JSC "National Company "KazMunayGas"

Consolidated financial statements

For the year ended December 31, 2013
with Independent Auditors' Report

CONTENTS

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Independent auditors' report

To the Shareholder and Management of "National Company "KazMunayGas" JSC

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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Opinion

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

Ernst & Young LLP

Bakhtiyor Eshonkulov Auditor/audit partner	Evgeny Zhemaletdinov General director Ernst & Young LLP
Auditor qualification certificate No. МФ-0000099 dated August 27, 2012	State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of finance of the Republic of Kazakhstan on July 15, 2005

March 14, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of tenge	Note	As at December 31 2013	2012
ASSETS			
Non-current assets			
Property, plant and equipment	7	**3,739,035,749**	3,423,256,395
Exploration and evaluation assets	8	**221,699,938**	185,284,168
Investment property	9	**28,243,320**	–
Intangible assets	10	**200,442,883**	201,207,926
Long-term bank deposits	11	**81,935,736**	2,487,515
Investments in joint ventures and associates	12	**998,490,176**	894,097,039
Deferred income tax assets	31	**29,688,534**	34,167,348
VAT receivable		**18,921,820**	8,641,358
Advances for non-current assets		**84,500,167**	117,846,042
Bonds receivable from the Parent Company	32	**36,922,676**	36,725,575
Note receivable from a shareholder of a joint venture	13	**13,222,376**	14,326,455
Note receivable from associate	32	**22,411,853**	20,721,926
Loans due from related parties		**22,558,713**	16,637,532
Other non-current assets		**28,237,430**	30,347,102
		5,526,311,371	4,985,746,381
Current assets			
Inventories	14	**204,342,042**	203,281,273
VAT receivable		**151,553,582**	123,223,688
Income taxes prepaid	31	**52,345,584**	42,555,972
Trade accounts receivable	15	**284,447,047**	219,286,785
Short-term financial assets	16	**814,592,127**	659,577,808
Bonds receivable from the Parent Company	32	**4,440,000**	4,440,000
Note receivable from a shareholder of a joint venture	13	**3,969,193**	3,895,304
Dividends receivable from associate	12	**19,262,694**	34,820,940
Other current assets	15	**74,084,738**	130,586,188
Cash and cash equivalents	17	**407,326,766**	415,085,451
		2,016,363,773	1,836,753,409
Assets classified as held for sale		**15,510,696**	11,221,633
		2,031,874,469	1,847,975,042
TOTAL ASSETS		**7,558,185,840**	6,833,721,423

The accounting policies and explanatory notes on pages 10 through 82 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	As at December 31 2013	2012
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**546,485,470**	527,760,531
Additional paid-in capital	18	**19,645,866**	19,062,712
Other equity		**2,185,813**	2,180,382
Currency translation reserve	18	**269,950,758**	222,112,349
Retained earnings		**2,611,367,993**	2,241,272,475
Attributable to equity holder of the Parent Company		**3,449,635,900**	3,012,388,449
Non-controlling interest	18	**586,555,014**	581,147,319
Total equity		**4,036,190,914**	3,593,535,768
Non-current liabilities			
Borrowings	19	**2,005,432,081**	1,593,704,304
Payable for the acquisition of additional interest in North Caspian Project	20	**214,885,792**	226,366,710
Provisions	21	**114,584,815**	115,117,818
Deferred income tax liabilities	31	**157,991,090**	154,546,429
Other non-current liabilities		**13,850,020**	26,174,856
		2,506,743,798	2,115,910,117
Current liabilities			
Borrowings	19	**301,710,769**	469,943,861
Provisions	21	**72,006,106**	34,598,962
Income taxes payable	31	**55,365,055**	48,103,198
Trade accounts payable	22	**246,359,108**	227,115,792
Payable for the acquisition of additional interest in North Caspian Project	20	**107,443,991**	113,183,280
Other taxes payable	23	**109,643,397**	109,435,007
Derivatives		**441,058**	372,026
Other current liabilities	22	**119,197,681**	117,740,857
		1,012,167,165	1,120,492,983
Liabilities directly associated with the assets classified as held for sale		**3,083,963**	3,782,555
Total liabilities		**3,521,994,926**	3,240,185,655
TOTAL EQUITY AND LIABILITIES		**7,558,185,840**	6,833,721,423

Managing director for economics and finance — *Kassymbek A.M.*

Chief accountant — *Valentinova N.S.*

The accounting policies and explanatory notes on pages 10 through 82 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of tenge	Note	For the years ended December 31 2013	2012
Revenue	24	**3,252,719,115**	2,960,418,491
Cost of sales	25	**(2,354,108,926)**	(2,090,818,113)
Gross profit		**898,610,189**	869,600,378
General and administrative expenses	26	**(162,733,410)**	(163,051,472)
Transportation and selling expenses	27	**(332,165,967)**	(360,696,826)
Impairment of property, plant and equipment and intangible assets, other than goodwill	7, 10	**(62,482,577)**	(82,389,739)
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		**(4,940,947)**	(3,825,536)
Income from sale of interest in subsidiaries	6	–	9,642,396
Other operating income		**30,747,927**	27,527,008
Other operating expenses		**(17,288,289)**	(16,846,397)
Operating profit		**349,746,926**	279,959,812
Net foreign exchange loss		**(22,202,042)**	(18,005,652)
Finance income	28	**42,388,429**	29,024,440
Finance costs	29	**(171,743,877)**	(169,183,806)
Impairment of investments in joint ventures	12	–	(2,955,515)
Share in profit of joint ventures and associates, net	30	**483,517,390**	471,086,475
Profit before income tax		**681,706,826**	589,925,754
Income tax expenses	31	**(193,395,929)**	(177,130,700)
Profit for the year from continuing operations		**488,310,897**	412,795,054
Discontinued operations			
Profit after income tax for the year from discontinued operations		**331,290**	628,105
Net profit for the year		**488,642,187**	413,423,159

The accounting policies and explanatory notes on pages 10 through 82 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	For the years ended December 31 2013	2012
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**49,338,488**	34,834,228
Other comprehensive income to be reclassified to profit or loss in subsequent periods		**49,338,488**	34,834,228
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement of actuarial losses on defined benefit plans		**(3,066,496)**	–
Tax effect		**421,186**	–
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		**(2,645,310)**	–
Other comprehensive income for the year		**46,693,178**	34,834,228
Total comprehensive income for the year, net of tax		**535,335,365**	448,257,387
Net profit for the year attributable to:			
Equity holder of the Parent Company		**440,955,063**	369,420,373
Non-controlling interest		**47,687,124**	44,002,786
		488,642,187	413,423,159
Total comprehensive income for the year attributable to:			
Equity holder of the Parent Company		**486,251,522**	402,959,622
Non-controlling interest		**49,083,843**	45,297,765
		535,335,365	448,257,387

Managing director for economics and finance *Kassymbek A.M.*

Chief accountant *Valentinova N.S.*

The accounting policies and explanatory notes on pages 10 through 82 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of tenge	Note	For the years ended December 31 2013	2012
Cash flows from operating activities:			
Profit before income tax from continuing operations		**681,706,826**	589,925,754
Profit before income tax from discontinued operations		**331,290**	611,161
Profit before income tax		**682,038,116**	590,536,915
Adjustments for:			
Depreciation, depletion and amortization	25, 26, 27	**180,622,767**	163,920,017
Share in profit of joint ventures and associates, net	30	**(483,517,390)**	(471,086,475)
Finance costs	29	**171,743,877**	169,265,287
Finance income	28	**(42,388,429)**	(29,033,061)
Income from sale of shares in subsidiaries	6	**–**	(9,642,396)
Impairment of property, plant and equipment and intangible assets other than goodwill	7, 10	**62,482,577**	82,389,739
Impairment of investments in joint ventures	12	**–**	2,955,515
Loss on disposal of property, plant and equipment, intangible assets and investment property , net		**4,940,947**	3,825,536
Provisions	21	**9,936,903**	(3,648,057)
Allowance for impairment of trade accounts receivable and other current assets	26	**3,533,899**	12,845,618
Accrual of provision for obsolete inventory	26	**1,355,756**	1,323,816
Recognition of share based payments		**–**	1,052,261
Forfeiture of share based payments		**25,867**	–
Unrealized foreign exchange loss		**14,094,941**	21,719,359
Operating profit before working capital changes		**604,869,831**	536,424,074
Change in inventory		**(2,416,525)**	(16,944,951)
Change in VAT receivable		**(38,610,356)**	(43,383,785)
Change in trade accounts receivable		**(68,694,161)**	(30,325,957)
Change in other current assets		**65,418,351**	46,800,225
Change in other taxes payable		**208,390**	10,537,323
Change in trade accounts payable		**14,537,267**	(112,166,982)
Change in other non-current assets		**2,109,672**	–
Change in other liabilities		**1,456,824**	(26,571,922)
Cash generated from operations		**578,879,293**	364,368,025
Income taxes paid		**(136,127,337)**	(122,294,681)
Interest received		**33,683,149**	19,484,736
Interest paid		**(132,442,421)**	(125,297,871)
Net cash flow from operating activities		**343,992,684**	136,260,209

The accounting policies and explanatory notes on pages 10 through 82 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	For the years ended December 31 2013	2012
Cash flows from investing activities:			
Placement of bank deposits, net		**(267,937,850)**	(184,985,705)
Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets		**(589,790,095)**	(452,827,782)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		**11,701,790**	9,311,877
Proceeds from sale of subsidiaries		**–**	9,422,051
Dividends received from joint ventures and associates, net	6	**370,549,999**	467,629,802
Acquisition of and contribution to joint ventures and associates	12	**(34,200)**	(8,793,659)
Repayment of loan provided to the Parent Company		**24,728,274**	95,877,707
Acquisition of interest in Karachaganak FPSA	5	**–**	(150,035,141)
Loans provided to related party		**(11,309,069)**	–
Proceeds from loans provided to related party		**–**	4,149,281
Cash of subsidiary classified as assets held for sale		**–**	(539,668)
Net cash flow used in investing activities		**(462,091,151)**	(210,791,237)
Cash flows from financing activities:			
Proceeds from borrowings		**790,901,238**	563,266,802
Repayment of borrowings		**(598,401,903)**	(473,073,217)
Dividends paid to non-controlling interest		**(43,105,904)**	(34,322,200)
Dividends paid to the Shareholder	18	**(38,961,363)**	(143,201,087)
Issue of shares	18	**–**	2,000,004
Acquisition of treasure shares by subsidiary		**(153,058)**	(36,202,658)
Proceeds from share issue of KTO	18	**–**	27,320,363
Change in ownership of subsidiaries without loss of control		**–**	304,084
Sponsorship provided based on the Shareholder's order	18	**(2,554,420)**	–
Net cash flow from / (used in) financing activities		**107,724,590**	(93,907,909)
Effects of exchange rate changes on cash and cash equivalents		**2,615,192**	1,571,535
Net change in cash and cash equivalents		**(7,758,685)**	(166,867,402)
Cash and cash equivalents at the beginning of the year	17	**415,085,451**	581,952,853
Cash and cash equivalents at the end of the year	17	**407,326,766**	415,085,451

The accounting policies and explanatory notes on pages 10 through 82 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Non-cash transactions: supplemental disclosure

In 2013 additions of property, plant and equipment in the amount of 38,051,924 thousand tenge were financed by advances paid in 2012 (2012: 41,060,872 thousand tenge).

As at December 31, 2013, trade payables for purchases of property, plant and equipment increased by 4,706,049 thousand tenge (2012: 71,288,948 thousand tenge).

In 2013 the Company issued additional common shares for the total amount of 18,724,939 thousand tenge (*Note 18*) in exchange for gas pipeline assets in the amount of 9,808,038 thousand tenge and restricted cash of 8,916,901 thousand tenge.

In 2013 the Group capitalized in carrying amount of property, plant and equipment borrowing costs in the amount of 12,253,918 thousand tenge (2012: 6,790,893 thousand tenge) (*Note 7*).

