September 30, 2014 (unaudited)	December 31, 2013 (audited)*
EQUITY AND LIABILITIES			
Equity			
Share capital	14	550,308,973	546,485,470
Additional paid-in capital	14	26,437,497	19,645,866
Other equity	14	2,142,299	2,185,813
Currency translation reserve	14	452,911,337	269,950,758
Retained earnings		2,909,478,510	2,611,367,993
Attributable to equity holder of the Parent Company		3,941,278,616	3,449,635,900
Non-controlling interest	14	636,541,766	586,555,014
Total equity		4,577,820,382	4,036,190,914
Non-current liabilities			
Borrowings	15	2,027,659,149	2,005,432,081
Payable for the acquisition of additional interest in North Caspian Project	16	391,923,013	214,885,792
Financial guarantee		18,497,591	—
Provisions	17	131,277,377	114,584,815
Deferred income tax liabilities		185,750,289	157,991,090
Other non-current liabilities		12,730,274	13,850,020
		2,767,837,693	2,506,743,798
Current liabilities			
Borrowings	15	624,158,302	301,710,769
Payable for the acquisition of additional interest in North Caspian Project	16	—	107,443,991
Financial guarantee		1,506,295	—
Provisions	17	86,234,293	93,273,602
Income taxes payable		21,829,176	55,365,055
Trade accounts payable	18	227,603,965	225,091,612
Other taxes payable	19	128,789,322	109,643,397
Derivatives		298,788	441,058
Other current liabilities	18	127,357,061	119,197,681
		1,217,777,202	1,012,167,165
Liabilities directly associated with assets classified as held for sale			
		2,920,494	3,083,963
Total liabilities		3,988,535,389	3,521,994,926
TOTAL EQUITY AND LIABILITIES		8,566,355,771	7,558,185,840

* Certain numbers shown here do not correspond to the consolidated financial statements for year ended December 31, 2013 and reflect reclassifications made to conform with the presentation in the interim consolidated statement of financial position as at September 30, 2014.

Managing director for economics and finance



Raisymbek A.M.

Chief accountant

Valentinova N.S.

The accounting policies and explanatory notes on pages 10 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of tenge</i>	Note	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Revenue	20	2,400,138,545	2,127,460,318
Cost of sales	21	(1,676,846,902)	(1,468,783,701)
Gross profit		723,291,643	658,676,617
General and administrative expenses	22	(116,342,272)	(110,700,973)
Transportation and selling expenses	23	(281,747,864)	(237,329,835)
Impairment of property, plant and equipment and intangible assets, other than goodwill	4, 7	(30,642,964)	(57,868,344)
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		(5,068,517)	(7,035,312)
Other operating income		17,479,657	23,210,796
Other operating expenses		(9,360,409)	(12,754,570)
Operating profit		297,609,274	256,198,379
Net foreign exchange gain / (loss)		71,302,041	(22,912,607)
Finance income	24	43,254,165	28,488,520
Finance costs	25	(149,819,015)	(132,274,474)
Impairment of goodwill	7	(1,622,222)	—
Impairment of investments in joint ventures	9	(343,359)	—
Share in profit of joint ventures and associates, net	26	351,643,271	364,724,831
Profit before income tax		612,024,155	494,224,649
Income tax expense	27	(144,451,370)	(132,418,349)
Profit for the period from continuing operations		467,572,785	361,806,300
Discontinued operations			
Profit after income tax for the period from discontinued operations		738,883	502,711
Net profit for the period		468,311,668	362,309,011
Net profit for the period attributable to:			
Equity holder of the Parent Company		384,249,278	330,993,455
Non-controlling interests		84,062,390	31,315,556
		468,311,668	362,309,011

The accounting policies and explanatory notes on pages 10 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

<i>In thousands of tenge</i>	Note	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		202,820,287	46,429,036
Other comprehensive income to be reclassified to profit or loss in subsequent periods		202,820,287	46,429,036
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial loss on defined benefit plans		(1,126,031)	—
Income tax effect		192,721	—
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(933,310)	—
Other comprehensive income for the period		201,886,977	46,429,036
Total comprehensive income for the period, net of tax		670,198,645	408,738,047
Total comprehensive income for the period attributable to:			
Equity holder of the Parent Company		566,353,635	375,728,423
Non-controlling interests		103,845,010	33,009,624
		670,198,645	408,738,047

Managing director for economics and finance

Chief accountant



Symbek A.M.

Valentinova N.S.

The accounting policies and explanatory notes on pages 10 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of tenge</i>	Note	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Cash flows from operating activities			
Profit before income tax from continued operations		612,024,155	494,224,649
Loss before income tax from discontinued operations		738,883	502,711
		612,763,038	494,727,360
<i>Adjustments for:</i>			
Depreciation, depletion and amortization		156,392,135	135,920,965
Share in profit of joint ventures and associates, net	26	(351,643,271)	(364,724,831)
Finance costs	25	149,819,015	132,274,474
Finance income	24	(43,254,165)	(28,488,520)
Impairment of property, plant and equipment and intangible assets other than goodwill	4, 7	30,642,964	57,868,344
Impairment of goodwill	7	1,622,222	—
Impairment of investments in joint ventures	9	343,359	—
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		5,068,517	7,035,312
Provisions		7,363,417	23,120,778
Allowance for impairment of trade accounts receivable and other current assets	22	3,398,372	(32,401)
(Reversal)/ accrual of provision for obsolete and slow- moving inventories	22	(1,459,530)	997,996
Forfeiture of share based payments		(69,070)	—
Recognition of share based payments		—	17,351
Unrealized foreign exchange (gain) / loss		(88,613,813)	34,054,492
Operating profit before working capital changes		482,373,190	492,771,320
Change in inventory		17,069,202	(1,177,362)
Change in VAT receivable		(11,259,872)	(27,661,104)
Change in trade accounts receivable and other assets		33,458,458	15,566,821
Change in other taxes payable		(317,970)	3,316,032
Change in trade accounts payable		12,834,201	(9,479,219)
Change in other liabilities		(25,196,448)	(32,540,614)
Cash generated from operations		508,960,761	440,795,874
Income taxes paid		(149,431,402)	(149,290,872)
Interest received		35,371,472	17,057,921
Interest paid		(105,487,160)	(89,194,696)
Net cash flows from operating activities		289,413,671	219,368,227

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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In thousands of tenge</i>	Note	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Cash flows from investing activities			
Placement of bank deposits, net		259,230,987	(173,982,606)
Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets		(360,523,752)	(357,590,737)
Proceeds from sale of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets		5,979,865	6,559,817
Dividends received from joint ventures and associates, net		183,385,784	293,588,616
Acquisition of joint venture	9	(2,200,000)	–
Acquisition of a subsidiary		(1,201,299)	–
Loans provided to related parties		(21,788,856)	–
Net cash flows used from / (in) investing activities		62,882,729	(231,424,910)
Cash flows from financing activities			
Proceeds from borrowings		222,387,219	738,486,046
Repayment of borrowings		(302,564,486)	(534,483,440)
Dividends paid to the Shareholder	14	(69,577,485)	(38,961,364)
Dividends paid to non-controlling interests	14	(47,903,656)	(43,576,771)
Issue of shares		–	8,916,901
Acquisition of non-controlling interest		–	(447,771)
Disposal through equity		–	906,049
Sponsorship provided based on the Shareholder's order		–	(2,554,420)
Net cash flows (used in)/from financing activities		(197,658,408)	128,285,230
Effects of exchange rate changes on cash and cash equivalents		71,797,475	4,448,568
Net change in cash and cash equivalents		226,435,467	120,677,115
Cash and cash equivalents, at the beginning of the period	13	407,326,766	415,085,451
Cash and cash equivalents, at the end of the period	13	633,762,233	535,762,566

NON-CASH TRANSACTIONS: SUPPLEMENTAL DISCLOSURE

The following significant non-cash transactions and other transactions were excluded from the interim condensed consolidated statement of cash flows:

Hedge of losses on translation of borrowings denominated in US dollar

For the nine months ended September 30, 2014 the Group utilized hedging of net investments in certain subsidiaries classified as foreign operations against selected borrowings denominated in US dollar (*Note 15*). Effect of hedging was equal to 307,100,510 thousand tenge which was reclassified from profits and losses to other comprehensive income, under exchange differences on translation of foreign operations (for the nine months ended September 30, 2013: nil).

The accounting policies and explanatory notes on pages 10 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**NON-CASH TRANSACTIONS: SUPPLEMENTAL DISCLOSURE (continued)***Financial guarantee*

For the nine months ended September 30, 2014 the Group provided a financial guarantee for the benefit of joint venture to secure its borrowing. At the recognition fair value of the financial guarantee was equal to 19,223,304 thousand tenge (during nine months ended September 30, 2013: nil) (Note 9).

Contribution of pipelines

For 2014 the Company issued common shares for the total amount of 3,823,503 thousand tenge (Note 14) in exchange for gas pipeline assets with the same fair value received from the Parent Company. Also during the nine months, ended September 30, 2014 the Group recognized additional paid in capital in the amount of 6,791,631 thousand tenge, which represents the fair value of gas pipelines contributed by the Parent Company on trust management terms (Note 14).