Managing director for economics and finance _______________ *Kassymbek A.M.*

Chief accountant _______________ *Valentinova N.S.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Parent Company							
In thousands of tenge	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total
As at December 31, 2011	**341,393,764**	**17,314,366**	**1,966,059**	**188,573,100**	**2,033,113,206**	**2,582,360,495**	**581,657,604**	**3,164,018,099**
Net profit for the year	–	–	–	–	369,420,373	**369,420,373**	44,002,786	**413,423,159**
Other comprehensive income	–	–	–	33,539,249	–	**33,539,249**	1,294,979	**34,834,228**
Total comprehensive income for the year	**–**	**–**	**–**	**33,539,249**	**369,420,373**	**402,959,622**	**45,297,765**	**448,257,387**
Contribution to share capital (*Note 18*)	186,366,767	(2,939,756)	–	–	–	**183,427,011**	–	**183,427,011**
Dividends (*Note 18*)	–	–	–	–	(143,201,087)	**(143,201,087)**	(34,322,200)	**(177,523,287)**
Transactions with the Parent Company (*Note 18*)	–	4,688,102	–	–	–	**4,688,102**	–	**4,688,102**
Distributions to the Parent Company (*Note 18*)	–	–	–	–	(21,805,594)	**(21,805,594)**	–	**(21,805,594)**
Recognition of share based payments at subsidiaries	–	–	214,323	–	(603,361)	**(389,038)**	1,441,299	**1,052,261**
Change in ownership of subsidiaries without loss of control (*Note 18*)	–	–	–	–	(1,857,818)	**(1,857,818)**	29,178,181	**27,320,363**
Acquisition of treasury shares by subsidiary (*Note 18*)	–	–	–	–	6,309,241	**6,309,241**	(42,511,899)	**(36,202,658)**
Change in ownership of subsidiaries	–	–	–	–	(102,485)	**(102,485)**	406,569	**304,084**
As at December 31, 2012	**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**

The accounting policies and explanatory notes on pages 10 through 82 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity holder of the Parent Company							
In thousands of tenge	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total
As at December 31, 2012	**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 year	–	–	–	–	440,955,063	**440,955,063**	47,687,124	**488,642,187**
Other comprehensive income	–	–	–	47,838,409	(2,541,950)	**45,296,459**	1,396,719	**46,693,178**
Total comprehensive income for the year	–	–	–	**47,838,409**	**438,413,113**	**486,251,522**	**49,083,843**	**535,335,365**
Contribution to share capital (*Note 18*)	18,724,939	–	–	–	–	**18,724,939**	–	**18,724,939**
Dividends (*Note 18*)	–	–	–	–	(38,961,363)	**(38,961,363)**	(43,577,144)	**(82,538,507)**
Transactions with the Parent Company (*Note 18*)	–	583,154	–	–	–	**583,154**	–	**583,154**
Distributions to the Parent Company (*Note 18*)	–	–	–	–	(29,322,614)	**(29,322,614)**	–	**(29,322,614)**
Recognition of share based payments at subsidiaries	–	–	5,431	–	96,979	**102,410**	(76,543)	**25,867**
Acquisition of treasury shares by subsidiary	–	–	–	–	(130,597)	**(130,597)**	(22,461)	**(153,058)**
As at December 31, 2013	**546,485,470**	**19,645,866**	**2,185,813**	**269,950,758**	**2,611,367,993**	**3,449,635,900**	**586,555,014**	**4,036,190,914**

Managing director for economics and finance

Kassymbek A.M.

Chief accountant

Valentinova N.S.

The accounting policies and explanatory notes on pages 10 through 82 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

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 ("Kazakhoil") and National Company Transport Nefti i Gaza CJSC ("TNG"). 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.

In 2013, the Company has an interest in 41 operating companies (2012: 39) (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.

The consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries (*Note 34*).

These consolidated financial statements of the Group were approved for issue by the Managing director for economics and finance and the Chief accountant on March 14, 2014.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. All values in these consolidated financial statements are rounded to the nearest thousands, except when otherwise indicated.

Statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB").

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The 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 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.

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 of a foreign operation. 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 rate of KASE as at December 31, 2013 was 153,61 tenge to 1 US Dollar. This rate was used to translate monetary assets and liabilities denominated in United States Dollars ("US Dollar") as at December 31, 2013 (2012: 150,74 tenge to 1 US Dollar). The currency exchange rate of KASE as at March 14, 2014 was 182.10 tenge to 1 US Dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 19 *Employee Benefits* (Revised 2011), IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements*. In addition, the application of IFRS 12 *Disclosure of Interests in Other Entities* resulted in additional disclosures in the consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The standard did not have an impact on the consolidated financial statements of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. Disclosures required under IFRS 12 are provided in *Note 12*.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in *Note 33*.

Amendment to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain from hedging net investments, of exchange differences on translation of foreign operations, net loss or gain cash flow hedges, net loss or gain on financial assets held for sale) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's consolidated financial position or performance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended standards and interpretations (continued)

Amendment to IAS 1 Clarification of the Requirement for Comparative Information

Amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position as at January 1, 2012, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendments affect presentation only and have no impact on the Group's consolidated financial position or performance.

IAS 19 Employee Benefits (Revised 2011)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated on the basis of the discount rate used to measure the defined benefit obligation; and, unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. Effect of the adoption of IAS 19R was not significant to the Group consolidated financial position or performance.

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

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group has early adopted these amendments to IAS 36 in the current period since the amended/additional disclosures provide useful information as intended by the IASB. These amendments would continue to be considered for future disclosures.

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and;
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interest method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill, if any, inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

The consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Undivided interest in jointly controlled operations

The Group has undivided interest in jointly controlled operations.

Upon acquisition the Group shall recognise in relation to its interest in joint operations its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly. Subsequently, the Group shall recognize its revenue from the sale of its share of the output arising from the joint operations; its share of the revenue from the sale of the output by the joint operations; and its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operations in accordance with its accounting policy.

When the Group does not share the joint control over joint operations, it follows the accounting of the parties that share control as discussed in previous paragraphs.

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but which does not comprise control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in a joint venture or an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture or associate since the acquisition date. Goodwill relating to the joint venture or associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the joint venture or associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture or associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture or associate are eliminated to the extent of the interest in the joint venture or associate.

The aggregate of the Group's share in profit or loss of a joint venture and an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interest in the subsidiaries of the joint venture or associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures (continued)

The financial statements of the joint venture or associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its joint venture or associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture or associate is impaired.

Upon loss of joint control over the joint venture or significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture or associate upon loss of joint control or significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are always classified as non-current assets and liabilities.

Oil and natural gas exploration, evaluation and development expenditure

Costs incurred before obtaining subsoil use rights (licenses)

Costs incurred before obtaining full subsoil use rights (licenses) are expensed in the period in which they are incurred, except when costs are incurred after signing preliminary agreements with the Government of the Republic of Kazakhstan, in such cases costs incurred after this date are capitalized.

Subsoil use rights and property acquisition costs

Exploration and production subsoil use rights and related property acquisition costs are capitalized within exploration and evaluation assets and subclassified as intangible assets. Each property under exploration and appraisal is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. If no future activity is planned, the carrying amount of the exploration subsoil use right and related property acquisition costs is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves') and internal approval of development, the carrying amount of the subsoil use right and related property acquisition costs held on a field-by-field basis is aggregated with exploration and evaluation assets and transferred to oil and gas development assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and natural gas exploration, evaluation and development expenditure (continued)

Exploration and evaluation costs

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with exploration and appraisal wells are capitalized as exploration and evaluation intangible or tangible assets, according to the nature of the costs, until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration and evaluation asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially; the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbon reserves. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the assets are written off. When proved reserves of hydrocarbons are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas development assets after impairment is assessed and any resulting impairment loss is recognized.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized within oil and gas development assets.

Oil and gas assets and other property, plant and equipment

Oil and gas assets and other property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment ("DD&A").

The initial cost of an asset comprises its purchase price or construction cost, borrowing cost for long-term construction or development project, if recognition criteria is met, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if there is any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas assets are depreciated using a unit-of-production method, whereas tangible assets are depreciated over proved developed reserves and intangible assets – over proved reserves. Certain oil and gas assets with useful lives less than the remaining life of the fields or term of the subsoil use contract are depreciated on a straight-line basis over useful lives of 4-10 years.

Property, plant and equipment other than oil and gas assets principally comprise buildings, machinery and equipment which are depreciated on a straight-line basis over the expected remaining useful average lives as follows:

Refinery assets	4-100 years
Pipelines	2-30 years
Buildings and improvements	8-100 years
Machinery and equipment	3-30 years
Vehicles	3-35 years
Other	2-20 years

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include expenditure on acquiring subsoil use rights for oil and natural gas exploration, evaluation and development, computer software and goodwill. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets, except for goodwill and subsoil use rights, are amortized on a straight-line basis over the expected remaining useful life. The expected useful lives of the assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Computer software costs have an estimated useful life of 3 to 7 years.

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

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 5 (five) years. For longer periods, a long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of accumulated depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to oil and gas development tangible or intangible assets or whenever facts and circumstances indicate impairment. One or more of the following facts and circumstances indicate that the Group should test exploration and evaluation assets for impairment (the list is not exhaustive):

- the period for which the Group entity has the right to explore and appraise in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on the further exploration for and evaluation of hydrocarbon resources in the specific area is neither budgeted nor planned;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of exploration and evaluation assets (continued)

- exploration for and evaluation of hydrocarbon resources in the specific area have not led to the discovery of commercial viable quantities of hydrocarbon resources and the Group entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Asset retirement obligation (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of plant, property and equipment and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This asset is subsequently depreciated as part of the capital costs of the production and transportation facilities.

Changes in the measurement of an existing decommissioning provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or change in the discount rate, is accounted for so that:

(a) changes in the provision are added to, or deducted from, the cost of the related asset in the current period;

(b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of comprehensive income; and

(c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group financial assets include cash and cash equivalents, short-term bank deposits, bonds receivable from the Parent Company, note receivable from associate, note receivable from a shareholder of a joint venture, loans due from related parties and trade accounts receivable.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in

The consolidated statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in the consolidated statement of comprehensive income. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 is satisfied.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluated its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these investments cannot reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment of trade and other receivables are recognized in general and administrative expenses. The losses arising from impairment of loans receivable are recognized in finance costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income as finance costs. The Group did not have any held-to-maturity investments during the years ended December 31, 2013 and 2012.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognised in other comprehensive income and credited in the available-for-sale revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale revaluation reserve to finance costs in the consolidated statement of comprehensive income. Interest earned whilst holding available-for-sale financial investments is reported as finance income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognised in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

f there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in current period expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income – is removed from other comprehensive and recognised in profits or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed through profits or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value on a first-in first-out ("FIFO") basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil and refined products is the cost of production, including the appropriate proportion of depreciation, depletion and amortization and overheads based on normal capacity. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale.

Value added tax (VAT)

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

Cash and cash equivalents

Cash and cash equivalents include cash in bank and cash on hand, demand deposits with banks with original maturities of 3 (three) months or less.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, payable for the acquisition of additional interest in North Caspian Project and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Trade and other payables

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 (twelve) months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 33*.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Provision for obligations to the Government

The Government assigns various sponsorship and financing obligations to the Group. Management of the Group believes that such Government's assignments represent constructive obligations of the Group and require recognition on the basis of respective resolution of the Government. Furthermore, as the Government is the ultimate controlling party of the Group, the expenditures on these assignments are recognized as other distributions to the Shareholder directly in the equity.

Employee benefits

Pension scheme

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit plan.

Long-term employee benefits

The Group provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Group entities and their employees. The collective agreement provides for certain one-off retirement payments, financial aid for employees' disability, anniversaries, funeral and other benefits. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments upon the end of employment. Actuarial gains and losses arising in the year are taken to other comprehensive income. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as finance costs. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of crude oil, refined products, gas and other products is recognized when delivery has taken place and risks and rewards of ownership of the goods have passed to the buyer.

Rendering of services

Revenue from rendering of services, such as transportation, refining and oil support services, is recognized when the services have been performed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense recognition

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate on an accrual basis.

Income taxes

Income tax for the year comprises current income tax, excess profit tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

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

Deferred tax is calculated with respect to both corporate income tax ("CIT") and EPT. Deferred EPT is calculated on temporary differences for assets allocated to subsoil use contracts at the expected rate of EPT to be paid under the contract.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Equity

Non-controlling interest

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the Company's owners. Total comprehensive income is attributed to the Company's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Share based payments

Employees of some Group entities receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments of a subsidiary in which they are employed ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other equity reserves, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Dividends

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

Other distributions to the Shareholder

Expenditures incurred by the Group based on the respective resolution of the Government or decision of the Parent Company are accounted for as other distributions through equity. Such expenditures include costs associated with non-core activity of the Group (construction of social assets).

Subsequent events

The results of post-year-end events that provide evidence of conditions that existed at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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

These amendments are effective for annual periods beginning on or after January 1, 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 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 are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact on future consolidated financial statements.

IAS 39 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 are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities and assets, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Oil and gas reserves

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Oil and gas reserves (continued)

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

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group's subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

Recoverability of oil and gas assets

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

An impairment charge of 75 billion tenge was recorded in the consolidated financial statements for the year ended December 31, 2012 as a result of a formal assessment of the recoverable amount of long-term assets of JSC "Ozenmunaigas" ("OMG") carried out by management of the Group (*Note 7*). This formal assessment was made due to the presence of impairment indicators. The main indicators were the level of production being materially lower than planned in the previous two years and the increasing levels of operational and capital expenditure. In April 2013 management of the Group updated the formal assessment of the recoverable amount of OMG long-term assets, and an additional impairment charge of 56 billion tenge was made in the condensed consolidated interim financial statements for the three months ended March 31, 2013. The additional impairment charge related primarily to the increase in export customs duty from 40 US Dollar per ton to 60 US Dollar per ton that occurred on April 12, 2013.

For the year ended December 31, 2013 management of the Group has again carried out a formal assessment of the recoverable amount of OMG long-term assets. The result of this assessment indicated that the carrying value of OMG long-term assets was not materially different from the estimated recoverable amount, and therefore management has neither reversed any of the impairment charge previously made nor made any further impairment charge for the year ended December 31, 2013. The results of the assessment were most sensitive to assumptions related to production, pricing and the KZT/US Dollar exchange rate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of oil and gas assets (continued)

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

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

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

Management believes that the resulting impairment charge on OMG long-term assets could be reversed in future periods if actual production over the next years exceeds expectations used in this impairment assessment or if there are indicators of sustainable increases in market prices for crude oil.

Recoverability of goodwill

The Group has material goodwill related to past acquisitions of the Rompetrol Group N.V. ("TRG") and Pavlodar Oil Chemical Plant JSC ("PNHZ") (*Note 10*).

Refining, Downstream Romania, Dyneff and Other comprise cash generating units of TRG.

The recoverable amount of Refining and Downstream Romania units was determined based on the value in use using discounted cash flows from financial budgets approved by senior management covering a five-year period. In 2013, the discount rate applied to cash flow projections is 9.7% (2012: 10.1%) and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2012: 1.5%) that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 8.2% (2012: 8.6%).

The recoverable amount of Dyneff unit was determined based on the value in use using discounted cash flows from financial budgets approved by senior management covering a five-year period. In 2013, the discount rate applied to cash flow projections is 8% (2012: 6.6%) and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2012: 1.5%) that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 6.5% in 2013 (2012: 5.1%).

Key assumptions used in calculating value in use of Refining, Downstream Romania and Dyneff

The key assumptions used in calculating value in use for Refining, Downstream Romania and Dyneff CGUs are as follows:

- Operating profit;
- Discount rates;
- Growth rate used to extrapolate cash flows beyond the budget period.

Operating profit – operating profit margin on the basis of net revenues was applied to the relevant cash generating units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of goodwill (continued)

Key assumptions used in calculating value in use of Refining, Downstream Romania and Dyneff (continued)

Discount rates – discount rates reflect the current market assessment of the risks specific to each cash-generating unit. The discount rate was estimated based on calculation of a weighted average cost of capital for cash-generating unit's industry. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash-flows have not been adjusted.

Growth rate estimates – rates are based on published industry research.

Sensitivity to changes in assumptions for Refining, Downstream Romania and Dyneff

With regard to the assessment of the value in use for cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, other than as disclosed below. As at December 31, 2013, the break-even point for the current model is achieved under the decrease of operating profits by 67% for Refining, 72.3% for Downstream Romania and 66% for Dyneff units.

The recoverable amount of PNHZ was determined based on the value-in-use using discounted cash flows from financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 11.34% (2012: 11.8%) and cash flows beyond the five-year period are extrapolated using a 4.3% growth rate (2012: 3.67%). The capitalization rate used for residual values is 7% (2012: 8.1%).

Key assumptions used in calculating value-in-use

The key assumptions used in calculating value in use for PNHZ are as follows:

- Volumes of crude oil and oil products output;
- Planned EBITDA;
- Capital expenditures for 2013 – 2017;
- Discount rates.

Volumes of crude oil and oil products output – are the forecasts of the Group with respect to the output of oil products during processing 1 ton of crude oil before and after modernization of PNHZ.

Planned EBITDA – is planned EBITDA, defined on the basis of past experience, which is adjusted for the fact that the proceeds from the sale of oil products will increase due to the introduction of modernized production facilities at PNHZ in 2016 and 2017.

Capital expenditures – capital expenditures represent a) expenditures on modernisation and reconstruction of PNHZ and b) expenditures required to maintain the existing condition of the assets.

Discount rates – discount rates reflect the current market assessment of the risks specific to each cash-generating unit. The discount rate was estimated based on calculation of a weighted average cost of capital for cash-generating unit's industry. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash-flows have not been adjusted.

Sensitivity to changes in assumptions

Results of the assessment of the recoverable amount of goodwill allocated to PNHZ are sensitive to changes in key assumptions, including assumptions related to the change in the WACC discount rate, as well as the value of the planned EBITDA in the terminal period. Increase in the discount rate by 1% from 11.3% to 12.3% would result in the excess of the carrying amount of cash-generating unit over its recoverable amount by 9,508 million tenge. Decrease of target EBITDA in terminal period by 3% from 15.1% to 12.1% would result in impairment of goodwill in the amount of 52,673 million tenge, in such circumstances recoverable amount of goodwill would be 35,880 million tenge.

Decrease of exchange rate of tenge to US Dollar by 5% would result in full impairment of goodwill and in impairment of PNHZ assets by 78,510 million tenge, in such circumstances recoverable amount of PNHZ long-term assets would be 13,009 million tenge.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Assets retirement obligations

Oil and gas production facilities

Under the terms of certain subsoil use contracts, legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group's obligation relates to the ongoing closure of all non-producing wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories, and also obligations to dismantle and remove tangible assets and restore territory at each production site. Since the subsoil use contract terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each subsoil use contract period. If the asset retirement obligations were to be settled at the end of the economic life of oil and gas field, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Group's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective subsoil use contracts and current legislation.

Where neither subsoil use contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the subsoil use contract term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

The Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market.

At each reporting date the Group reviews site restoration provisions, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities.*

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in the consolidated statement of financial position across the Group entities at December 31, 2013 were in the range from 2% to 5.6% and from 6% to 8% respectively (2012: from 1.9% to 5.0% and from 4.94% to 7.9%). Movements in the provision for asset retirement obligations are disclosed in *Note 21*.

Major oil and gas pipelines

According to the Law of the Republic of Kazakhstan "On major pipelines" which was made effective on July 4, 2012, JSC KazTransOil ("KTO"), the Group's subsidiary, has a legal obligation to decommission its major oil pipelines at the end of their operating life and to restore the land to its original condition. This will happen upon full depletion of oil reserves of the entities which are using the pipeline of the Group.

Asset retirement obligation is calculated based on estimate of the work to decommission and rehabilitate. These estimates are calculated by the Group in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission cost is equal to 2,891 thousand tenge per km). Provision was determined at the end of the reporting period using the projected inflation rate for the expected period of fulfillment of obligations (17 years), and the discount rate at the end of the reporting period which is presented below:

In percent	**2013**	2012
Discount rate as of December 31	**6.01%**	6.01%
Inflation rate as of December 31	**5.60%**	5.60%

The discount rate is based on the risk-free government bonds of the Republic of Kazakhstan.

As at December 31, 2013 the carrying amount of KTO asset retirement obligation was 16,677,538 thousand tenge (December 31, 2012: 15,531,037 thousand tenge).

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Assets retirement obligations (continued)

Major oil and gas pipelines (continued)

Assessing the cost of environmental rehabilitation is subject to potential changes in ecological requirements and interpretations of the law. Furthermore, uncertainties in the estimates of these costs include potential changes in alternative liquidation methods, recovery of damaged land, discount and inflation rates and periods of obligation.

With respect to Intergas Central Asia JSC ("ICA"), another subsidiary of the Group, Management believes that the Law is not applicable to this entity, since ICA operates the gas pipelines under the Concession Agreement between ICA and the Government. Under the terms of the Concession Agreement the ICA is obliged to operate and maintain mainline gas pipelines network until June 14, 2017 with a possibility of extending the term for a further 10 (ten) years, after which it shall be transferred to the Government. Therefore, no liability related to ICA asset retirement obligations was recognised as at December 31, 2013.

Environmental remediation

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

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan and Europe. The Group has classified this obligation as non-current except for the portion of costs, included in the annual budget for 2014. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Further uncertainties related to environmental remediation obligations are detailed in *Note 35*. Movements in the provision for environmental remediation obligations are disclosed in *Note 21*.

Employee benefits

The cost of defined long-term employee benefits before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Taxation

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil use contracts, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for tax risks disclosed under other provisions or provisions for taxes in *Note 21* relates mainly to the Group's application of Kazakhstan transfer pricing legislation to export sales of crude oil and value-added tax. Further uncertainties related to taxation are disclosed in *Note 35*.

Taxable income is computed in accordance with the tax legislation enacted as at January 1, 2013. Deferred tax is calculated with respect to both CIT and EPT. Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to subsoil use contracts at the expected rates that were enacted by the tax authorities as at December 31, 2013.

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets as at December 31, 2013 was 29,688,534 thousand tenge (2012: 34,167,348 thousand tenge). Further details are disclosed in *Note 31*.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 5 (five) to 10 (ten) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Further details are disclosed in *Note 33.*

Operating lease commitments – the Group as lessee

The Group has entered into the Concession Agreement in respect of mainline gas transportation network (the "Concession Agreement"), office space and car leases. The Group has determined that the lessor retains all the significant risks and rewards of ownership of mainline gas distribution network, office spaces and cars and so accounts for them as operating leases in the consolidated financial statements.

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for prospectively as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The Group operates mainline gas transportation network under the Concession Agreement. This agreement is a concession arrangement scoped out of IFRIC 12 "Service Concession Arrangements" (because the grantor does not control the price at which the Group contracts with its major customers). Subsequently, additions or improvements to the assets managed and operated under this agreement are capitalized and depreciated over an estimate of remaining useful life regardless of whether the term of this agreement is shorter as the Government is obliged to take back these assets at their respective net book value if this Agreement is not extended.

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

5. ACQUISITIONS

Acquisition of interest in the Karachaganak FPSA

On June 28, 2012 the Group acquired 10% interest in Karachaganak Project Consortium (the "Karachaganak FPSA") which operates the Karachaganak gas condensate field in the Republic of Kazakhstan in accordance with the Final Production Sharing Agreement ("FPSA"), dated November 18, 1997 as amended in 2012.

The fair value of 10% interest in the Karachaganak FPSA was assessed as 301,206,898 thousand tenge as of the date of the transaction.

5% of the interest in the Karachaganak FPSA was contributed by the Shareholder, in exchange for the Company issued share capital in the amount of 150,035,141 thousand tenge. The fair value of the contribution was equal to 151,171,757 thousand tenge. The difference of 1,136,616 thousand tenge was recognized as additional paid-in capital.

The other 5% of the interest in the Karachaganak FPSA was acquired from the Shareholder for 150,035,141 thousand tenge using funds obtained under a loan agreement with other participants of the Karachaganak FPSA in the amount of 1 billion US Dollars (*Note 19*).

Interest in the Karachaganak FPSA assets and liabilities as of acquisition date was represented as follows:

In thousands of tenge	**Fair value of assets acquired and liabilities assumed**
Property, plant and equipment	294,642,852
Intangible assets	1,130,800
Trade receivables	10,917,748
Inventory	4,299,379
Other current assets	373
	310,991,152
Provisions	(7,500,461)
Trade payables	(2,283,793)
	(9,784,254)
Net assets	**301,206,898**

Acquisition of share in Arkagaz JSC ("Arkagaz")

In 2012, the Shareholder transferred 100% share in Arkagaz. In exchange the Company issued share capital in the amount of 4,109,246 thousand tenge. Arkagaz is a gas distribution company located in the Western Kazakhstan and supplying the region with natural gas.

The 100% share in Arkagaz was recorded as acquisition of subsidiaries from parties under common control and accounted for using the pooling of interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. CHANGE IN INVESTMENT OWNERSHIP INTERESTS

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

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

In thousands of tenge	**Net assets at the date of disposal**
Cash	1,884,000
Current assets	100,000
Non-current assets	8,360,000
	10,344,000
Current liabilities	(111,000)
Non-current liabilities	(3,821,000)
	(3,932,000)
Net assets	**6,412,000**

Consideration received from Karpinvest for 49% interest in KS EP Investments was equal to 36,455,170 US Dollars (5,485,000 thousand tenge). The resulting gain on investment disposal was equal to 4,782,000 thousand tenge. As a result of this transaction KMG EP has derecognized the assets and liabilities of the former subsidiary, when the control was lost and recognized under the equity method its retained 51% interest in KS EP Investments at its fair value of 5,709,000 thousand tenge.

KMG EP's retained interest in KS LLP's assets and liabilities allocated on the basis of their fair values as at November 15, 2012 and the carrying values of assets and liabilities of KS LLP included into the equity investment as at December 31, 2012 were as follows:

In thousands of tenge	**Fair values as at November 15, 2012**	**Assets and liabilities as at December 31, 2012**
Cash	961,000	82,000
Current assets	51,000	373,000
Non-current assets	7,313,000	7,583,000
	8,325,000	**8,038,000**
Current liabilities	(58,000)	(553,000)
Non-current liabilities	(2,558,000)	(2,586,000)
	(2,616,000)	**(3,139,000)**
Net assets	**5,709,000**	**4,899,000**

The operating activities of KS LLP are dependent upon continued financing in the form of the shareholder loans to enable KS LLP to meet its current obligations and to continue its activities. As a result KMG EP has provided financing in the form of additional shareholder loan to KS EP Investments in the amount of 11,828 thousand US Dollars (1,763 million tenge) during 2012. The fair value on shareholder loan, which is provided at 6.5% interest rate, is determined by discounting future cash flows for the loan using a discount rate of 15%.