Capitalization of borrowing costs


For the nine months ended September 30, 2014 the Group capitalized in the carrying amount of property, plant and equipment borrowing costs in the amount of 13,477,566 thousand tenge (for the nine months, ended September 30, 2013: 9,396,944 thousand tenge) (Note 4).

Account payable for non-current assets

For the nine months ended September 30, 2014 trade payables for purchases of property, plant and equipment decreased by 31,925,395 thousand tenge (for the nine months ended September 30, 2013: 14,158,442 thousand tenge).

Managing director for economics and finance

Chief accountant



Kassymbek A.M.

Valentinova N.S.

The accounting policies and explanatory notes on pages 10 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In thousands of tenge</i>	Attributable to equity holder of the Parent Company						Non-controlling interest	Total
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total		
As at December 31, 2012 (audited)	527,760,531	19,062,712	2,180,382	222,112,349	2,241,272,475	3,012,388,449	581,147,319	3,593,535,768
Net profit for the period	-	-	-	-	330,993,455	330,993,455	31,315,556	362,309,011
Other comprehensive income	-	-	-	44,734,968	-	44,734,968	1,694,068	46,429,036
Total comprehensive income for the period	-	-	-	44,734,968	330,993,455	375,728,423	33,009,624	408,738,047
Contribution by the Parent Company	17,269,323	583,154	-	-	-	17,852,477	-	17,852,477
Dividends (Note 14)	-	-	-	-	(38,961,364)	(38,961,364)	(43,576,771)	(82,538,135)
Distributions to the Parent Company	-	-	-	-	7,173,045	7,173,045	-	7,173,045
Recognition of share based payments at subsidiaries	-	-	4,311	-	38,504	42,815	(25,464)	17,351
Change in ownership of subsidiaries	-	-	-	-	(154,660)	(154,660)	(293,111)	(447,771)
As at September 30, 2013 (unaudited)	545,029,854	19,645,866	2,184,693	266,847,317	2,540,361,455	3,374,069,185	570,261,597	3,944,330,782

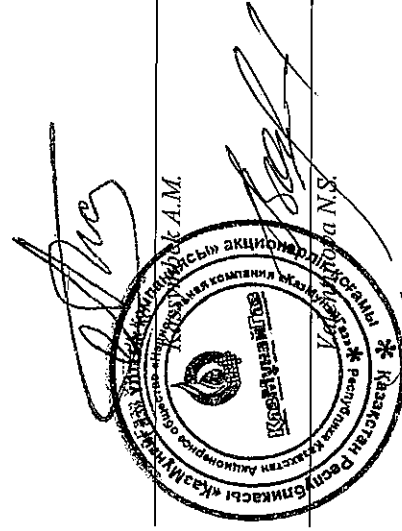
The accounting policies and explanatory notes on pages 10 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

In thousands of tenge	Attributable to equity holder of the Parent Company					Non-controlling interest	Total
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings		
As at December 31, 2013 (audited)	546,485,470	19,645,866	2,185,813	269,950,758	2,611,367,993	586,555,014	4,036,190,914
Net profit for the period	-	-	-	-	384,249,278	84,062,390	468,311,668
Other comprehensive income	-	-	-	182,960,579	(856,222)	19,782,620	201,886,977
Total comprehensive income for the period	-	-	-	182,960,579	383,393,056	103,845,010	670,198,645
Issue of share capital (Note 14)	3,823,503	-	-	-	-	-	3,823,503
Transactions with the Parent Company (Note 14)	-	6,791,631	-	-	-	-	6,791,631
Dividends (Note 14)	-	-	-	-	(83,114,547)	(53,891,403)	(137,005,950)
Distributions to the Parent Company (Note 14)	-	-	-	-	(2,144,887)	-	(2,144,887)
Recognition of share based payments	-	-	149	-	-	-	149
Forfeiture of share based payments	-	-	(43,663)	-	-	(25,407)	(69,070)
Exercise of employee options	-	-	-	-	(25,110)	60,557	35,447
Acquisition of non-controlling interest	-	-	-	-	2,005	(2,005)	-
As at September 30, 2014 (unaudited)	550,308,973	26,437,497	2,142,299	452,911,337	2,909,478,510	636,541,766	4,577,820,382

Managing director for economics and finance

Chief accountant



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2014~~nine months ended September 30, 2014~~

1. GENERAL

JSC “National Company “KazMunayGas” (the “Company” or “KazMunayGas”) is a wholly owned state oil and gas enterprise of the Republic of Kazakhstan, which was established on February 27, 2002 as a closed joint stock company pursuant to the Decree No. 811 of the President of the Republic of Kazakhstan dated February 20, 2002 and the Resolution of the Government of the Republic of Kazakhstan (the “Government”) No. 248 dated February 25, 2002. The Company was formed as a result of the merger of National Oil and Gas Company Kazakhoil CJSC and National Company Transport Nefti i Gaza CJSC. As the result of the merger, all assets and liabilities, including ownership interest in all entities owned by these companies, have been transferred to KazMunayGas. The Company was reregistered as a joint stock company in accordance with the legislation of the Republic of Kazakhstan in March 2004.

Starting from June 8, 2006, the sole shareholder of the Company was JSC “Kazakhstan Holding Company for State Assets Management “Samruk” (“Samruk”), which in October 2008 was merged with the state owned Sustainable Development Fund “Kazyna” and formed JSC “National Welfare Fund Samruk-Kazyna” (“Samruk-Kazyna”, “Shareholder” or “Parent Company”), now renamed to JSC “Sovereign Wealth Fund Samruk-Kazyna”. The Government is the sole shareholder of Samruk-Kazyna.

As at September 30, 2014, the Company has a direct interest in 42 operating companies (as of December 31, 2013: 41) (jointly the “Group”).

The Company has its registered office in the Republic of Kazakhstan, Astana, Kabanbay Batyr avenue, 19.

The principal objective of the Group includes, but is not limited, to the following:

- participation in the Government activities relating to the oil and gas sector;
- representation of the state interests in subsoil use contracts through interest participation in those contracts; and
- corporate governance and monitoring of exploration, development, production, processing, transportation and sale of hydrocarbons and the designing, construction and maintenance of oil-and-gas pipeline and field infrastructure.

These interim condensed consolidated financial statements of the Group were approved for issue by the Managing director for economics and finance and the Chief accountant on November 1, 2014.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the nine months ended September 30, 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting* (IAS 34). These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2013.

Foreign currency translation*Functional and presentation currency*

Items included in the financial statements of each of the Group’s entities included in these interim condensed consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate (“the functional currency”). The interim condensed consolidated financial statements are presented in Kazakhstan tenge (“tenge” or “KZT”), which is the Group’s presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the interim consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. 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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)****2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES
(continued)****Foreign currency translation (continued)***Transactions and balances (continued)*

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in foreign operations. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Group Companies

The results and financial position of all of the Group's subsidiaries, joint ventures and associates (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at that reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of other comprehensive income.

Exchange rates

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rates of KASE as at September 30, 2014 and December 31, 2013 were 181.90 and 153.61 tenge to 1 US dollar accordingly. These rates were used for translation of monetary assets and liabilities denominated in US dollars at September 30, 2014 and December 31, 2013. The currency exchange rate of KASE as at November 1, 2014 was 181.90 tenge to 1 US dollar.

New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretations effective as of January 1, 2014. The nature and the impact of each new standard or amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the interim condensed consolidated financial statements of the Group.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)**

**2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES
(continued)****New and amended standards and interpretations (continued)***Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the interim condensed consolidated financial statements as the Group has not novated its derivatives during the current or prior periods.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the period. The Group early adopted these disclosure requirements in the annual consolidated financial statements for the year ended December 31, 2013.

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements. These amendments have no impact on the interim condensed consolidated financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. SEASONALITY OF OPERATIONS