In April 2012 KMG EP sold Kazakhstan Petrochemical Industries LLP ("KPI"), its 51% owned subsidiary, to United Chemical Company LLP, the company under common control, for 4,860,396 thousand tenge. The investments in KPI were written-off in prior periods, accordingly carrying amount of the investments at the date of disposal was nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT

In thousands of tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Net book value as at December 31, 2011	**1,524,394,482**	**222,497,450**	**431,506,995**	**191,532,054**	**189,547,670**	**84,860,984**	**30,012,956**	**163,013,174**	**2,837,365,765**
Foreign currency translation	40,839,045	–	4,891,706	1,649,202	376,373	363,581	57,699	(737,432)	**47,440,174**
Additions	143,071,562	53,988,108	4,949,890	2,436,759	7,381,641	10,203,637	4,358,717	280,774,482	**507,164,796**
Acquisition of interest in Karachaganak FPSA *(Note 5)*	294,642,852	–	–	–	–	–	–	–	**294,642,852**
Disposals	(12,084,435)	(228,602)	(2,082,281)	(4,561,680)	(2,409,089)	(2,266,836)	(2,755,402)	(4,248,355)	**(30,636,680)**
Depreciation charge	(48,809,051)	(12,040,104)	(37,285,130)	(13,641,808)	(26,664,372)	(10,534,751)	(8,854,482)	–	**(157,829,698)**
Accumulated depreciation and impairment on disposals	6,155,392	85,382	1,457,243	2,567,499	1,990,092	2,035,433	2,381,435	537,714	**17,210,190**
(Impairment) / reversal of impairment	(68,524,815)	–	186,238	(3,370,888)	(1,427,416)	(3,203,201)	(655,428)	(5,394,229)	**(82,389,739)**
Discontinued operations	–	–	–	(5,302,453)	–	–	–	(282,825)	**(5,585,278)**
Transfers from exploration and evaluation assets *(Note 8)*	2,770,340	–	–	–	–	–	–	–	**2,770,340**
Transfers to intangible assets *(Note 10)*	(769,679)	–	–	–	(45,877)	–	(58,431)	(3,369,302)	**(4,243,289)**
Transfers to assets classified as held for sale	(81,181)	–	(287,613)	–	(250,083)	(42,986)	(280,599)	(1,710,576)	**(2,653,038)**
Transfers and reclassifications	78,424,504	28,483,953	57,160,326	27,676,963	21,077,084	7,597,893	2,757,611	(223,178,334)	–
Net book value as at December 31, 2012	**1,960,029,016**	**292,786,187**	**460,497,374**	**198,985,648**	**189,576,023**	**89,013,754**	**26,964,076**	**205,404,317**	**3,423,256,395**
Foreign currency translation	25,493,668	(537)	6,106,894	973,621	235,317	417,756	221,143	(561,311)	**32,886,551**
Additions	117,626,232	12,025,834	2,969,837	19,126,201	11,953,956	10,654,649	6,322,315	383,742,453	**564,421,477**
Disposals	(13,096,259)	(444,171)	(1,532,923)	(9,579,041)	(5,788,541)	(2,537,156)	(3,209,627)	(5,878,661)	**(42,066,379)**
Depreciation charge	(57,601,209)	(13,796,683)	(37,088,236)	(14,965,012)	(29,427,401)	(11,513,005)	(7,883,117)	–	**(172,274,663)**
Accumulated depreciation and impairment on disposals	8,514,406	301,625	1,007,572	5,970,249	5,183,491	1,973,306	2,974,754	754,774	**26,680,177**
(Impairment) / reversal of impairment	(49,288,386)	537	941,382	(1,446,983)	(1,342,070)	(2,243,135)	(401,632)	(6,295,594)	**(60,075,881)**
Transfers to investment property *(Note 9)*	(26,826,709)	–	–	–	–	–	–	–	**(26,826,709)**
Transfers from exploration and evaluation assets *(Note 8)*	41,838	–	–	–	–	–	–	–	**41,838**
Transfers to intangible assets *(Note 10)*	(80,629)	–	–	–	(477)	–	(205)	(374,245)	**(455,556)**
Transfers to assets classified as held for sale	(22,374)	–	(27,531)	(5,445,606)	(374,949)	(7,355)	(8,569)	(665,117)	**(6,551,501)**
Transfers and reclassifications	102,918,184	9,354,955	34,900,057	25,380,631	68,054,756	9,322,153	3,524,846	(253,455,582)	–
Net book value as at December 31, 2013	**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 CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
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	**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**
At cost	2,287,091,863	361,850,426	625,876,778	291,210,707	324,938,523	135,270,824	56,607,869	216,886,899	**4,299,733,889**
Accumulated depreciation and impairment	(327,062,847)	(69,064,239)	(165,379,404)	(92,225,059)	(135,362,500)	(46,257,070)	(29,643,793)	(11,482,582)	**(876,477,494)**
Net book value as at December 31, 2012	**1,960,029,016**	**292,786,187**	**460,497,374**	**198,985,648**	**189,576,023**	**89,013,754**	**26,964,076**	**205,404,317**	**3,423,256,395**

In 2013, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 9.75% in the amount of 12,253,918 thousand tenge which are related to the construction of new assets (2012: 6,790,893 thousand tenge at the average interest rate of 8.47%).

As at December 31, 2013, items of property, plant and equipment with the net book value of 1,305,221,887 thousand tenge (2012: 986,599,966 thousand tenge) were pledged as collateral to secure borrowings and payables of the Group (*Notes 19* and *20*).

Impairment of property, plant and equipment

In 2013, the Group recorded net impairment loss of 60,075,881 thousand tenge, which is mainly attributable to impairment of property, plant and equipment of KMG EP in the amount of 60,043,964 thousand tenge.

In 2012, the Group recorded net impairment loss of 82,389,739 thousand tenge, which is mainly attributable to impairment of property, plant and equipment of KMG EP in the amount of 76,347,779 thousand tenge, KazMunayGas – refining and marketing JSC ("KMG RM") in the amount of 1,258,361 thousand tenge and Naukograd LLP ("Naukograd") in the amount of 2,326,137 thousand tenge, net of reversal of impairment of KMG-Service LLP ("KMG-Service") in the amount of 1,216,670 thousand tenge. For the detailed discussion of KMG EP impairment please refer to *Note 4*.

8. EXPLORATION AND EVALUATION ASSETS

In thousands of tenge	Tangible	Intangible	Total
Net book value as at December 31, 2011	133,479,700	26,832,769	**160,312,469**
Foreign currency translation	(135,909)	–	**(135,909)**
Additions	36,077,558	327,581	**36,405,139**
Transfer to property, plant and equipment *(Note 7)*	–	(2,770,340)	**(2,770,340)**
Loss of control in subsidiaries	(1,092,660)	(7,097,643)	**(8,190,303)**
Disposals	(336,888)	–	**(336,888)**
Net book value as at December 31, 2012	**167,991,801**	**17,292,367**	**185,284,168**
Foreign currency translation	1,580,286	81,400	**1,661,686**
Additions	30,772,757	5,349,022	**36,121,779**
Transfer to property, plant and equipment *(Note 7)*	(41,838)	–	**(41,838)**
Disposals	(3,485,546)	(593,523)	**(4,079,069)**
Accumulated impairment on disposals	2,753,212	–	**2,753,212**
Net book value as at December 31, 2013	**199,570,672**	**22,129,266**	**221,699,938**

As at December 31, 2013, certain exploration and evaluation assets with the carrying value of 45,736,815 thousand tenge were pledged as collateral to secure payables of the Group (2012: 43,228,819 thousand tenge).

As at December 31, 2013 and 2012 the exploration and evaluation assets are represented by the following projects:

In thousands of tenge	2013	2012
North Caspian PSA (Kashagan, Aktoty, Kayran, Kalamkas)	**87,282,230**	85,692,977
Pearls	**29,494,055**	23,569,808
Project N Block	**27,335,000**	23,845,435
Urikhtau	**21,983,603**	13,960,699
Zhambyl	**15,178,024**	5,154,725
Other	**40,427,026**	33,060,524
	221,699,938	185,284,168

Exploration costs on Pearls, N Block and Zhambyl projects are financed by project partners other than the Group (*Note 19*). The repayment of the financing for these projects is contingent and primarily depends on the identification of commercially recoverable reserves.

9. INVESTMENT PROPERTY

In thousands of tenge	Total
Net book value as at December 31, 2012	**–**
Additions	3,312,672
Depreciation charge	(592,499)
Disposals	(3,378,040)
Accumulated depreciation and impairment on disposals	2,416,717
Transfer from property, plant and equipment *(Note 7)*	26,826,709
Transfers to assets classified as held for sale	(342,239)
Net book value as at December 31, 2013	**28,243,320**
At cost	29,313,019
Accumulated depreciation and impairment	(1,069,699)
Net book value as at December 31, 2013	**28,243,320**
At cost	–
Accumulated depreciation and impairment	–
Net book value as at December 31, 2012	–

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

The management of the Group believes that as at December 31, 2013 the fair value of this building is 31,126,069 thousand tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS

In thousands of tenge	Goodwill	Marketing related intangible assets	Software	Other	Total
Net book value as at December 31, 2011	**135,061,655**	**27,004,212**	**15,175,881**	**20,711,042**	**197,952,790**
Foreign currency translation	(35,421)	429,865	58,570	286,846	**739,860**
Additions	–	–	4,564,214	2,914,932	**7,479,146**
Acquisition of interest in Karachaganak FPSA *(Note 5)*	–	–	–	1,130,800	**1,130,800**
Disposals	–	–	(308,035)	(487,889)	**(795,924)**
Amortization charge	–	–	(4,136,340)	(2,296,277)	**(6,432,617)**
Accumulated amortization on disposals	–	–	208,516	238,654	**447,170**
Discontinued operations	–	–	–	(3,559,560)	**(3,559,560)**
Transfer from property, plant and equipment *(Note 7)*	–	–	742,581	3,500,708	**4,243,289**
Transfer from inventory	–	–	2,031	941	**2,972**
Transfers	–	–	3,837,665	(3,837,665)	–
Net book value as at December 31, 2012	**135,026,234**	**27,434,077**	**20,145,083**	**18,602,532**	**201,207,926**
Foreign currency translation	54,240	522,329	16,624	392,230	**985,423**
Additions	–	–	3,910,563	4,597,226	**8,507,789**
Disposals	–	–	(563,678)	(847,136)	**(1,410,814)**
Amortization charge	–	–	(5,146,136)	(2,609,469)	**(7,755,605)**
Accumulated amortization on disposals	–	–	559,166	556,436	**1,115,602**
Impairment	–	–	–	(2,406,696)	**(2,406,696)**
Transfer from property, plant and equipment *(Note 7)*	–	–	147,638	307,918	**455,556**
Transfer to inventory	–	–	(253,589)	(2,709)	**(256,298)**
Transfers	–	–	385,358	(385,358)	–
Net book value as at December 31, 2013	**135,080,474**	**27,956,406**	**19,201,029**	**18,204,974**	**200,442,883**
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	**135,080,474**	**27,956,406**	**19,201,029**	**18,204,974**	**200,442,883**
At cost	165,747,928	28,014,773	38,937,207	32,893,451	**265,593,359**
Accumulated amortization and impairment	(30,721,694)	(580,696)	(18,792,124)	(14,290,919)	**(64,385,433)**
Net book value as at December 31, 2012	**135,026,234**	**27,434,077**	**20,145,083**	**18,602,532**	**201,207,926**

10. INTANGIBLE ASSETS (continued)

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

Cash-generating unit	2013	2012
Refining	**11,045,697**	11,091,084
Downstream Romania	**6,688,772**	6,680,222
Dyneff	**5,222,688**	5,198,138
Other	**8,575,265**	8,508,738
Cash generating units of TRG	**31,532,422**	31,478,182
Cash-generating units of PNHZ (former Refinery Company RT LLP)	**88,553,296**	88,553,296
Other	**14,994,756**	14,994,756
Total goodwill	**135,080,474**	135,026,234

Refining, Downstream Romania and Dyneff

In 2013 and 2012, no impairment was recognized on Refining, Downstream Romania, Dyneff and other cash generating units of TRG.

PNHZ, a 100% subsidiary of KMG RM

The goodwill was recognised as a result of the acquisition of Refinery Company RT LLP in 2009. In April 2013 Refinery Company RT LLP and PNHZ were merged. The cessation of the Refinery Company RT LLP operations did not impact the operating mechanism of the CGU since its activities are continued by PNHZ.

In 2013 and 2012, based on the impairment test results, no impairment of PNHZ goodwill was recognized.

For the detailed discussion of testing goodwill for impairment refer to *Note 4*.

11. LONG-TERM BANK DEPOSITS

In thousands of tenge	2013	2012
Denominated in US Dollar	**38,739,598**	215,391
Denominated in KZT	**43,196,138**	2,272,124
	81,935,736	2,487,515

As at December 31, 2013, the weighted average interest rate for long-term bank deposits was 2.66% in US Dollars and 5.23% in tenge, respectively (2012: 2.75% in US Dollars and 2.20% in tenge, respectively).

In thousands of tenge	2013	2012
Maturities between 1 and 2 years	**34,235,660**	153,261
Maturities over 2 years	**47,700,076**	2,334,254
	81,935,736	2,487,515

As at December 31, 2013 long-term bank deposits include cash pledged as collateral of 31,735,113 thousand tenge (2012: 1,141,416 thousand tenge).

As at December 31, 2013, long-term bank deposits include an amount of 6,431,153 thousand tenge placed with Alliance Bank JSC (*Note 32*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

			December 31, 2013		December 31, 2012	
In thousands of tenge	**Main activity**	**Place of business**	**Carrying value**	**Percentage ownership**	Carrying value	Percentage ownership
Joint ventures:						
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	**311,880,773**	**20.00%**	264,698,959	20.00%
Mangistau Investments B.V.	Oil and gas development and production	Netherlands	**185,003,198**	**50.00%**	176,949,392	50.00%
Kazakhoil-Aktobe LLP	Production and sale of crude oil	Kazakhstan	**83,800,157**	**50.00%**	72,085,480	50.00%
Beineu-Shymkent Pipeline LLP	Construction and operation of the Beineu-Shymkent gas pipeline	Kazakhstan	**70,268,878**	**50.00%**	71,959,310	50.00%
KazRosGas LLP	Processing and sale of natural gas and refined gas products	Kazakhstan	**46,081,108**	**50.00%**	63,423,836	50.00%
KazGerMunay LLP	Exploration, production and processing of oil and gas	Kazakhstan	**69,047,486**	**50.00%**	55,315,780	50.00%
Other			**121,483,321**		85,462,628	
Associates:						
PetroKazakhstan Inc. ("PKI")	Exploration, production and processing of oil and gas	Kazakhstan	**86,391,266**	**33.00%**	80,909,217	33.00%
Other			**24,533,989**		23,292,437	
			998,490,176		894,097,039	

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

As at December 31, 2013, the Group's share in unrecognized losses of joint ventures and associates was equal to 22,979,168 thousand tenge (2012: 30,912,569 thousand tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following table summarizes the movements in equity investments in joint ventures and associates in 2013 and 2012:

In thousands of tenge	2013	2012
At January 1	**894,097,039**	919,155,435
Contributions	**34,200**	8,793,659
Share in profits of joint ventures and associates, net *(Note 30)*	**483,517,390**	471,086,475
Dividends received	**(410,455,258)**	(504,177,416)
Change in dividends receivable	**15,558,246**	(5,437,740)
Impairment of investments	**–**	(2,955,515)
Other changes in the equity of the joint venture	**4,881,727**	–
Foreign currency translation	**10,856,832**	7,632,141
At December 31	**998,490,176**	894,097,039

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2013:

In thousands of tenge	Tengizchevroil LLP	Mangistau Investments B.V.	Kazakhoil-Aktobe LLP	Beineu-Shymkent Pipeline LLP	KazRosGas LLP	KazGerMunay LLP
Non-current assets	2,046,774,141	402,933,692	150,324,201	297,419,369	3,852,541	175,436,192
Current assets, including	541,782,623	80,287,942	43,071,960	11,624,960	96,391,404	84,923,422
Cash and cash equivalents	*69,982,873*	*11,033,555*	*2,478,622*	*10,422,220*	*68,528,701*	*27,800,995*
Non-current liabilities, including	(582,356,400)	(50,569,146)	(7,609,314)	(139,882,216)	(191,398)	(45,420,782)
Non-current financial liabilities	–	–	*(391,706)*	*(138,737,404)*	–	–
Current liabilities, including	(446,796,497)	(62,646,092)	(18,186,533)	(28,624,357)	(7,890,331)	(76,843,860)
Current financial liabilities	*(97,841,121)*	–	*(1,529,425)*	–	–	–
Equity	**1,559,403,867**	**370,006,396**	**167,600,314**	**140,537,756**	**92,162,216**	**138,094,972**
Share of ownership	20%	50%	50%	50%	50%	50%
Accumulated unrecognized share of losses	–	–	–	–	–	–
Carrying amount of the investments as at December 31, 2013	**311,880,773**	**185,003,198**	**83,800,157**	**70,268,878**	**46,081,108**	**69,047,486**
Revenue	3,839,623,066	643,602,897	127,262,614	–	140,828,870	372,391,853
Depreciation, depletion and amortization	(161,495,579)	(21,179,090)	(18,939,127)	(38,240)	(368,763)	(10,146,007)
Finance income	1,287,020	154,260	524,334	44	2,894,730	588,888
Finance costs	(26,775,793)	(4,762,607)	(840,893)	(332,726)		(603,916)
Income tax expense	(633,969,523)	(36,029,324)	(3,218,077)	–	(14,918,933)	(75,103,026)
Profit / (loss) for the year from continuing operations	1,479,538,372	113,037,838	23,429,354	(3,380,863)	44,670,084	86,431,730
Profit after income tax for the year from discontinued operations	–	–	–	–	–	–
Other comprehensive income	27,499,420	250,418	–	–	2,426,674	2,172,182
Total comprehensive income / (loss)	1,507,037,792	113,288,256	23,429,354	(3,380,863)	47,096,758	88,603,912
Unrecognized share of losses	–	–	–	–	–	–
Dividends received	254,225,744	48,590,322	–	–	40,891,107	30,570,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2012:

In thousands of tenge	Tengizchevroil LLP	Mangistau Investments B.V.	Kazakhoil-Aktobe LLP	Beineu-Shymkent Pipeline LLP	KazRosGas LLP	KazGerMunay LLP
Non-current assets	1,901,162,275	385,918,510	163,973,166	204,171,588	3,949,088	184,117,156
Current assets, including	487,082,090	144,994,166	21,706,538	5,982,330	135,513,262	62,179,706
Cash and cash equivalents	*45,882,241*	*57,386,195*	*1,861,801*	*5,948,685*	*70,010,552*	*40,021,379*
Non-current liabilities, including	(688,777,185)	(133,098,032)	(7,688,522)	–	(70,546)	(59,792,864)
Non-current financial liabilities	*(95,267,680)*	*(83,995,828)*	*(731,084)*	–	–	–
Current liabilities, including	(375,972,385)	(43,915,860)	(33,820,222)	(66,235,298)	(12,544,132)	(75,872,438)
Current financial liabilities	*(96,151,016)*	–	*(5,133,763)*	(19,500,000)	–	–
Equity	**1,323,494,795**	**353,898,784**	**144,170,960**	**143,918,620**	**126,847,672**	**110,631,560**
Share of ownership	20%	50%	50%	50%	50%	50%
Accumulated unrecognized share of losses	–	–	–	–	–	–
Carrying amount of the investments as at December 31, 2012	**264,698,959**	**176,949,392**	**72,085,480**	**71,959,310**	**63,423,836**	**55,315,780**
Revenue	3,442,770,820	636,258,890	134,918,558	–	220,998,020	344,476,805
Depreciation, depletion and amortization	(129,582,853)	(25,108,725)	(17,187,887)	(37,632)	(362,635)	(11,640,352)
Finance income	961,909	305,750	212,535	24,657	2,621,205	178,043
Finance costs	(32,427,697)	(9,680,122)	(1,388,962)	–	–	(507,115)
Income tax expense	(573,919,320)	(54,520,396)	(10,558,722)	64,786	(21,929,310)	(75,765,208)
Profit / (loss) for the year from continuing operations	1,339,145,430	129,271,410	22,639,916	(523,238)	81,782,214	76,715,762
Profit after income tax for the year from discontinued operations	–	–	–	–	–	–
Other comprehensive income	19,974,465	–	–	–	2,181,670	600,086
Total comprehensive income / (loss)	1,359,119,895	129,271,410	22,639,916	(523,238)	83,963,884	77,315,848
Unrecognized share of losses	–	–	–	–	–	–
Dividends received	243,858,102	–	–	–	142,995,621	67,170,000

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information about a material associate, based on its financial statements:

In thousands of tenge	PetroKazakhstan Inc. 2013	2012
Non-current assets	**418,059,373**	411,210,084
Current assets	**48,106,503**	10,691,645
Non-current liabilities	**(117,547,797)**	(105,261,409)
Current liabilities	**(86,826,364)**	(71,460,876)
Equity	**261,791,715**	245,179,444
Share of ownership	**33%**	33%
Accumulated unrecognized share of losses	**–**	–
Carrying amount of the investment as at December 31	86,391,266	80,909,217
Revenue	**295,927,631**	320,680,923
Profit for the year from continuing operations	**71,959,424**	104,740,470
Profit for the year from continuing operations after income tax	**–**	–
Other comprehensive income	**4,580,645**	5,793,320
Total comprehensive income	**76,540,069**	110,533,790
Unrecognized share of losses	**–**	–
Dividends received	**35,334,420**	49,800,396

As at December 31, 2013, dividends receivable from PKI were equal to 19,262,694 thousand tenge (2012: 34,820,940 thousand tenge).

There is no active market for all of these material joint ventures and associates; therefore the Group does not disclose information about the fair value of these investments.

The following tables illustrate aggregate financial information of individually immaterial joint ventures (the Group's proportional share):

In thousands of tenge	2013	2012
Non-current assets	**921,653,040**	741,122,817
Current assets	**114,478,077**	82,375,216
Non-current liabilities	**(843,632,814)**	(674,548,804)
Current liabilities	**(71,014,982)**	(63,486,601)
Carrying amount of the investments as at December 31	121,483,321	85,462,628
Profit for the year from continuing operations	**30,838,934**	13,220,005
Profit after income tax for the year from discontinued operations	**–**	–
Other comprehensive income / (loss)	**790,160**	(50,889)
Total comprehensive income	**31,629,094**	13,169,116

The following tables illustrate aggregate financial information of individually immaterial associates (the Group's proportional share):

In thousands of tenge	2013	2012
Non-current assets	**23,954,516**	22,889,248
Current assets	**3,626,698**	2,542,153
Non-current liabilities	**(113,979)**	(395,921)
Current liabilities	**(2,933,246)**	(1,743,043)
Carrying amount of the investments as at December 31	24,533,989	23,292,437
Profit for the year from continuing operations	**930,101**	529,997
Profit after income tax for the year from discontinued operations	**–**	–
Other comprehensive income	**630,539**	385,463
Total comprehensive income	**1,560,640**	915,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. NOTE RECEIVABLE FROM A SHAREHOLDER OF A JOINT VENTURE

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

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 KMG EP is contractually obliged to transfer any dividends received from CCEL, in excess of a guaranteed amount, to CITIC, up to the total maximum amount, which is equal to 536.3 million US Dollars (82,381,043 thousand tenge) as at December 31, 2013 (2012: 572.3 million US Dollars or 86,273,195 thousand tenge). The total maximum amount represents the balance of KMG EP's share of the original purchase price funded by CITIC plus accrued interest. KMG EP has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, KMG EP recognizes in its statement of financial position only the right to receive dividends from CCEL in the guaranteed amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total maximum guaranteed amount. The carrying amount of this receivable at December 31, 2013, was equal to 110.9 million US Dollars (17,191,569 thousand tenge) (2012: 119.7 million US Dollars or 18,221,759 thousand tenge).

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

On November 17, 2008, the annual Guaranteed Amount has been increased from 26.2 million US Dollars (3,147,406 thousand tenge) to 26.9 million US Dollars (3,231,497 thousand tenge), payable in two equal installments not later than June 12 and December 12. After the above amendment the effective interest rate on the receivable from CCEL is 15% per annum.

CCEL equity is nil as CCEL is contractually obliged to distribute all income to its participants, therefore, classifying all distributable income as a liability.

14. INVENTORIES

In thousands of tenge	2013	2012
Materials and supplies	**92,901,093**	86,918,791
Refined products	**66,798,121**	64,654,236
Crude oil	**49,514,262**	50,716,508
Gas products	**8,213,243**	12,865,282
Less: provision for obsolete inventory	**(13,084,677)**	(11,873,544)
	204,342,042	203,281,273

15. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

In thousands of tenge	2013	2012
Prepaid and deferred expenses	**22,798,266**	35,401,526
Taxes receivable	**18,139,829**	19,805,144
Other current assets	**47,329,519**	87,377,051
Less: allowance for impairment	**(14,182,876)**	(11,997,533)
Total other current assets	**74,084,738**	130,586,188
Trade accounts receivable	**311,156,649**	238,061,651
Less: allowance for impairment	**(26,709,602)**	(18,774,866)
Trade accounts receivable	**284,447,047**	219,286,785

As at December 31, 2013 and 2012 the above assets were non-interest bearing.

As at December 31, 2013 the Group has pledged trade accounts receivable of approximately 91,914,387 thousand tenge as a collateral under its borrowings (2012: 91,444,763 thousand tenge) (*Note 19*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. 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:

In thousands of tenge	Individually impaired
As at December 31, 2011	**17,787,821**
Charge for the year	13,539,891
Written off	(225,708)
Transfers to assets classified as held for sale	(771,845)
Foreign currency translation	569,919
Reinstatement	565,244
Recovered	(692,923)
As at December 31, 2012	**30,772,399**
Charge for the year	6,882,821
Written off	(732,409)
Transfers to assets classified as held for sale	–
Foreign currency translation	1,359,581
Reinstatement	5,959,008
Recovered	(3,348,922)
As at December 31, 2013	**40,892,478**

As at December 31, the ageing analysis of trade accounts receivable is as follows:

			Past due but not impaired				
In thousands of tenge	Total	Neither past due nor impaired	<30 days	30-60 days	61-90 days	91-120 days	>120 days
2013	**284,447,047**	**241,533,539**	**17,888,742**	**14,033,214**	**2,930,597**	**1,127,938**	**6,933,017**
2012	219,286,785	187,087,190	13,282,923	11,243,696	1,700,070	1,319,490	4,653,416

17.

16. SHORT-TERM FINANCIAL ASSETS

In thousands of tenge	2013	2012
Short-term bank deposits	**809,153,405**	633,122,581
Loans due from related parties	**11,237,901**	32,262,570
Less: allowance for impairment of loans to related parties	**(5,799,179)**	(5,807,343)
	814,592,127	659,577,808

In thousands of tenge	2013	2012
Short-term financial assets in US Dollars	**534,303,888**	413,047,217
Short-term financial assets in tenge	**280,048,556**	246,339,253
Short-term financial assets in other foreign currencies	**239,683**	191,338
	814,592,127	659,577,808

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. SHORT-TERM FINANCIAL ASSETS (continued)

As at December 31, 2013, the weighted average interest rate for short-term bank deposits was 2.13% in US Dollars, 5.47% in tenge and 0.18% in other foreign currencies, respectively (2012: 2.21% in US Dollars, 4.06% in tenge and 4.00% in other foreign currencies, respectively).

As at December 31, 2013, short-term bank deposits include 45,080 thousand tenge, 1,000,000 thousand tenge and 17,565,916 thousand tenge placed with BTA Bank, Alliance Bank and Temirbank, respectively (2012: 1,609,964 thousand tenge and 6,859,971 thousand tenge with Alliance Bank and Temirbank, respectively) (*Note 32*).

Loans due from related parties are stated at amortized cost.