The Group's operating costs are subject to seasonal fluctuations, with higher expenses for materials and repair, maintenance and other services usually expected later in the year rather than in the first nine months.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of tenge</i>	Oil and gas assets	Pipelines	Refinery assets	Buildings and improve- ments	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Net book value as at December 31, 2013 (audited)	2,067,707,778	300,227,747	467,774,426	218,999,708	238,070,105	95,080,967	28,503,984	322,671,034	3,739,035,749
Foreign currency translation	322,659,347	(3)	59,063,578	9,925,926	5,575,287	3,943,059	705,792	1,313,551	403,186,537
Additions	76,324,918	12,246,455	728,028	1,486,692	4,767,087	2,818,163	2,202,780	236,564,420	337,138,543
Acquisition of subsidiary	-	374,982	-	94,947	43,854	51,771	17,671	199,801	783,026
Disposals	(7,705,070)	(244,175)	(3,059,841)	(3,915,450)	(5,335,373)	(1,360,674)	(2,111,104)	(2,304,590)	(26,036,277)
Depreciation charge	(52,196,202)	(12,076,018)	(37,569,247)	(10,866,532)	(21,273,626)	(9,358,856)	(6,141,479)	-	(149,481,960)
Accumulated depreciation and impairment on disposals	7,157,299	166,407	2,655,445	1,568,833	2,141,698	1,198,059	1,638,723	1,065,789	17,592,253
(Impairment)/reversal of impairment	(25,891,821)	(56,253)	-	(590,183)	85,615	(925,153)	(163,743)	(2,391,334)	(29,932,872)
Transfers from intangible assets (Note 7)	-	-	-	-	-	-	7,113	-	7,113
Transfers from exploration and evaluation assets (Note 5)	27,483	-	-	-	-	-	-	-	27,483
Transfers from assets held for sale	-	-	13,067	-	-	-	-	-	13,067
Transfers to intangible assets (Note 7)	(100,651)	-	-	-	(123)	-	(1,200)	(749,790)	(851,764)
Transfers to investment property (Note 7)	-	-	-	-	(430)	-	(198)	-	(628)
Transfers to assets classified as held for sale	-	-	(206,997)	-	-	(12,940)	-	(977)	(220,914)
Transfers and reclassifications	75,395,765	38,246,749	7,167,165	14,407,214	16,862,656	6,784,837	3,031,789	(161,896,175)	-
Net book value as at September 30, 2014 (unaudited)	2,463,378,846	338,885,891	496,565,624	231,111,155	240,936,750	98,219,233	27,690,128	394,471,729	4,291,259,356
At cost	2,972,555,930	433,346,766	754,492,926	349,636,447	423,785,130	167,639,308	69,884,181	406,007,100	5,577,347,788
Accumulated depreciation and impairment	(509,177,084)	(94,460,875)	(257,927,302)	(118,525,292)	(182,848,380)	(69,420,075)	(42,194,053)	(11,535,371)	(1,286,088,432)
Net book value as at September 30, 2014 (unaudited)	2,463,378,846	338,885,891	496,565,624	231,111,155	240,936,750	98,219,233	27,690,128	394,471,729	4,291,259,356
At cost	2,497,105,567	382,618,606	670,151,777	319,808,146	396,762,801	153,473,884	63,536,427	331,354,456	4,814,811,664
Accumulated depreciation and impairment	(429,397,789)	(82,390,859)	(202,377,351)	(100,808,438)	(158,692,696)	(58,392,917)	(35,032,443)	(8,683,422)	(1,075,775,915)
Net book value as at December 31, 2013(audited)	2,067,707,778	300,227,747	467,774,426	218,999,708	238,070,105	95,080,967	28,503,984	322,671,034	3,739,035,749

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. PROPERTY, PLANT AND EQUIPMENT (continued)

For the nine months ended September 30, 2014, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 7.52% in the amount of 13,447,566 thousand tenge which are related to the construction of new assets (for the nine months ended September 30, 2013: 9,396,944 thousand tenge at the average interest rate of 6.57%).

As at September 30, 2014, items of property, plant and equipment with the net book value of 1,561,439,768 thousand tenge (as at December 31, 2013: 1,305,221,887 thousand tenge) were pledged as collateral to secure borrowings and payables of the Group (Notes 15 and 16).

Additions to capital work in progress are mainly related to modernization projects of the Group refineries located in Atyrau and Pavlodar cities and development drilling at OzenMunaigas and Embamunaigas subsidiaries.

Impairment of property, plant and equipment

For the nine months ended September 30, 2014, the Group recorded net impairment loss in the amount of 29,932,872 thousand tenge, which is mainly attributable to impairment of property, plant and equipment of KMG EP in the amount of 27,780,625 thousand tenge. Impairment loss at KMG EP was primarily due to the increase in employee benefit costs and export custom duty from April 12, 2014 – from 60 US dollar per ton to 80 US dollar per ton.

5. EXPLORATION AND EVALUATION ASSETS

<i>In thousands of tenge</i>	Tangible	Intangible	Total
Net book value as at December 31, 2013 (audited)	199,570,672	22,129,266	221,699,938
Foreign currency translation	17,448,715	1,556,000	19,004,715
Additions	19,980,245	1,059,470	21,039,715
Transfer to property, plant and equipment (Note 4)	(27,483)	–	(27,483)
Disposals	(70,167)	(2,275,695)	(2,345,862)
Accumulated impairment on disposals	–	2,295,991	2,295,991
Net book value as at September 30, 2014 (unaudited)	236,901,982	24,765,032	261,667,014

As at September 30, 2014, certain exploration and evaluation assets with the carrying amount of 51,909,251 thousand tenge were pledged as collateral to secure payables of the Group (as at December 31, 2013: 45,736,815 thousand tenge) (Note 16).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INVESTMENT PROPERTY

<i>In thousands of tenge</i>	Total
Net book value as at December 31, 2013 (audited)	28,243,320
Additions	1,363
Depreciation charge	(455,086)
Disposals	(67,281)
Transfer from property, plant and equipment (<i>Note 4</i>)	628
Accumulated depreciation and impairment on disposals	3,981
Net book value as at September 30, 2014 (unaudited)	27,726,925
At cost	29,247,762
Accumulated depreciation and impairment	(1,520,837)
Net book value as at September 30, 2014 (unaudited)	27,726,925
At cost	29,313,019
Accumulated depreciation and impairment	(1,069,699)
Net book value as at December 31, 2013 (audited)	28,243,320

Investment property is mainly represented by Izumrudny Kvartal office building in Astana city leased under operating lease terms.

The management of the Group believes that as at September 30, 2014 and December 31, 2013 the fair value of this building is equal to 31,126,069 thousand tenge.

The fair value of investment property was based on the market price of the property.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INTANGIBLE ASSETS

<i>In thousands of tenge</i>	Goodwill	Marketing related intangible assets	Software	Other	Total
Net book value as at December 31, 2013 (audited)	135,080,474	27,956,406	19,201,029	18,204,974	200,442,883
Foreign currency translation	(526,697)	5,148,135	743,659	2,809,914	8,175,011
Additions	–	714	2,769,430	836,120	3,606,264
Disposals	–	–	(1,614,021)	(18,716)	(1,632,737)
Amortization charge	–	–	(5,534,759)	(1,414,110)	(6,948,869)
Accumulated amortization on disposals	–	–	1,361,111	18,329	1,379,440
Impairment	(1,622,222)	–	–	(710,092)	(2,332,314)
Transfer from property, plant and equipment (Note 4)	–	–	586,766	264,998	851,764
Transfer to property, plant and equipment (Note 4)	–	–	(7,113)	–	(7,113)
Transfers	–	–	1,275,286	(1,275,286)	–
Net book value as at September 30, 2014 (unaudited)	132,931,555	33,105,255	18,781,388	18,716,131	203,534,329
At cost	165,275,470	33,752,568	47,598,007	42,300,927	288,926,972
Accumulated amortization and impairment	(32,343,915)	(647,313)	(28,816,619)	(23,584,796)	(85,392,643)
Net book value as at September 30, 2014 (unaudited)	132,931,555	33,105,255	18,781,388	18,716,131	203,534,329
At cost	165,802,168	28,585,862	42,789,530	37,181,369	274,358,929
Accumulated amortization and impairment	(30,721,694)	(629,456)	(23,588,501)	(18,976,395)	(73,916,046)
Net book value as at December 31, 2013 (audited)	135,080,474	27,956,406	19,201,029	18,204,974	200,442,883

Carrying amount of goodwill is allocated to each of the group of cash-generating units as follows:

Cash-generating unit	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Refining	9,536,969	11,045,697
Downstream Romania	6,773,048	6,688,772
Dyneff	5,464,681	5,222,688
Other	9,231,026	8,575,265
Cash generating units of KMG International N.V. (former TRG)	31,005,724	31,532,422
Cash-generating units of PNHZ	88,553,296	88,553,296
Other	13,372,535	14,994,756
Total goodwill	132,931,555	135,080,474

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. LONG-TERM BANK DEPOSITS

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Denominated in US Dollar	76,287,475	38,739,598
Denominated in KZT	11,874,521	43,196,138
	88,161,996	81,935,736

As at September 30, 2014, the weighted average interest rate for long-term bank deposits was 4.41% in US Dollars and 4.11% in tenge, respectively (as at December 31, 2013: 2.66% in US dollars and 5.23% in tenge, respectively).

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Maturities between 1 and 2 years	3,077,137	34,235,660
Maturities over 2 years	85,084,859	47,700,076
	88,161,996	81,935,736

As at September 30, 2014, long-term bank deposits include cash pledged as collateral in the amount of 54,085,270 thousand tenge (as at December 31, 2013: 31,735,113 thousand tenge).

As at September 30, 2014, long-term bank deposits did not include any amounts placed with Alliance Bank JSC (as at December 31, 2013: 6,431,153 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES**

In thousands of tenge	Main activity	Place of business	September 30, 2014 (unaudited)		December 31, 2013 (audited)	
			Carrying amount	Percentage ownership	Carrying amount	Percentage ownership
<u>Joint ventures:</u>						
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	490,301,806	20.00%	311,880,773	20.00%
Mangistau Investments B.V.	Oil and gas development and production	Netherlands	221,152,700	50.00%	185,003,198	50.00%
KazakhOil-Aktobe LLP	Production and sale of crude oil	Kazakhstan	88,777,728	50.00%	83,800,157	50.00%
Beineu-Shymkent Pipeline LLP	Construction and operation of the Beineu-Shymkent gas pipeline	Kazakhstan	71,923,160	50.00%	70,268,878	50.00%
KazRosGas LLP	Processing and sale of natural gas and refined gas products	Kazakhstan	56,622,072	50.00%	46,081,108	50.00%
KazGerMunay LLP	Exploration, production and processing of oil and gas	Kazakhstan	74,935,550	50.00%	69,047,486	50.00%
Other			103,719,587		121,483,321	
<u>Associates:</u>						
PetroKazakhstan Inc. ("PKI")	Exploration, production and processing of oil and gas	Kazakhstan	123,935,612	33.00%	86,391,266	33.00%
Other			30,544,415		24,533,989	
			1,261,912,630		998,490,176	

All of the above joint ventures and associates are strategic for the Group's business.