Movements in allowance for impairment of loans to related parties were as follows:

In thousands of tenge	**Individually impaired**
As at December 31, 2011	**5,808,693**
Recovery of write off	(1,350)
As at December 31, 2012	**5,807,343**
Recovery of write off	(8,164)
As at December 31, 2013	**5,799,179**

17. CASH AND CASH EQUIVALENTS

In thousands of tenge	**2013**	2012
Term deposits with banks – tenge	**140,218,188**	120,933,758
Current accounts with banks – tenge	**36,660,389**	90,815,360
Term deposits with banks – US Dollars	**169,904,989**	93,134,773
Current accounts with banks – US Dollars	**35,053,982**	86,329,779
Term deposits with banks – other currencies	**15,080,167**	7,982,589
Current accounts with banks – other currencies	**8,657,778**	12,058,545
Cash-on-hand	**1,751,273**	3,830,647
	407,326,766	415,085,451

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 December 31, 2013, the weighted average interest rate for time deposits with banks was 0.39% in US Dollars and 6.32% in tenge, respectively (2012: 0.7% in US Dollars and 1.95% in tenge, respectively).

As at December 31, 2013, cash and cash equivalents include 15,319 thousand tenge, 2,687,617 thousand tenge and 541,271 thousand tenge placed with BTA Bank, Alliance Bank and TemirBank, respectively (2012: 33,713 thousand tenge, 6,686,662 thousand tenge and 84,666 thousand tenge, respectively) (*Note 32*).

As at December 31, 2013 cash and cash equivalents in the amount of 1,286,330 thousand tenge were pledged as collateral.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY

Total number of outstanding, issued and paid shares comprises:

	December 31, 2011	Issued in 2012	December 31, 2012	Issued in 2013	December 31, 2013
Number of shares issued and paid, including	**415,487,527**	**102,670,272**	**518,157,799**	**7,489,977**	**525,647,776**
Par value of 500 tenge	385,787,525	72,663,241	458,450,766	–	**458,450,766**
Par value of 5,000 tenge	29,700,000	30,007,029	59,707,029	–	**59,707,029**
Par value of 838 tenge	1	–	1	–	**1**
Par value of 858 tenge	1	–	1	–	**1**
Par value of 704 tenge	–	1	1	–	**1**
Par value of 592 tenge	–	1	1	–	**1**
Par value of 2,500 tenge	–	–	–	7,489,974	**7,489,974**
Par value of 2,451 tenge	–	–	–	1	**1**
Par value of 921 tenge	–	–	–	1	**1**
Par value of 1,000 tenge	–	–	–	1	**1**
Share capital (000'tenge), including	**341,393,764**	**186,366,767**	**527,760,531**	**18,724,939**	**546,485,470**
Par value of 500 tenge	192,893,762	36,331,620	229,225,382	–	**229,225,382**
Par value of 5,000 tenge	148,500,000	150,035,145	298,535,145	–	**298,535,145**
Par value of 838 tenge	1	–	1	–	**1**
Par value of 858 tenge	1	–	1	–	**1**
Par value of 704 tenge	–	1	1	–	**1**
Par value of 592 tenge	–	1	1	–	**1**
Par value of 2,500 tenge	–	–	–	18,724,935	**18,724,935**
Par value of 2,451 tenge	–	–	–	2	**2**
Par value of 921 tenge	–	–	–	1	**1**
Par value of 1,000 tenge	–	–	–	1	**1**

In 2012, the Company authorized for issue 106,663,243 common shares, of which 102,670,272 common shares were issued and paid, which comprised 72,663,241 common shares with par value of 500 tenge each, one common share with par value of 704 tenge, one common share with par value of 592 tenge and 30,007,029 common shares with par value of 5,000 tenge each for the total amount of 186,366,767 thousand tenge. As consideration for these common shares, the Company received high, medium and low pressure gas pipelines and related capital construction work in progress, located in Mangistau, Kyzylorda and South-Kazakhstan oblasts for the total amount of 30,222,376 thousand tenge, cash in the amount of 2,000,004 thousand tenge, as well as 100% share of Arkagaz JSC for the total amount of 4,109,246 thousand tenge and 50% interest in KMG Karachaganak LLP ("Karachaganak") in the total amount of 150,035,141 thousand tenge.

As at December 31, 2012, 3,992,971 common shares were authorized but not issued, these shares were issued and paid in 2013, including 3,992,970 common shares with par value of 2,500 tenge each and one share of 1,000 tenge.

Also in 2013, the Company authorized for issue 327,408,826 common shares, of which 3,497,006 common shares were issued and paid that comprise 3,497,004 common shares with par value of 2,500 tenge each, 1 common share with par value of 2,451 tenge and 1 common share with par value of 921 tenge.

As consideration for these common shares, the Company received high, medium and low pressure gas pipelines and accompanying constructions, located in West-Kazakhstan, Zhambyl and Aktobe oblasts for the total amount of 9,808,038 thousand tenge and restricted cash in the amount of 8,916,901 thousand tenge.

As at December 31, 2013, 323,911,820 common shares were authorized, but not issued.

18. EQUITY (continued)

Transactions with the Parent Company

In 2012 the Group recognized additional paid in capital in the amount of 4,688,102 thousand tenge, which represents the fair value of gas pipelines contributed by the Parent Company in exchange for 5.615% share in Samruk-Energo JSC with nil carrying value.

In 2013 the Group received a remaining part of gas pipelines with the fair value of 583,154 thousand tenge, which was recognized as additional paid in capital in the consolidated statement of changes in equity for the year ended December 31, 2013.

Distributions to the Parent Company

In 2012, the Group recognized distribution to the Parent Company in the amount of 13,537,062 thousand tenge related to the Group's obligations to transfer of the North-Caspian environmental oil spill response base ("NCEOSRB") to the Ministry of emergency of the Republic of Kazakhstan.

On June 27, 2013 the Interdepartmental Commission for the development of oil, gas and energy industries decided to retain NCEOSRB with the Group. Based on this decision, the Group reversed distribution to the Parent Company in the amount of 13,537,062 thousand tenge recognized in 2012.

In 2013, the Group increased a provision for reconstruction of the trade and exhibition center in Moscow city by 3,432,971 thousand tenge (2012: 2,451,225 thousand tenge) and provision for costs to be incurred on construction of the History Museum by 23,551,297 thousand tenge (2012: 5,179,475 thousand tenge) and recognized respective distribution to the Parent Company (*Note 21*).

In 2012, the decrease in retained earnings of 637,832 thousand tenge represents other distributions to the Parent Company.

In accordance with the development plan for Schuchensko - Borovskoi resort area approved by the Government, the Parent Company obliged the Group to build a golf club in this resort area. The cost of construction and the recoverable amount of this project were estimated in the amount of 19,573,482 thousand tenge and 6,252,494 thousand tenge, respectively. The difference of 13,320,988 thousand tenge between the estimated cost of construction and the recoverable amount was recognized as distribution to the Parent Company in the consolidated statement of changes in equity for the year ended December 31, 2013 *(Note 21)*.

In accordance with the Shareholder resolution, the Group provided sponsorship to finance construction of climatic health resort on coast of Balkhash Lake. As a result, the Group recognized distribution to the Parent Company in the amount of 2,554,420 thousand tenge.

Dividends

In 2013 the Group declared dividends to the Shareholder of 75.19 tenge per common share totaling to 38,961,363 thousand tenge (2012: 293.35 tenge per common share totaling to 143,201,087 thousand tenge).

In 2013 the Group declared dividends of 40,591,057 thousand tenge, 2,884,768 thousand tenge and 101,319 thousand tenge to the holders of non-controlling interest in KMG EP, KTO and other subsidiaries, respectively (2012: 34,224,235 thousand tenge and 97,965 thousand tenge to the holders of non-controlling interest in KMG EP and other subsidiaries, respectively).

Currency translation reserves

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries and joint ventures and associates whose functional currency is not Kazakhstani tenge and whose financial results are included in these consolidated financial statements in accordance with the accounting policy disclosed in *Note 3*.

18. 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	2013 Share	2013 Carrying value	2012 Share	2012 Carrying value
KazMunayGas Exploration Production JSC	Kazakhstan	**36.78%**	**504,354,642**	36.79%	492,114,355
KazTransOil JSC	Kazakhstan	**10.00%**	**34,452,183**	10.00%	29,178,181
Rompetrol Rafinare S.A.	Romania	**45.37%**	**24,470,078**	45.37%	35,096,905
Rompetrol Downstream S.R.L.	Romania	**45.37%**	**20,437,441**	45.37%	21,546,420
Rompetrol Petrochemicals S.R.L.	Romania	**45.37%**	**7,460,843**	45.37%	8,417,269
Rompetrol Vega	Romania	**45.37%**	**(9,130,586)**	45.37%	(9,316,174)
Other			**4,510,413**		4,110,363
			586,555,014		581,147,319

In 2012, KMG EP, in accordance with the share repurchase program, increased its treasury shares by 2,205,813 preferred shares repurchased for 36,202,658 thousand tenge. The carrying value of the acquired non-controlling interest was 42,511,899 thousand tenge. The difference of 6,309,241 thousand tenge between the amount paid and the carrying value of acquired non-controlling interest was recognized in retained earnings.

As part of People's IPO program, on December 25, 2012, KazTransOil JSC ("KTO") sold on KASE 38,463,559 its common shares with par value of 725 tenge each for 27,886,080 thousand tenge, and incurred consulting costs related to the shares issue in the amount of 565,717 thousand tenge. The carrying value of non-controlling interest recognized as a result of the transaction was equal 29,178,181 thousand tenge. The difference between proceeds from issue of shares and increase in non-controlling interest in the amount of 1,857,818 thousand tenge was recognised in retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY (continued)

Non-controlling interest (continued)

The following tables illustrate summarized financial information of subsidiaries, in which the Group has significant non-controlling interests as at December 31, 2013 and for the year then ended:

In thousands of tenge	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetrol Rafinare S.A.	Rompetrol Petrochemicals S.R.L.	Rompetrol Vega	Rompetrol Downstream S.R.L.
Summarised statement of financial position						
Non-current assets	666,034,327	319,084,29	182,210,95	4,966,745	10,350,856	55,642,186
Current assets	928,790,706	123,617,33	106,060,79	27,428,755	6,486,950	55,337,234
Non-current liabilities	(39,375,707)	(48,560,145	(35,249,655	(1,702,920)	(10,345,787)	(7,486,491)
Current liabilities	(184,356,138)	(49,619,641	(199,098,222	(14,248,864)	(26,612,779)	(58,448,759)
Total equity	1,371,093,188	344,521,84	53,923,87	16,443,716	(20,120,760)	45,044,170
Attributable to:						
Equity holder of the Parent Company	866,738,546	310,069,66	29,453,79	8,982,873	(10,990,174)	24,606,729
Non-controlling interest	504,354,642	34,452,18	24,470,07	7,460,843	(9,130,586)	20,437,441
Summarised statement of comprehensive income						
Revenue	815,996,549	190,021,67	535,643,03	38,197,105	33,767,079	265,095,196
Profit/(loss) for the year from continuing operations	**139,147,272**	**83,489,93**	**(24,668,944**	**5,162,988**	**765,366**	**(2,342,193)**
Total comprehensive income / (loss) for the year, net of tax	**143,647,070**	**83,075,46**	**(24,668,944**	**5,162,988**	**765,366**	**(2,342,193)**
Attributable to:						
Equity holder of the Parent Company	89,984,364	74,916,69	(13,474,441	2,820,437	418,051	(1,279,493)
Non-controlling interest	53,662,706	8,158,77	(11,194,503	2,342,551	347,315	(1,062,700)
Dividends declared to non-controlling interests	(40,591,057)	(2,884,768	–	–	–	–
Summarised cash flow information						
Operating activity	98,432,000	95,859,01	16,899,86	(19,005,297)	197,769	8,369,280
Investing activity	(22,887,000)	(60,320,044	(17,211,693	21,055,096	(498,226)	(547,059)
Financing activity	(111,058,000)	(28,847,670	(8,914,296	(2,472,721)	282,505	(4,485,553)
Net increase/(decrease) in cash and cash equivalents	**(35,513,000)**	**6,691,30**	**(9,226,124**	**(422,922)**	**(17,952)**	**3,336,668**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY (continued)

Non-controlling interest (continued)

The following tables illustrate summarized financial information of subsidiaries, in which the Group has significant non-controlling interests as at December 31, 2012 and for the year then ended:

In thousands of tenge	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetrol Rafinare S.A.	Rompetrol Petrochemicals S.R.L.	Rompetrol Vega	Rompetrol Downstream S.R.L.
Summarised statement of financial position						
Non-current assets	631,044,301	289,722,78	192,228,39	27,422,127	10,293,884	66,388,145
Current assets	933,055,822	85,867,71	124,276,99	9,915,225	8,488,923	48,834,635
Non-current liabilities	(41,774,664)	(45,784,853	(37,862,722	(1,790,640)	(10,176,759)	(7,061,717)
Current liabilities	(184,556,287)	(38,023,832	(201,289,001	(16,995,031)	(29,135,781)	(60,672,699)
Total equity	1,337,769,172	291,781,81	77,353,66	18,551,681	(20,529,733)	47,488,364
Attributable to:						
Equity holder of the Parent Company	845,654,817	262,603,62	42,256,76	10,134,412	(11,213,559)	25,941,944
Non-controlling interest	492,114,355	29,178,18	35,096,90	8,417,269	(9,316,174)	21,546,420
Summarised statement of comprehensive income						
Revenue	797,170,479	142,470,53	533,667,82	36,874,157	40,213,625	245,668,417
Profit/(loss) for the year from continuing operations	**160,823,176**	**42,867,40**	**(21,517,169**	**(3,885,210)**	**(7,646,957)**	**(7,025,914)**
Total comprehensive income / (loss) for the year, net of tax	**164,477,742**	**43,359,61**	**(21,517,169**	**(3,885,210)**	**(7,646,957)**	**(7,025,914)**
Attributable to:						
Equity holder of the Parent Company	100,818,208	**43,359,61**	(11,752,907	(2,122,413)	(4,176,850)	(3,838,116)
Non-controlling interest	63,659,534	–	(9,764,262	(1,762,797)	(3,470,107)	(3,187,798)
Dividends declared to non-controlling interests	(34,224,235)	–	–	–	–	–
Summarised cash flow information						
Operating activity	154,879,000	62,907,45	21,536,04	(273,720)	220,711	(14,517,390)
Investing activity	(52,131,000)	(33,095,921	(25,557,927	(286,884)	(407,196)	(475,797)
Financing activity	(154,555,000)	(32,709,878	21,729,49	1,211,793	(92,045)	13,880,142
Net increase/(decrease) in cash and cash equivalents	(51,807,000)	(2,898,343	17,707,61	651,189	(278,530)	(1,113,045)

19. BORROWINGS

In thousands of tenge	2013	2012
Fixed interest rate borrowings	**1,638,355,440**	1,560,512,307
Weighted average interest rates	**7.09%**	8.01%
Variable interest rate borrowings	**668,787,410**	503,135,858
Weighted average interest rates	**3.94%**	4.89%
	2,307,142,850	2,063,648,165

In thousands of tenge	2013	2012
US Dollar - denominated borrowings	**2,033,475,198**	1,760,318,824
Tenge - denominated borrowings	**237,962,390**	265,733,278
Euro - denominated borrowings	**33,042,893**	36,642,633
Other currency - denominated borrowings	**2,662,369**	953,430
	2,307,142,850	2,063,648,165

In thousands of tenge	2013	2012
Current portion	**301,710,769**	469,943,861
Non-current portion	**2,005,432,081**	1,593,704,304
	2,307,142,850	2,063,648,165

On October 30, 2009, the Group issued bonds at KASE in the amount of 120,000,000 thousand tenge, which were acquired by JSC Development Bank of Kazakhstan ("DBK"). These bonds are recorded at amortized cost using effective interest rate of 8.96%. During 2013, the Group repurchased portion of these bonds in the amount of 16,108,797 thousand tenge (2012: 7,937,376 thousand tenge). As at December 31, 2013 the carrying value of these bonds, including interest payable, was equal to 102,042,966 thousand tenge (2012: 116,651,114 thousand tenge) *(Note 32)*.

On November 9, 2010, the Group issued bonds at KASE in the amount of 100,000,000 thousand tenge maturing in 2017. These bonds are recorded at amortized cost using effective interest rate of 7%. As at December 31, 2013 the carrying value of these bonds was equal to 77,126,538 thousand tenge (2012: 77,080,876 thousand tenge). As at December 31, 2013, bonds in the amount of 10,024,267 thousand tenge were held by DBK, TemirBank, Entrepreneurship Development Fund Damu and BTA Bank, Group's related parties (Note 32).

In 2008, 2009 and 2010 KazMunayGas Finance Sub B.V., a subsidiary of Cooperative KazMunayGas PKI U.A., raised funds through issue of bonds at London Stock Exchange ("LSE") in the total amount of 7,303.1 million US Dollars. In November 2010, the Company was registered as the issuer of the above bonds in total amount of 7,300 million US Dollar at LSE. As at December 31, 2013 the carrying value of these bonds, including interest payable, was equal to 904,830,899 thousand tenge (2012: 1,096,619,184 thousand tenge).

In 2011 Intergas Finance B.V., a subsidiary of KazTransGas JSC, raised funds through issue of bonds at LSE in the total amount of 540 million US Dollars, maturing in May 2017. As at December 31, 2013 the carrying value of these bonds, including interest payable, was equal to 82,527,839 thousand tenge (2012: 80,870,349 thousand tenge).

In June 2012 for the purpose of acquisition of 5% interest in the Karachaganak FPSA, through acquisition of 50% in Karachaganak (former "FPSAIMC"), the Group, Agip Karachaganak B.V., BG Karachaganak Limited, Chevron International Petroleum Company, Lukoil Overseas Karachaganak B.V. ("Consortium") concluded a loan agreement for the total amount of 1 billion US Dollars with the interest rate 1.25*(Libor+3%) per annum, loan is payable by equal monthly instalments during three years using cash inflows of the Karachaganak FPSA. Under this agreement the Group has undertaken to provide the collateral in the form of 5% interest in the Karachaganak FPSA to the Consortium. The loan is also guaranteed by the Shareholder. As at December 31, 2013 the carrying value of this loan, including interest payable, was equal to 81,293,206 thousand tenge (2012: 130,193,957 thousand tenge).

19. BORROWINGS (continued)

In 2010 and 2012, Atyrau Oil Refinery LLP ("ANPZ"), the subsidiary of KMG RM, entered into the credit line agreements for the total amount of 1,315,642 thousand US Dollars with DBK. The credit line is used to finance the construction of the aromatic hydrocarbon complex. During 2013 ANPZ received 227,544 thousand US Dollars (equivalent of 34,597,470 thousand tenge) (2012: 217,957 thousand US Dollars, equivalent of 32,689,859 thousand tenge). As at December 31, 2013 the Group's liabilities on the principal and accrued interest payable under these credit lines were equal to 156,348,705 thousand tenge and 3,735,698 thousand tenge, respectively (2012: 120,340,897 thousand tenge and 1,616,090 thousand tenge, respectively) *(Note 32)*. The Group's property, plant and equipment with carrying value of 210,787,854 thousand tenge (2012: 131,081,946 thousand tenge) was pledged to DBK as loan collateral.

During 2012, TRG entered into a loan agreement with several banks (JP Morgan, Citibank, Unicredit and RBS) for the total amount of 250,000 thousand US Dollars (equivalent to 37,277,500 thousand tenge). As at December 31, 2013 the carrying value of this loan, including interest payable, was equal to 38,738,360 thousand tenge (2012: 38,040,409 thousand tenge).

On April 30, 2013 the Group issued additional bonds on LSE in the total amount of 3 billion US Dollars (equivalent of 453,720,000 thousand tenge at exchange rate at the issue date) within the current program of global middle-term notes issuance up to 10.5 billion US Dollars on the following terms:

- 2 billion US Dollars with the interest rate of 5.75% maturing in 2043 and an offering price of 99.293% from the nominal value;
- 1 billion US Dollars with the interest rate of 4.4% maturing in 2023 and an offering price of 99.6% from the nominal value.

The coupon on bonds issued in 2013 will be paid on semiannual basis starting from October 30, 2013.

As at December 31, 2013 the carrying value of these bonds, including interest payable, was equal to 461,486,358 thousand tenge.

In 2013 the Group entered into revolving credit line agreement with Natixis, Paris in the amount of 100 million of US Dollars. Purpose of the credit line is to finance crude oil purchases by PNHZ. During 2013 the Group received 30,690,280 thousand tenge. As at December 31, 2013 the carrying value of this loan, including interest payable, was equal to 15,393,849 thousand tenge.

As at December 31, 2013 there were loans payable to the partners on Pearls, N Block and Zhambyl exploration projects in the amount of 74,375,200 thousand tenge (2012: 54,407,553 thousand tenge) that originated under the carry-in financing agreements. In accordance with these agreements, exploration costs on these projects are financed by the project partners other than the Group. The share of financing for costs incurred under these projects attributable to the Group interest is recorded within borrowings. Interest on loans on Pearls, N Block and Zhambyl projects is accrued at rates LIBOR+1%, LIBOR+2.5% and LIBOR+1%, respectively.

20. 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%. Interest acquired of 8.48% was pledged as collateral for this liability. As at December 31, 2013 the amortized cost of this payable was 322,329,783 thousand tenge (2012: 339,549,990 thousand tenge). As at December 31, 2013, the carrying value of pledged assets (property, plant and equipment and exploration and evaluation assets) equal to 762,280,255 thousand tenge (2012: 694,500,483 thousand tenge).

According to the Secondary Supplement ("SS") to the North Caspian Production Sharing Agreement ("NCPSA"), the Group is committed to the additional payment of production bonus related to the Kashagan commercial production. The Group recognized a related financial liability for the production bonus using the management's best estimate that oil production at Kashagan field starts by June 30, 2014. Production bonus is paid according to the schedule under the SS to the NCPSA in the specified form for each deferred quarter. The initial amount of the bonus of 150 million US Dollars was paid by the Contractors to the NCPSA in November 2008. During 2013 the Group paid bonus in the amount of 20,259 thousand US Dollars (equivalent to 3,082,002 thousand tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. PROVISIONS

In thousands of tenge	Asset retirement obligations	Provision for environmental obligation	Provision for taxes	Other	Total
As at December 31, 2011	**27,336,165**	**27,332,206**	**22,936,104**	**45,311,807**	**122,916,282**
Foreign currency translation	784,107	257,302	2,975	(436,904)	**607,480**
Change in estimate	5,801,030	(1,342,439)	–	(315,899)	**4,142,692**
Unwinding of discount	1,957,837	1,669	–	20,767	**1,980,273**
Provision for the year	16,726,631	8,144,907	9,784,431	21,069,062	**55,725,032**
Acquisition of interest in Karachaganak FPSA *(Note 5)*	7,500,461	–	–	–	**7,500,461**
Unused amounts reversed	–	(298,376)	(17,095,822)	(2,426,159)	**(19,820,357)**
Use of provision	(662,862)	(452,470)	(68,896)	(22,150,855)	**(23,335,083)**
As at December 31, 2012	**59,443,369**	**33,642,799**	**15,558, 792**	**41,071,820**	**149,716,780**
Foreign currency translation	485,097	307,404	–	126,151	**918,652**
Change in estimate	(8,050,959)	(260,085)	–	–	**(8,311,044)**
Unwinding of discount	2,853,523	1,256,954	–	–	**4,110,477**
Provision for the year	3,566,400	3,157,325	11,272,666	44,318,922	**62,315,313**
Unused amounts reversed	(88,388)	(242,343)	(553,223)	(2,208,095)	**(3,092,049)**
Use of provision	(1,031,817)	(1,022,517)	(6,048,106)	(10,964,768)	**(19,067,208)**
As at December 31, 2013	**57,177,225**	**36,839,537**	**20,230,129**	**72,344,030**	**186,590,921**

As at December 31, 2013 other provisions include provisions for construction of the History Museum in the amount of 19,875,351 thousand tenge (2012: 6,349,501 thousand tenge), provision for employee benefits in the amount of 22,127,176 thousand tenge (2012: 19,658,654 thousand tenge), provision for reconstruction of the trade and exhibition center in the amount of 9,195,613 thousand tenge (2012: 6,191,005 thousand tenge) and provision for construction of golf club in the amount of 13,320,988 thousand tenge (2012: nil).

Provisions for asset retirement obligations are capitalized to property, plant and equipment within additions of the respective years.

According to the Law of the Republic of Kazakhstan "On major pipelines", which was made effective on July 4, 2012 KTO has a legal obligation to decommission the major pipeline (oil pipeline) at the end of its exploitation and perform activities to restore the environment, including land rehabilitation. During 2012 the Group's management has created provision on asset retirement obligation in the amount of 15,084,384 thousand tenge.

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

In thousands of tenge	Asset retirement obligations	Provision for environmental obligation	Provision for taxes	Other	Total
As at December 31, 2013					
Current portion	1,160,568	6,941,759	20,230,129	43,673,650	**72,006,106**
Long-term portion	56,016,657	29,897,778	–	28,670,380	**114,584,815**
Provision as at December 31, 2013	**57,177,225**	**36,839,537**	**20,230,129**	**72,344,030**	**186,590,921**
As at December 31, 2012					
Current portion	971,466	3,489,231	15,558,792	14,579,473	**34,598,962**
Long-term portion	58,471,903	30,153,568	–	26,492,347	**115,117,818**
As at December 31, 2012	**59,443,369**	**33,642,799**	**15,558,792**	**41,071,820**	**149,716,780**

A description of significant provisions, including critical estimates and judgments used, is included in *Note 4*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

In thousands of tenge	2013	2012
Advances received	**38,470,634**	31,214,807
Due to employees	**29,962,274**	25,917,030
Other	**50,764,773**	60,609,020
Total other current liabilities	**119,197,681**	117,740,857
Trade accounts payable	**246,359,108**	227,115,792

Trade accounts payable is denominated in the following currencies as of December 31:

In thousands of tenge	2013	2012
Tenge	**118,592,184**	95,226,067
US Dollars	**86,783,184**	86,573,645
Euro	**19,414,475**	19,473,742
Other currency	**21,569,265**	25,842,338
Total	**246,359,108**	227,115,792

As at December 31, 2013 and 2012, trade accounts payable and other current liabilities were not interest bearing.