As at June, 30 2014, the Group's share in unrecognized losses of joint ventures and associates was equal to 47,993,352 thousand tenge (as at December 31, 2013: 22,979,168 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following table summarizes the movements in equity investments in joint ventures and associates during the nine months ended September 30, 2014:

In thousands of tenge

At January 1, 2014 (audited)	998,490,176
Financial guarantee issued by the Group for the benefit of joint venture	19,223,304
Acquisition of joint venture	2,200,000
Share in profits of joint ventures and associates, net (Note 26)	351,643,271
Dividends received	(202,493,613)
Change in dividends receivable	(17,536,480)
Discount on loan provided to joint ventures by the Group	1,395,376
Impairment of investments	(343,359)
Foreign currency translation	109,333,955
At September 30, 2014 (unaudited)	1,261,912,630

10. INVENTORIES

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Materials and supplies	94,536,129	92,901,093
Refined products	61,258,026	66,798,121
Crude oil	47,641,865	49,514,262
Gas products	10,460,903	8,213,243
Less: provision for obsolete inventory	(13,003,636)	(13,084,677)
	200,893,287	204,342,042

As at September 30, 2014 the Group has inventories in the amount of 51,757,098 thousand tenge pledged as loan collateral (as at December 31, 2013: 51,301,439 thousand tenge).

11. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Prepaid and deferred expenses	64,954,597	22,798,266
Dividends receivable	36,799,174	19,278,134
Taxes receivable	18,790,246	18,139,829
Other current assets	3,895,164	28,051,385
Less: allowance for impairment	(17,656,918)	(14,182,876)
Total other current assets	106,782,263	74,084,738
Trade accounts receivable	281,074,678	311,156,649
Less: allowance for impairment	(30,738,436)	(26,709,602)
Trade accounts receivable	250,336,242	284,447,047

As at September 30, 2014 and at December 31, 2013 the above assets were non-interest bearing.

As at September 30, 2014 the Group has trade accounts receivable in the amount of 73,385,918 thousand tenge pledged as loan collateral (as at December 31, 2013: 91,914,387 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS (continued)

Movements in the allowance for impairment of trade accounts receivable and other current assets were as follows:

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	September 30, 2013 (unaudited)
As at January 1 (audited)	40,892,478	30,772,399
Charge for the period	4,045,332	2,207,828
Acquisition of subsidiary	565	-
Write-off	(311,983)	(532,585)
Foreign currency translation	4,395,454	(154,598)
Reinstatement	20,468	5,930,926
Recovered	(646,960)	(868,665)
As at June 30 (unaudited)	48,395,354	37,355,305

12. SHORT-TERM FINANCIAL ASSETS

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Short-term bank deposits	639,576,257	809,153,405
Loans due from related parties	28,601,755	11,237,901
	9,656,000	-
Less: allowance for impairment of loans to related parties	(5,448,472)	(5,799,179)
	672,385,540	814,592,127

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Short-term financial assets in US Dollars	484,837,314	534,303,888
Short-term financial assets in tenge	185,623,331	280,048,556
Short-term financial assets in other foreign currencies	1,924,895	239,683
	672,385,540	814,592,127

As at September 30, 2014, the weighted average interest rate for short-term bank deposits was 1.53% in US dollars, 6.85% in tenge and 1.09% in other foreign currencies, respectively (as at December 31, 2013: 2.13% in US dollars, 5.47% in tenge and 0.18% in other foreign currencies, respectively). As at September 30, 2014, short-term bank deposits include 9,656,000 thousand tenge with Alliance Bank JSC (as at December 31, 2013: 1,000,000 thousand tenge). Loans due from related parties are stated at amortized cost.

13. CASH AND CASH EQUIVALENTS

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Term deposits with banks – US Dollars	298,026,426	169,904,989
Term deposits with banks – tenge	163,048,993	140,218,188
Current accounts with banks – US Dollars	115,956,066	35,053,982
Current accounts with banks – tenge	38,100,344	36,660,389
Term deposits with banks – other currencies	10,290,046	15,080,167
Current accounts with banks – other currencies	5,240,175	8,657,778
Cash-on-hand	3,100,183	1,751,273
	633,762,233	407,326,766

Term deposits with banks are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. As at September 30, 2014, the weighted average interest rate for time deposits with banks was 0.21% in US dollars and 4.77% in tenge, respectively (as at December 31, 2013: 0.39% in US dollars and 6.32% in tenge, respectively).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)**

13. CASH AND CASH EQUIVALENTS (continued)

As at September 30, 2014, cash and cash equivalents include an amount of 1,480 thousand tenge placed with Alliance Bank JSC (as at December 31, 2013: 2,687,617 thousand tenge).

As at September 30, 2014 cash and cash equivalents in the amount of 1,948,513 thousand tenge were pledged as collateral (as at December 31, 2013: 1,286,330 thousand tenge).

14. EQUITY**Share capital**

For the nine months ended September 30, 2014 the Group has issued 137,900 common shares at par value of 27,726.6 tenge each. As consideration for these common shares of the Parent Company, the Group received high, medium and low pressure gas pipelines located in Western Kazakhstan oblast with the fair value of 3,823,503 thousand tenge.

Transactions with the Parent Company

On March 13, 2014 the Group received gas pipelines with the fair value of 6,791,631 thousand tenge from the Parent Company under a trust management agreement. This contribution was recognized as an additional paid in capital in the interim consolidated statement of changes in equity (*Note 4*).

Distributions to the Parent Company

For the nine months ended September 30, 2014 the Group recorded an additional provision for reconstruction of trade-exhibition centre in Moscow city (the Russian Federation) in the amount 1,091,681 thousand tenge and a provision for construction kindergarten in Astana city in the amount 1,053,206 thousand tenge based on an order of the President of the Republic of Kazakhstan. Both provisions were recognized by the Group through decrease in retained earnings.

Dividends

For the nine months ended September 30, 2014 the Group has declared dividends to the Shareholder at 75.19 tenge per common share totaling to 83,114,547 thousand tenge (for the nine months ended September 30, 2013: 75.19 tenge per common share totaling to 38,961,364 thousand tenge). During the nine months ended September 30, 2014 the Group paid dividends 69,577,485 thousand tenge to the holders of non-controlling interest (for the nine months ended September 30, 2013: 38,961,364 thousand tenge).

For the nine months ended September 30, 2014 the Group declared dividends of 53,891,403 thousand tenge to the holders of non-controlling interest (for the nine months ended September 30, 2013: 43,576,771 thousand tenge). During the nine months ended September 30, 2014 the Group paid dividends 47,903,656 thousand tenge to the holders of non-controlling interest (for the nine months ended September 30, 2013: 43,576,771 thousand tenge).

Currency translation reserves

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of subsidiaries, joint ventures and associates whose functional currency is not kazakhstani tenge and whose financial results are included in these interim condensed consolidated financial statements. For the nine months ended September 30, 2014 the Group utilized hedging of net investments in certain subsidiaries with US dollars as functional currency of their financial statements against selected borrowings in US dollars (*Note 15*).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

Non-controlling interest

The following tables illustrate information of subsidiaries in which the Group has significant non-controlling interests:

	Country of incorporation and operation	September 30, 2014 (unaudited)		December 31, 2013 (audited)	
		Share	Carrying value	Share	Carrying value
KazMunayGas Exploration Production JSC	Kazakhstan	36.78%	562,979,505	36.78%	504,354,642
KazTransOil JSC	Kazakhstan	10.00%	35,377,547	10.00%	34,452,183
Rompetrol Rafinare S.A.	Romania	45.37%	19,417,760	45.37%	24,470,078
Rompetrol Downstream S.R.L.	Romania	45.37%	24,894,836	45.37%	20,437,441
Rompetrol Petrochemicals S.R.L.	Romania	45.37%	11,893,207	45.37%	7,460,843
Rompetrol Vega	Romania	45.37%	(11,400,851)	45.37%	(9,130,586)
Other			(6,620,238)		4,510,413
			636,541,766		586,555,014

15. BORROWINGS

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Fixed interest rate borrowings	1,938,445,671	1,638,355,440
Weighted average interest rates	7.41%	7.09%
Variable interest rate borrowings	713,371,780	668,787,410
Weighted average interest rates	4.03%	3.94%
	2,651,817,451	2,307,142,850

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
US dollar – denominated borrowings	2,370,714,997	2,033,475,198
Tenge – denominated borrowings	246,716,740	237,962,390
Euro – denominated borrowings	28,255,685	33,042,893
Other currency – denominated borrowings	6,130,029	2,662,369
	2,651,817,451	2,307,142,850

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Current portion	624,158,302	301,710,769
Non-current portion	2,027,659,149	2,005,432,081
	2,651,817,451	2,307,142,850

As at September 30, 2014 the Group's property, plant and equipment with carrying value of 660,563,004 thousand tenge (December 31, 2013: 588,678,447 thousand tenge) (Note 4), inventories of 51,757,098 thousand tenge (as at December 31, 2013: 51,301,439 thousand tenge) (Note 10) and trade accounts receivable of 73,385,918 thousand tenge (as at December 31, 2013: 91,914,387 thousand tenge) (Note 11) were pledged as loan collateral.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)**

15. BORROWINGS (continued)

For the nine months ended September 30, 2014 the Group placed bonds and received borrowings in the total amount of 222,387,219 thousand tenge and settled borrowings in the amount of 302,564,486 thousand tenge.

The increase in US dollars denominated borrowings is mainly related to the devaluation of tenge by 20% in relation to US dollar to 181.90 tenge for 1 US dollar as at September 30, 2014.

Hedge of net investment in the foreign operations

As at September 30, 2014 certain borrowings denominated in foreign currency were designated as hedge instrument for the net investment in the foreign operations. For the nine months ended September 30, 2014, losses of 307,100,510 thousand tenge on the translation of these borrowings were transferred to other comprehensive income and offset the gains on translation of the net investments in the foreign operations.

**16. PAYABLE FOR THE ACQUISITION OF ADDITIONAL INTEREST IN NORTH CASPIAN PROJECT
("NCP")**

On October 31, 2008, all participants of the NCP signed an agreement according to which all project participants except for KMG Kashagan B.V., 100% subsidiary of the Group, agreed to partially sell their interest in this project on a proportional basis to increase the interest of KMG Kashagan B.V. in the NCP from 8.33% to 16.81% retrospectively from January 1, 2008. The acquisition cost was equal to 1.78 billion US Dollars plus annual compound interest at LIBOR + 3%.

The interest acquired in the NCP of 8.48%, or property, plant and equipment and exploration and evaluation assets with carrying value of 900,876,764 thousand tenge (*Note 4*) and 51,909,251 thousand tenge (*Note 5*), respectively, as of September 30, 2014 was pledged in favour of other Contractors until full repayment of the payable (December 31, 2013: 8.48%, or property, plant and equipment and exploration and evaluation assets with carrying value of 716,543,440 thousand tenge (*Note 4*) and 45,736,815 thousand tenge (*Note 5*), respectively).

As at September 30, 2014 the amortized cost of this payable was equal to 478,157,306 thousand tenge (as at December 31, 2013: 322,329,783 thousand tenge).

The amount is payable in three equal annual installments after commercial oil production at Kashagan field starts. During the nine months ended September 30, 2014 the Group re-assessed start date of commercial production at Kashagan field and moved it from September 30, 2014 to second half of 2016. As a result part of this payable was reclassified back to non-current liabilities.

As of September 30, 2014 the fair value of these obligations approximate its book value.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. PROVISIONS

<i>In thousands of tenge</i>	Asset retirement obligations	Provision for expenses related to gas borrowing	Provision for environmental obligation	Provision for taxes	Other	Total
As at December 31, 2013 (audited)	57,177,225	21,267,496	36,839,537	20,230,129	72,344,030	207,858,417
Foreign currency translation	4,239,500	–	2,825,079	46,420	720,033	7,831,032
Change in estimate	3,450,493	6,499,250	(2,095,522)	–	4,019,818	11,874,039
Unwinding of discount	1,484,277	–	790,373	–	–	2,274,650
Provision for the period	3,121,903	1,645,840	46,509	548,477	9,573,877	14,936,606
Unused amounts reversed	(63,837)	–	(56,929)	–	(445,593)	(566,359)
Transfers to the assets held for sale	–	–	–	–	(941,512)	(941,512)
Recovery	(131,865)	(781,673)	(8)	–	(78,000)	(991,546)
Use of provision	(665,553)	–	(854,399)	(3,037,620)	(20,206,085)	(24,763,657)
As at September 30, 2014 (unaudited)	68,612,143	28,630,913	37,494,640	17,787,406	64,986,568	217,511,670

Current portion and long-term portion are segregated as follows:

<i>In thousands of tenge</i>	Asset retirement obligations	Provision for expenses related to gas borrowing	Provision for environmental obligation	Provision for taxes	Other	Total
As at September 30, 2014 (unaudited)						
Current portion	326,610	28,630,913	6,085,449	17,787,406	33,403,915	86,234,293
Long-term portion	68,285,533	–	31,409,191	–	31,582,653	131,277,377
Provision as at September 30, 2014 (unaudited)	68,612,143	28,630,913	37,494,640	17,787,406	64,986,568	217,511,670
As at December 31, 2013 (audited)						
Current portion	1,160,568	21,267,496	6,941,759	20,230,129	43,673,650	93,273,602
Long-term portion	56,016,657	–	29,897,778	–	28,670,380	114,584,815
As at December 31, 2013 (audited)	57,177,225	21,267,496	36,839,537	20,230,129	72,344,030	207,858,417

18. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Advances received	39,472,547	38,470,634
Due to employees	28,442,421	29,962,274
Other	59,442,093	50,764,773
Total other current liabilities	127,357,061	119,197,681
Trade accounts payable	227,603,965	225,091,612

Trade accounts payable are denominated in the following currencies as at September 30, 2014 and as at December 31, 2013:

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Tenge	105,824,653	114,725,508
US dollars	79,670,859	69,382,201
Euro	13,784,671	19,414,475
Other currency	28,323,782	21,569,428
Total	227,603,965	225,091,612

As at September 30, 2014 and December 31, 2013, trade accounts payable and other current liabilities were not interest bearing.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. OTHER TAXES PAYABLE

<i>In thousands of tenge</i>	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Rent tax on crude oil export	41,239,270	38,273,745
Excise tax	23,283,264	14,086,448
Mineral extraction tax	23,254,441	23,008,726
VAT	17,816,923	12,405,653
Special fund on petroleum products	1,431,553	1,300,616
Other	21,763,871	20,568,209
	128,789,322	109,643,397

20. REVENUE

<i>In thousands of tenge</i>	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Sales of refined products	1,537,682,984	1,302,089,466
Sales of crude oil	549,922,764	530,982,420
Transportation fee	208,904,615	193,537,505
Sales of gas and gas products	191,403,751	159,143,274
Other revenue	207,458,304	149,842,516
Less: sales taxes and commercial discounts	(295,233,873)	(208,134,863)
	2,400,138,545	2,127,460,318

Revenues are generated from the Group's principal operations, which essentially represent upstream production of hydrocarbons and transportation of oil and gas within Kazakhstan, and marketing and sales of oil, gas and oil products in Kazakhstan, Europe and Far East.

21. COST OF SALES

<i>In thousands of tenge</i>	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Materials and supplies	1,003,289,549	968,682,613
Payroll	184,534,887	144,374,077
Depreciation, depletion and amortization	135,239,138	114,551,118
Mineral extraction tax	73,487,232	62,069,114
Electricity	24,812,439	31,739,871
Repair and maintenance	34,956,737	24,783,743
Other taxes	31,594,927	23,170,743
Other	188,931,993	99,412,422
	1,676,846,902	1,468,783,701

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of tenge</i>	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Payroll	43,350,086	36,643,896
Depreciation and amortization	11,922,856	12,370,511
Charitable donations and sponsorship	9,570,630	7,391,971
Other taxes	7,129,030	11,425,764
VAT	6,712,538	1,529,082
Consulting services	6,525,493	5,950,429
Social payments not included to payroll	3,895,705	1,797,147
Fines and penalties	2,884,480	5,616,025
Provision	2,091,611	7,245,984
Allowance for impairment of trade accounts receivable and other current assets (Note 11)	3,398,372	1,339,163
(Reversal)/ accrual of provision for obsolete and slow-moving inventories	(1,459,530)	(4,688,808)
Other	20,321,001	24,079,809
	116,342,272	110,700,973

23. TRANSPORTATION AND SELLING EXPENSES

<i>In thousands of tenge</i>	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Rent tax on crude oil export	131,900,813	121,083,341
Customs duty	65,799,604	38,913,138
Transportation	41,234,005	42,535,954
Payroll	15,400,978	12,343,189
Depreciation and amortization	9,376,955	8,721,720
Other	18,035,509	13,732,493
	281,747,864	237,329,835

24. FINANCE INCOME

<i>In thousands of tenge</i>	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Interest income on bank deposits, loans and bonds	35,844,821	23,530,381
Other	7,409,344	4,958,139
	43,254,165	28,488,520

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. FINANCE COSTS

<i>In thousands of tenge</i>	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Interest on loans and debt securities issued	112,262,659	98,728,999
Interest on payable for the acquisition of additional interest in North Caspian Project	11,185,694	9,814,341
Amortization of discount on loans and debt securities issued	8,114,925	3,990,591
Unwinding of discount on provisions	3,628,645	2,175,279
Discount on assets with non-market interest rate	26,177	3,173,119
Other	14,600,915	14,392,145
	149,819,015	132,274,474

26. SHARE IN PROFIT OF JOINT VENTURES AND ASSOCIATES, NET

<i>In thousands of tenge</i>	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Tengizchevroil LLP	261,352,431	221,367,917
Mangistau Investments B.V.	59,542,774	47,035,367
KazGerMunay LLP	24,688,496	30,099,885
KazRosGas LLP	23,907,282	14,893,496
PetroKazakhstan Inc.	22,012,960	18,555,044
Kazakhoil-Aktobe LLP	4,977,571	8,946,560
Asian Gas Pipeline LLP	(24,315,783)	14,991,978
Gazoprovod Beineu-Shymkent LLP	(17,569,022)	(1,254,322)
Share in profit/ (loss) of other joint ventures and associates	(2,953,438)	10,088,906
	351,643,271	364,724,831

27. INCOME TAX EXPENSE

<i>In thousands of tenge</i>	For the nine months ended September 30, 2014 (unaudited)	For the nine months ended September 30, 2013 (unaudited)
Current income tax:		
Corporate income tax	105,244,702	87,724,355
Excess profit tax	10,332,005	7,255,200
Withholding tax on dividends and interest income	21,656,020	39,956,544
Deferred income tax:		
Corporate income tax	(16,442,056)	(10,201,913)
Excess profit tax	(3,102,456)	4,057,853
Withholding tax on dividends and interest income	26,763,155	3,626,310
Income tax expense	144,451,370	132,418,349

According to the 2006 amendments to the tax legislation, which were effective starting from January 1, 2007, dividends received from Kazakhstan taxpayers were exempt from income tax withheld at the source of payment. Therefore, in 2006 the Group reversed the deferred tax liability on undistributed profits of subsidiaries, joint ventures and associates registered in the Republic of Kazakhstan, which was recognized in prior years. However, during 2007-2014 the Group was receiving dividends from Tengizchevroil LLP (20% joint venture of the Group, a Kazakhstan taxpayer) net of withholding tax since there is uncertainty whether the withholding tax exemption is applicable for the stable tax regime of Tengizchevroil LLP. The Group was challenging withholding of the tax on those dividends, but has not managed to convince Tengizchevroil LLP and the tax authorities that withholding tax should not be applied. Therefore, Management of the Group recognizes the deferred income tax withholding on its interest in undistributed retained earnings of Tengizchevroil LLP as its current best estimate is that the Group will continue to receive dividends net of withholding tax in future years.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. RELATED PARTY DISCLOSURES

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following table provides the balances of transactions with related parties as at September 30, 2014 and December 31, 2013:

<i>In thousands of tenge</i>		Due from related parties	Due to related parties	Cash and deposits placed with related parties	Borrowings payable to related parties
Samruk-Kazyna entities	September 30, 2014	48,187,102	14,052,200	9,773,674	7,057,551
	December 31, 2013	47,859,637	782,487	28,346,122	7,027,531
Associates	September 30, 2014	53,347,251	522,032	–	–
	December 31, 2013	42,390,553	1,941,683	–	–
Other related parties	September 30, 2014	–	–	1,022,467	333,345,669
	December 31, 2013	–	–	1,025,970	278,318,367
Joint ventures in which the Group is a venturer	September 30, 2014	98,803,868	11,456,990	–	–
	December 31, 2013	42,163,076	30,635,788	–	–

Due from related parties

As at September 30, 2014, due from related parties included bonds receivable from the Parent Company with the carrying amount of 40,417,461 thousand tenge (as at December 31, 2013: 41,362,676 thousand tenge). These bonds are maturing in 2044 and coupon rate is 4% per annum.

As at September 30, 2014 and December 31, 2013 due from associates include dividends receivable from PKI in the amount of 21,861,546 thousand tenge (as at December 31, 2013: 19,262,694 thousand tenge) and note receivable from Caspian Pipeline Consortium in the amount of 27,748,299 thousand tenge (as at December 31, 2013: 22,411,853 thousand tenge).

As at September 30, 2014 and December 31, 2013 due from joint ventures mainly include dividends receivable from Tengizchevroil LLP, trade accounts receivable originated in the normal course of business and loans receivable, which are presented within long-term and short-term loans receivable in the interim consolidated statement of financial position.

Due to related parties

As at September 30, 2014 due to Samruk-Kazyna entities mainly represents dividends payable to Samruk-Kazyna in the amount of 13,537,062 thousand tenge (as at December 31, 2013: nil).

As at September 30, 2014 due to joint ventures include trade payable to Kazakhoil Aktobe LLP, Asian Gas Pipeline LLP and Mangistaumunaigas JSC in the amount of 436,161 thousand tenge, 2,337,385 thousand tenge and 406,110 thousand tenge, respectively (as at December 31, 2013: 11,405,648 thousand tenge, 4,474,917 thousand tenge and 5,795,937 thousand tenge, respectively).

Cash and deposits placed with related parties

As at December 31, 2013 current accounts and deposits placed with banks that were controlled by Samruk-Kazyna – Alliance Bank JSC, BTA Bank JSC and Temirbank JSC represented balances with related parties. As at September 30, 2014 BTA Bank JSC and Temirbank JSC were disposed by Samruk-Kazyna. As at September 30, 2014 only current accounts and deposits placed with Alliance Bank JSC represent balances with related parties.

Borrowings payable to related parties

As at September 30, 2014, borrowings payable to related parties included loans payable to the Parent Company with the carrying amount of 7,057,551 thousand tenge (as at December 31, 2013: 6,881,519 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. RELATED PARTY DISCLOSURES (continued)

Borrowings payable to related parties (continued)

As at September 30, 2014, borrowings payable to related parties mainly included bonds and loans payable to DBK and Housing Construction Savings Bank of Kazakhstan JSC with the total carrying amount of 333,345,669 thousand tenge (as at December 31, 2013: in total 274,184,930 thousand tenge).

The following table provides the total amount of transactions, which have been entered into with related parties during nine months ended September 30, 2014 and 2013:

<i>In thousands of tenge</i>		Sales to related parties	Purchases from related parties	Interest earned from related parties	Interest incurred to related parties
Samruk-Kazyna entities	September 30, 2014	34,327,984	23,648,305	4,300,640	425,473
	September 30, 2013	26,579,498	22,492,235	4,112,110	3,583,835
Associates	September 30, 2014	943,149	2,481,836	–	–
	September 30, 2013	10,138,972	18,318	531,882	–
Other related parties	September 30, 2014	–	–	–	715,382
	September 30, 2013	76,478	646,007	–	5,444,956
Joint ventures in which the Group is a venturer	September 30, 2014	148,839,751	69,644,925	4,146,858	–
	September 30, 2013	134,670,727	125,025,147	2,482,717	2,430,190

Purchase transactions with Samruk-Kazyna, other state-controlled entities and joint ventures are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC (railway services), NC Kazakhtelecom JSC (telecommunication services), NAC Kazatomprom JSC (energy services), KEGOC JSC (energy supply), Kazpost JSC (postal services) and Samruk-Energo JSC (energy supply). In addition, the Group sells and purchases crude oil and natural gas, refined products and provides transportation services to and from Samruk-Kazyna entities, associates and joint ventures.

Key management employee compensation

Total compensation to key management personnel included in general and administrative expenses in the accompanying interim consolidated statement of comprehensive income was equal to 5,203,059 thousand tenge and 4,727,298 thousand tenge for the nine months ended September 30, 2014 and September 30, 2013, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**29. FINANCIAL INSTRUMENTS****Fair values of financial instruments**

The carrying amount of the Group financial instruments as at September 30, 2014 and December 31, 2013 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

In thousands of tenge	September 30, 2014 (unaudited)				
	Fair value by level of assessment				Based on the significant amount of unobserved (Level 3)
	Carrying amount	Fair value	Quotations in an active market (Level 1)	From the observed market (Level 2)	
Bonds receivable from the Parent Company	40,417,461	73,446,996	73,446,996	--	--
Fixed interest rate borrowings	1,938,445,671	2,058,653,861	2,058,653,861	--	--

In thousands of tenge	December 31, 2013 (audited)				
	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
Bonds receivable from the Parent Company	41,362,676	74,068,954	74,068,954	-	-
Fixed interest rate borrowings	1,638,355,440	1,854,074,777	1,854,074,777	-	-

The fair value of bonds receivable from the Parent Company and fixed-rate borrowings have been calculated using quotations in an active market.

During the reporting period no transfers between Level 1 and Level 2 of the fair value assessment were made.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)****30. CONTINGENT LIABILITIES AND COMMITMENTS**

In addition to the contingent liabilities and commitments disclosed in the Group annual consolidated financial statements of the Group for the year ended December 31, 2013, the following changes have taken place during the nine months ended September 30, 2014:

Tax audit of 2006-2008 (KMG EP)

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 KMG EP. 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 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.

KMG EP 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. KMG EP 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 KMG EP 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, KMG EP is planning to appeal the abovementioned decision in the courts of higher instance.

As at September 30, 2014 existing provision for taxes include an amount 12,136 million tenge, comprised of principal of 4,809 million tenge, fines of 2,615 million tenge and late payment interest of 4,712 million tenge. Management believes that KMG EP will be successful in appealing the remaining balances of principal, fines, and late payment interest of the assessments.

Ozenmunaigas environmental audit 2012-2013 (KMG EP)

On January 24, 2014 JSC “Ozenmunaigas” (“OMG”) 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 OMG filed a claim and on February 21, 2014 Specialized Administrative Court of Mangystau region satisfied in full in favor of OMG. 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.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)****30. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Embamunaigas Gas flaring (KMG EP)**

On January 23, 2014 JSC “Embamunaigas” (“EMG”) received a notification from the Department of Ecology of Atyrau region (DEAR) 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.

EMG disagreed with this notification and appealed the claim of the DEAR. On June 3, 2014 EMG 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.

Ecological audit (KMG Kashagan B.V.)

During 2013 production at Kashagan field, there was a gas leakage on the pipeline. DEAR has conducted the extraordinary inspection of the NCOC, the Operator, and Agip KCO, its agent, for the period from September 2013 to February 2014. As a result of inspection Acts, orders, injunctions related to gas flaring and emissions into environment were issued. Based on the issued documents the following claims were filed including administrative fines for violation of environmental laws in the amount of US dollars 9,256 thousand (1,684 million tenge at September 30, 2014 exchange rate) and fine for pollution in the amount of US dollars 123,507 thousand (22 billion tenge at September 30, 2014 exchange rate). Based on the decision of Atyrau specialized administrative court administrative fine for violation of environmental laws was paid in May 2014. The Management of the Company assessed the risk of paying the fine for pollution as possible and no provision was recognized for the above stated amount (31 December 2013: nil).

Ecological audit of ANPZ (KMG PM)

On March 5, 2014 the DEAR issued an order to ANPZ for compensation of the environmental damage caused in the amount of 23.7 billion tenge.

On April 7, 2014 Specialized administrative court of Atyrau region has revoked claims on penalties. On April 29, 2014 Atyrau Regional Court has upheld the Court resolution and dismissed the appeal of DEAR. On June 27, 2014 SMAS has revoked claim for recovery of damage caused to the environment initiated by DEAR. On August 8, 2014 ANPZ received a copy of the appeal of DEAR. The court hearing date of the appeal judicial board is not appointed. The management of the Group believes that damages claimed by the Department of ecology were claimed due to use of inappropriate data during inspection conducted and assesses the risk regarding this case as possible. Therefore no provisions were created in the interim condensed consolidated financial statements as at September 30, 2014.

Cost recovery audit*KMG Kashagan B.V.*

Under the base principles of North Caspian Product Sharing Agreement (“NCPSA”), the state transferred to the contractors exclusive rights to conduct subsurface use activity, but did not transfer rights to such subsoil area into either ownership or lease. Therefore, all extracted and processed oil (i.e. the hydrocarbons produced) is the property of the state. The work is carried out on a compensation basis, with the state paying the contractors not with money, but with a portion of the oil production, thus allowing the contractors to recover their costs and earn profits. This is so-called production sharing, i.e., the sharing of the results of the work carried out by the investor.

Under the NCPSA not all the costs incurred by the contractors may be recovered. Certain expenditures need to be approved by the Management Committee (“ManCom”) for recovery.

The Group considers that all costs are appropriately classified as recoverable in accordance with the NCPSA and that those recoverable costs are eligible for recovery as at September 30, 2014.

However, certain expenditures have not been approved by the ManCom in accordance with Sections 13 and 14 of the NCPSA. These costs are deemed to be non-recoverable for KMG Kashagan B.V. until the ManCom approves them. The contractors continue negotiations with the Authority to resolve these issues.

As a result of cost recovery audits performed for the periods from 2001 to 2008 expenditures in the amount of US dollars 7,974,680 thousand (1,450 billion tenge at September 30, 2014 exchange rate) were disallowed from cost recovery.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)****30. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Cost recovery audit (continued)***KMG Kashagan B.V. (continued)*

The Group's share in these expenditures was US dollars 1,340,336 thousand (244 billion tenge at September 30, 2014 exchange rate). As a result of the work performed by the contractors to resolve the comments, the Management

Committee signed the resolutions, according to which the disallowed recovery costs were reduced to US dollars 556,311 thousand (101 billion tenge at September 30, 2014 exchange rate) with the Group's share amounting to US dollars 93,887 thousand (17 billion tenge at September 30, 2014 exchange rate). The amount unsettled up to date is US dollars 118,456 thousand (22 billion tenge at September 30, 2014 exchange rate) with the Group's share amounting to US dollars 19,991 thousand (3,636 million tenge at September 30, 2014 exchange rate).

Cost recovery audit for 2009 was completed in 2012. As a result of the audit performed expenditures in the amount of US dollars 1,783,971 thousand (325 billion tenge at September 30, 2014 exchange rate) were initially disallowed for cost recovery, after resolving the comments the disallowed recovery costs were reduced to US dollars 875,000 thousand (159 billion tenge at September 30, 2014 exchange rate). The amount unsettled up to date is US dollars 416,682 thousand (76 billion tenge at September 30, 2014 exchange rate). The Group's share in these expenditures is US dollars 70,322 thousand (13 billion tenge at September 30, 2014 exchange rate). Further negotiations are conducted to resolve the issue in the favour of the contractors.

Cost recovery audit for 2010 was completed in 2013. As a result of the audit performed expenditures in the amount of US dollars 1,335,537 thousand (243 billion tenge at September 30, 2014 exchange rate) were initially disallowed for cost recovery. As a result of negotiations and work performed by the Operator to resolve comments an amount of US dollars 60,371 thousand (11 billion tenge at September 30, 2014 exchange rate) was classified as non-recoverable costs and US dollars 726,813 thousand (132 billion tenge at September 30, 2014 exchange rate) remain unresolved. The Group's share in these costs is US dollars 10,189 thousand (1,853 million tenge at September 30, 2014 exchange rate) and US dollars 122,662 thousand (22 billion tenge at September 30, 2014 exchange rate), respectively. Further negotiations are conducted to resolve the issue in the favour of the contractors.

Cost recovery audit for 2011 was completed in December 2013. As a result of the audit performed expenditures in the amount of US dollars 1,305,331 thousand (2237 billion tenge at September 30, 2014 exchange rate) were disallowed for cost recovery. The Group's share in these costs is US dollars 220,297 thousand (40 billion tenge at September 30, 2014 exchange rate). The amount of disallowed costs could be reduced based on the results of negotiations between the Operator and the Authority.

Convertible debt instrument and related litigations (KMG International N.V.)

As at December 31, 2009 the Group had an outstanding balance of 3,353,168 thousand tenge of a convertible debt instrument issued by a significant subsidiary of KMG International N.V. – Rompetrol Rafinare S.A. to the Romanian State. The nominal value of liabilities equaled to 570.3 million euros. The instrument had seven years maturity and expired on September 30, 2010. Fair value of the debt component at the initial recognition was determined as the discounted future contractual cash payments under the instrument. Under the share ownership as at December 31, 2009 the Group would have lost control over Rompetrol Rafinare S.A., if the entire debt instrument was settled at September 30, 2010 by issuance of new shares to the Romanian State, without any further action by KMG International N.V. and/or Rompetrol Rafinare S.A.

On February 15, 2013, Rompetrol Rafinare S.A. and the Office of State Ownership and Privatisation in Industry (OPSPI), representing the Romanian State, signed a memorandum of understanding whereby they agreed the amiable settlement of the dispute over the conversion of the convertible debt instrument.

On January 22, 2014, the Memorandum of Understanding was approved by the Government Decision no.35/2014 pursuant to which the Ministry of public finance has been authorized and mandated to pursue all procedural actions required for the withdrawal of the claims and the termination of all litigations. The Memorandum of Understanding includes the following key aspects:

- OPSPI will sell and the Group will acquire shares owned by OPSPI and representing 26.6959% of RRC's share capital for a cash consideration of 200 million US dollars;
- The Group will consider investment in energy projects related to its core activities in the amount estimated at 1 billion US dollars over 7 (seven) years;
- The Ministry of public finance will drop all cases against the GMS decisions related to the conversion and will cancel the forced execution title.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)****30. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Convertible debt instrument and related litigations (KMG International N.V.) (continued)**

Therefore, the Ministry of public finances performed all necessary actions, prepared documents and procedures for the withdrawal of the litigations, including the main claim, on which the next hearing took place on March 24, 2014. Following the hearing it is confirmed that the court case is closed following the Ministry of Finance renouncing all the court actions that were in progress that are mentioned above. Rompetrol Rafinare S.A. submitted to the Romanian authorities a requirement for the annulment of the seizure.

Litigation regarding CO2 emission allowances (KMG International N.V.)

On February 28, 2011 Rompetrol Rafinare S.A. won the court case against the Romanian state. As a result, the Ministry of Environment of Romania obliged the Romanian authorities to allocate to Rompetrol Rafinare an additional number of 2,577,938 CO2 emission certificates for the entire period 2008-2012. This first decision issued by the Constanta Court of Appeal was challenged by the Ministry of Environment and The Romanian state but the appeals were rejected by the Supreme Court of Justice on October 30, 2012 and the first court decision became final.

Considering that the Ministry of Environment and the Romanian state did not comply with the Court decision according to the deadline, Rompetrol Rafinare SA started a legal proceeding against the Ministry of Environment and the Romanian state where the amount claimed was equal to 36 million Euros (7 billion tenge as at September 30, 2014 exchange rate).

On April 24, 2014 the court rejected the Rompetrol Rafinare SA's claim. Rompetrol Rafinare received a court decision on August 6, 2014. Currently management of Rompetrol Rafinare is going to appeal which will be submitted by August 21, 2014.

Temporary compensatory tariff (KTO)

On 23 September 2013 KTO applied to the specialized inter-district economic court of Astana with the legal statement contesting order of the Antimonopoly Agency chairman on approving temporary compensatory tariff from August 29, 2013.

Based on decision of Specialized inter-district economic Court of Astana as at December 25, 2013 legal statement of the KTO was fully satisfied. Antimonopoly Agency disagreed with the decision mentioned above and filed an appeal. On April 14, 2014 contested Order was declared invalid based on the decision of the Appeals Court on civil and administrative cases of Astana.

On May 16, 2014 Antimonopoly Agency filed cassation appeal contesting decision of the Appeals Court.

On June 24, 2014 Antimonopoly Agency approved temporary compensatory tariff for regulated services on pumping oil through the pipelines of the KTO, which is effective from July 1, 2014 to September 30, 2015. Temporary compensatory tariff for oil transportation through the pipelines of KazTransOil JSC is approved in the following volumes: for export – 5,774.3 tenge per 1 ton per 1,000 km (excluding VAT), for domestic market – 2,910.2 tenge per 1 ton at 1,000 km (excluding VAT).

On July 3, 2014 KTO filed an application to the Specialized Interregional economical court of Astana to challenge Antimonopoly Agency's order on approval of temporary compensatory rate. According to the decision of the Specialized Interregional economical court of Astana dated July 8, 2014 the order on approval of temporary compensatory rate was suspended.

Purchase-sale agreement

As at September 30, 2014 the purchase-sale contract on 49% share in the charter capital of KazakhTurkMunay LLP was concluded between KazMunayGas (as acquirer) and Türkiye Petrolleri Anonim Ortaklığı (as seller). The contract amount is 204,5 million US dollars. The deal depends on several conditions for the execution of contract terms and is expected to be completed by May 5, 2015.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)**

30. CONTINGENT LIABILITIES AND COMMITMENTS (continued)**Guarantee agreement**

During the nine-months ended September 30, 2014 Tengizchevroil LLP (as customer) and Teniz Servis LLP (as contractor) signed a contract for provision of terminal services (further the "Contract").

On June 13, 2014 a contract of guarantee between Tengizchevroil LLP, the Company, Waterford International Holdings Inc. and Teniz Servis LLP was concluded. In accordance with the contract of guarantee the Company and Waterford International Holdings Inc. provide a guarantee to Tengizchevroil LLP on the execution of obligations under the Contract in favor of Teniz Servis LLP.

In addition, on June 13, 2014 an agreement between the Group, Waterford International Holdings Inc. and Teniz Servis LLP was concluded. Based on the agreement, in case of breach of substantial contract conditions by Teniz Servis LLP, Waterford International Holdings Inc. is released from the obligations on the above stated contract of guarantee, and the Company undertakes all obligations and responsibility under the Contract.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. SEGMENT REPORTING

Management of the Group analyzes the segment information based on IFRS numbers. Segment profits are considered based on gross profit and net profit results.

The Group's operating segments have their own structure and management according to the type of the produced goods and services provided. Moreover, all segments are strategic directions of the business which offer different types of the goods and serve different markets.

The Group's activity consists of four main operating segments: exploration and production of oil and gas, transportation of oil, transportation of gas, refining and trading of crude oil and refined products. The remaining operating segments have been aggregated and presented as other operating segment due to their insignificance.

The following represents information about operating segments of the Group as at September 30, 2014 and for the nine months then ended:

<i>In thousands of tenge</i>	Exploration and production of oil and gas	Oil transportation	Gas transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	21,655,101	134,973,198	234,289,847	1,938,689,541	70,530,858	—	2,400,138,545
Revenues from sales to other segments	761,000,789	30,032,505	752,134	4,196,532	16,949,542	(812,931,502)	—
Total revenue	782,655,890	165,005,703	235,041,981	1,942,886,073	87,480,400	(812,931,502)	2,400,138,545
Gross profit	492,046,581	78,168,911	64,426,852	135,234,207	(4,951,217)	(41,633,691)	723,291,643
Finance income	20,564,003	5,197,347	1,854,424	2,623,457	32,295,966	(19,281,032)	43,254,165
Finance costs	(15,518,870)	(1,806,876)	(12,640,347)	(13,479,076)	(119,716,338)	13,342,492	(149,819,015)
Depreciation, depletion and amortization	(59,315,685)	(16,913,775)	(20,984,358)	(51,048,902)	(8,129,415)	—	(156,392,135)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets other than goodwill	(27,685,805)	(5,705,063)	(182,532)	3,019,414	(88,979)	—	(30,642,965)
Share in profit of joint ventures and associates, net	371,458,602	(7,015,870)	(17,973,171)	4,278,098	895,612	—	351,643,271
Income tax expenses	(105,969,164)	(14,862,656)	(4,386,902)	(2,130,206)	(17,102,442)	—	(144,451,370)
Net profit for the period	246,649,825	50,000,464	(21,835,579)	2,817,016	(35,183,232)	—	242,448,494
Other segment information	1,077,314,928	24,058,165	110,150,906	31,038,952	19,349,679	—	1,261,912,630
Investments in joint ventures and associates	174,926,110	49,076,385	51,892,739	65,089,565	18,710,298	(1,515,476)	358,179,621
Capital expenditures	3,595,685	689,172	4,679,953	51,031,775	6,850,877	—	66,847,462
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	1,077,314,928	24,058,165	110,150,906	31,038,952	19,349,679	—	1,261,912,630
Assets of the segment	5,105,057,968	561,039,129	827,617,946	2,142,378,697	445,698,977	(515,436,946)	8,566,355,771
Liabilities of the segment	868,127,278	119,566,042	325,448,084	775,387,140	2,399,652,964	(499,646,119)	3,988,535,389

Eliminations represent the exclusion of intra-group turnovers.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. SEGMENT REPORTING (continued)

Inter-segment transactions were made on terms agreed to between the segments that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following represents information about operating segments of the Group as at December 31, 2013 and for the nine months ended September 30, 2013:

In thousands of Tenge	Exploration and production of oil and gas	Transportation of oil	Transportation of gas	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	18,907,069	130,392,824	200,965,397	1,712,297,011	64,898,017	–	2,127,460,318
Revenues from sales to other segments	666,561,862	24,129,394	656,282	2,754,161	14,746,949	(708,848,648)	–
Total revenue	685,468,931	154,522,218	201,621,679	1,715,051,172	79,644,966	(708,848,648)	2,127,460,318
Gross profit	439,348,551	73,494,613	66,858,857	104,320,130	6,554,582	(31,900,116)	658,676,617
Finance income	18,180,466	3,733,641	1,120,677	1,323,506	17,864,884	(13,734,654)	28,488,520
Finance costs	(17,737,446)	(1,989,591)	(5,165,243)	(11,240,892)	(109,314,313)	13,173,011	(132,274,474)
Depreciation, depletion and amortization	(48,800,673)	(17,810,494)	(17,728,892)	(43,786,686)	(7,794,220)	–	(135,920,965)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets other than goodwill	(58,641,229)	(49,767)	(450,139)	1,001,453	271,338	–	(57,868,344)
Share of profit of joint ventures and associates, net	327,804,406	10,699,451	28,562,046	(2,838,140)	497,068	–	364,724,831
Income tax expenses	(64,915,920)	(14,382,027)	(10,453,197)	(5,680,790)	(36,986,415)	–	(132,418,349)
Net profit for the year	413,049,512	66,423,637	66,221,888	(9,613,858)	(172,420,020)	(1,352,148)	362,309,011
Other segment information							
Investments in joint ventures and associates	772,667,619	47,440,305	126,107,248	24,077,474	23,099,651	–	993,392,297
Capital expenditures	183,662,942	27,476,505	66,083,437	97,341,139	29,129,235	–	403,693,258
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(4,941,287)	(672,068)	(2,756,204)	(41,422,563)	(7,425,797)	–	(57,217,919)
Assets of the segment	4,225,091,134	530,253,987	691,303,116	2,000,476,439	431,899,430	(423,704,371)	7,455,319,735
Liabilities of the segment	770,500,053	128,333,285	211,671,906	707,662,769	2,107,613,891	(414,792,951)	3,510,988,953

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

32. SUBSEQUENT EVENTS

On October 1, 2014 Tengizchevroil LLP paid dividends to the Group in the amount of 69,802 thousand US Dollars (12,696,984 thousand tenge).

On October 31, 2014 Tengizchevroil LLP declared dividends to the Group in the amount of 82,120 thousand US Dollars (14,853,044 thousand tenge) including taxes.

On October 27, 2014 the partners of Kazgermunai agreed to distribute 200 million US Dollars (35,692 billion tenge at June 30, 2014 exchange rate) as a dividend payment for the results of the 1st half of 2014.

On October 7, 2014 the Group paid interest on Eurobonds (issue of US 1.250 billion dollars) in the amount of US 39,844 thousand dollars (7,244 million tenge at September 30, 2014 exchange rate).

On October 29, 2014 the Group paid interest on Eurobonds (issue of US 3.000 billion dollars) in the amount of US 57,500 thousand dollars (10,400 million tenge at September 30, 2014 exchange rate).