23. OTHER TAXES PAYABLE

In thousands of tenge	2013	2012
Rent tax on crude oil export	**38,273,745**	38,775,752
Mineral extraction tax	**23,008,726**	11,644,041
Excise tax	**14,086,448**	10,563,717
VAT	**12,405,653**	24,421,260
Special fund on petroleum products	**1,300,616**	1,237,425
Other	**20,568,209**	22,792,812
	109,643,397	109,435,007

24. REVENUE

In thousands of tenge	2013	2012
Sales of refined products	**2,106,494,111**	1,984,033,304
Sales of crude oil	**735,440,540**	597,598,338
Transportation fee	**263,386,141**	221,792,093
Sales of gas and gas products	**229,533,352**	210,190,734
Other revenue	**211,157,767**	187,872,097
Less: sales taxes and commercial discounts	**(293,292,796)**	(241,068,075)
	3,252,719,115	2,960,418,491

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. COST OF SALES

In thousands of tenge	2013	2012
Materials and supplies	**1,667,697,294**	1,511,873,610
Payroll	**205,164,138**	190,843,087
Depreciation, depletion and amortization	**150,733,912**	137,048,479
Mineral extraction tax	**84,511,125**	71,894,037
Electricity	**43,456,322**	40,672,562
Repair and maintenance	**37,409,679**	31,455,163
Other taxes	**33,964,501**	16,120,832
Other	**131,171,955**	90,910,343
	2,354,108,926	2,090,818,113

26. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	2013	2012
Payroll	**55,636,245**	55,001,378
Other taxes	**17,300,869**	11,854,281
Depreciation and amortization	**17,005,594**	13,793,293
Consulting services	**10,553,304**	10,344,516
Charitable donations and sponsorship	**8,711,581**	15,108,428
Fines and penalties	**5,594,518**	8,926,661
Allowance for impairment of trade accounts receivable and other current assets (*Note 15*)	**3,533,899**	12,846,968
Provision for obsolete inventories	**1,355,756**	1,586,019
Other	**43,041,644**	33,589,928
	162,733,410	163,051,472

27. TRANSPORTATION AND SELLING EXPENSES

In thousands of tenge	2013	2012
Rent tax on crude oil export	**165,306,665**	159,821,524
Customs duty	**59,442,916**	43,676,023
Transportation	**57,008,050**	110,787,751
Payroll	**17,976,851**	14,542,102
Depreciation and amortization	**12,585,295**	12,791,280
Other	**19,846,190**	19,078,146
	332,165,967	360,696,826

28. FINANCE INCOME

In thousands of tenge	2013	2012
Interest income on bank deposits, loans and bonds	**34,712,451**	27,564,617
Other	**7,675,978**	1,459,823
	42,388,429	29,024,440

29. FINANCE COSTS

In thousands of tenge	2013	2012
Interest on loans and debt securities issued	**131,819,722**	124,485,145
Interest on payable for the acquisition of additional interest in North Caspian Project	**13,169,787**	13,416,172
Amortization of discount on loans and debt securities issued	**5,377,217**	8,751,637
Unwinding of discount on asset retirement obligations (*Note 21*)	**2,853,523**	1,957,837
Net loss on derivatives	**149,045**	7,569,210
Other	**18,374,583**	13,003,805
	171,743,877	169,183,806

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

In thousands of tenge	2013	2012
Tengizchevroil LLP	**295,907,674**	267,829,086
Mangistau Investments B.V.	**56,518,919**	64,635,705
KazGerMunay LLP	**43,215,865**	38,357,881
PetroKazakhstan Inc.	**23,746,610**	34,564,355
KazRosGas LLP	**22,335,042**	40,891,107
Kazakhoil-Aktobe LLP	**11,714,677**	11,319,959
Share in profit of other joint ventures and associates	**30,078,603**	13,488,382
	483,517,390	471,086,475

31. INCOME TAX EXPENSES

As at December 31, 2013 income taxes prepaid in the amount of 52,345,584 thousand tenge (2012: 42,555,972 thousand tenge) are represented by corporate income tax.

As at December 31, 2013 income taxes payable in the amount of 55,365,055 thousand tenge (2012: 48,103,198 thousand tenge) are represented mainly by corporate income tax.

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

In thousands of tenge	2013	2012
Current income tax:		
Corporate income tax	**125,124,310**	123,816,147
Excess profit tax	**8,475,272**	31,138,908
Withholding tax on dividends and interest income	**52,364,064**	40,164,384
Deferred income tax:		
Corporate income tax	**(4,771,039)**	(18,397,961)
Excess profit tax	**5,126,050**	(3,785,659)
Withholding tax on dividends and interest income	**7,077,272**	4,194,881
Income tax expenses	**193,395,929**	177,130,700

According to the 2006 amendments to the tax legislation, which were effective starting from the fiscal years beginning on 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 2007-2013 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 CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSES (continued)

A reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate (20% in 2013 and 2012) to income tax expenses was as follows for the years ended December 31:

In thousands of tenge	2013	2012
Profit before income tax from continuing operations	**681,706,826**	589,925,754
Profit before income tax from discontinued operations	**331,290**	611,161
Statutory tax rate	**20%**	20%
Income tax expense on accounting profit	**136,407,623**	118,107,383
Share in profit of joint ventures and associates non-taxable or taxable at different rates	**(52,317,327)**	(54,042,932)
Other non-deductible expenses and non-taxable income	**38,365,120**	46,376,624
Other effects		
Excess profit tax	**13,601,322**	27,353,249
Effect of different corporate income tax rates	**15,929,183**	13,693,093
Change in unrecognized deferred tax assets	**41,410,008**	25,626,339
	193,395,929	177,113,756
Income tax expenses reported in the consolidated statement of comprehensive income	**193,395,929**	177,130,700
Income tax benefit attributable to discontinued operations	**–**	(16,944)
	193,395,929	177,113,756

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSES (continued)

Deferred tax balances, calculated by applying the statutory tax rates effective at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at December 31:

In thousands of tenge	**2013 Corporate income tax**	**2013 Excess profit tax**	**2013 Withholding tax**	**2013 Total**	2012 Corporate income tax	2012 Excess profit tax	2012 Withholding tax	2012 Total
Deferred tax assets								
Property, plant and equipment	6,532,029	(1,902,196)	–	4,629,833	15,159,014	2,419,596	–	17,578,610
Tax loss carryforwards	119,380,195	–	–	119,380,195	78,811,700	–	–	78,811,700
Employee related accruals	5,555,784	95,878	–	5,651,662	3,325,422	364,807	–	3,690,229
Impairment of financial assets	1,126,436	–	–	1,126,436	–	–	–	–
Environmental liability	88,164	–	–	88,164	70,739	–	–	70,739
Other	31,864,745	1,405,909	–	33,270,654	23,986,837	3,884,607	–	27,871,444
Less: unrecognized deferred tax assets	(121,422,148)	–	–	(121,422,148)	(80,012,140)	–	–	(80,012,140)
Less: deferred tax assets offset with deferred tax liabilities	(12,720,480)	(315,782)	–	(13,036,262)	(12,623,623)	(1,219,611)	–	(13,843,234)
Deferred tax assets	**30,404,725**	**(716,191)**	**–**	**29,688,534**	**28,717,949**	**5,449,399**	**–**	**34,167,348**
Deferred tax liabilities								
Property, plant and equipment	122,728,199	1,090,314	–	123,818,513	124,034,386	3,033,683	–	127,068,069
Undistributed earnings of joint venture	–	–	46,782,115	46,782,115	–	–	39,704,843	39,704,843
Other	426,724	–	–	426,724	1,616,751	–	–	1,616,751
Less: deferred tax assets offset with deferred tax liabilities	(12,720,480)	(315,782)	–	(13,036,262)	(12,623,623)	(1,219,611)	–	(13,843,234)
Deferred tax liabilities	**110,434,443**	**774,532**	**46,782,115**	**157,991,090**	**113,027,514**	**1,814,072**	**39,704,843**	**154,546,429**
Net deferred tax liability / (asset)	**80,029,718**	**1,490,723**	**46,782,115**	**128,302,556**	**84,309,565**	**(3,635,327)**	**39,704,843**	**120,379,081**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSES (continued)

The deferred taxes on property, plant and equipment represent differences between tax and book base of property, plant and equipment due to different depreciation rates in tax and accounting records, fair value adjustments on acquisitions, impairment and capitalization of asset retirement obligations.

Deferred corporate income tax and excess profit tax are determined with reference to individual subsoil use contracts. Deferred corporate income tax is also determined for activities outside of the scope of subsoil use contracts. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset arising mainly from tax losses carry forward amounted to 121,422,148 thousand tenge as at December 31, 2013 (2012: 80,012,140 thousand tenge).

Tax losses carryforwards as at December 31, 2013 in the Republic of Kazakhstan expire for tax purposes 10 (ten) years from the date they are incurred.

The movements in the deferred tax liability / (asset) were as follows:

In thousands of tenge	**2013 Corporate income tax**	**2013 Excess profit tax**	**2013 Withholding tax**	**2013 total**	2012 Corporate income tax	2012 Excess profit tax	2012 Withholding tax	2012 Total
Net deferred tax liability / (asset) as at January 1,	**84,309,565**	**(3,635,327)**	**39,704,843**	**120,379,081**	**103,324,139**	**150,332**	**35,509,962**	**138,984,433**
Foreign currency translation	912,378	–	–	912,378	(76,073)	–	–	(76,073)
Discontinued operations	–	–	–	–	(540,540)	–	–	(540,540)
Charge to the consolidated statement of comprehensive income	(5,192,225)	5,126,050	7,077,272	7,011,097	(18,397,961)	(3,785,659)	4,194,881	(17,988,739)
Net deferred tax liability / (asset) as at December 31,	**80,029,718**	**1,490,723**	**46,782,115**	**128,302,556**	**84,309,565**	**(3,635,327)**	**39,704,843**	**120,379,081**

32. 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 December 31, 2013 and 2012:

In thousands of tenge		Due from related parties	Due to related parties	Cash and deposits placed with related parties *(Notes 11, 16 and 17)*	Borrowings payable to related parties *(Note 19)*
Samruk-Kazyna entities	**2013**	**47,859,637**	**782,487**	**28,346,122**	**7,027,531**
	2012	47,594,452	784,243	15,322,862	259,891,388
Associates	**2013**	**42,390,553**	**1,941,683**	**–**	**–**
	2012	55,542,866	1,321,554	–	–
Other related parties	**2013**	**–**	**–**	**1,025,970**	**278,318,367**
	2012	–	–	–	–
Joint ventures in which the Group	**2013**	**42,163,076**	**30,635,788**	**–**	**–**
is a venturer	2012	53,889,492	38,836,399	–	–

Due from related parties

As at December 31, 2013, due from related parties included bonds receivable from the Parent Company with the carrying amount of 41,362,676 thousand tenge (2012: 41,165,575 thousand tenge). These bonds are maturing in 2044 and coupon rate is 4% per annum.

As at December 31, 2013 and 2012 due from associates include dividends receivable from PKI in the amount of 19,262,694 thousand tenge (2012: 34,820,940 thousand tenge) and note receivable from Caspian Pipeline Consortium in the amount of 22,411,853 thousand tenge (2012: 20,721,926 thousand tenge).

As at December 31, 2013 and 2012 due from joint ventures mainly include 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 consolidated statement of financial position.

Due to related parties

As at December 31, 2013 due to joint ventures include trade payable to Kazakhoil Aktobe LLP, Asia Gas Pipeline LLP and Mangistaumunaigas JSC in the amount of 11,405,648 thousand tenge, 4,474,917 thousand tenge and 5,795,937 thousand tenge, respectively (2012: 7,432,789 thousand tenge, 18,649,497 thousand tenge and 5,755,253 thousand tenge, respectively).

Cash and deposits placed with related parties

As at December 31, 2013 and 2012 Alliance Bank JSC, BTA Bank JSC and Temirbank JSC were controlled by Samruk-Kazyna. Therefore, current accounts and deposits placed with these banks represent balances with related parties.

Borrowings payable to related parties

As at December 31, 2013, borrowings payable to related parties included loans payable to the Parent Company with the carrying amount of 6,881,519 thousand tenge and interest rate of 7.99% per annum (2012: 6,593,777 thousand tenge).

As at December 31, 2013, borrowings payable to related parties also included bonds and loans payable to DBK with the total carrying amount of 274,184,930 thousand tenge (2012: 248,152,239 thousand tenge) *(Note 19)*.

32. RELATED PARTY DISCLOSURES (continued)

The following table provides the total amount of transactions, which have been entered into with related parties during 2013 and 2012:

In thousands of tenge		Sales to related parties	Purchases from related parties	Interest earned from related parties	Interest incurred to related parties
	2013	**38,718,226**	**29,831,974**	**5,571,239**	**563,264**
Samruk-Kazyna entities	2012	46,727,806	26,164,521	9,162,905	12,193,687
Associates	**2013**	**11,982,106**	**2,455,162**	**–**	**–**
	2012	63,947,312	66	405,902	529,342
Other related parties	**2013**	**37,884**	**163,640**	**–**	**9,802,083**
	2012	–	–	–	–
Joint ventures in which the Group	**2013**	**181,133,773**	**166,989,590**	**5,715,592**	**4,383,308**
is a venturer	2012	315,394,718	176,344,402	3,182,110	1,412,361

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 consolidated statement of comprehensive income was equal to 5,372,294 thousand tenge and 4,308,944 thousand tenge for the years ended December 31, 2013 and 2012, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly consist of borrowings, cash and cash equivalents, short and long term bank deposits as well as accounts receivable, accounts payable, and other financial assets and liabilities. The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate margin and collateral requirements.

The sensitivity analyses in the following sections relate to the position as of December 31, 2013 and 2012.

Foreign currency risk

As a result of significant borrowings and accounts payable denominated in the US Dollars, the Group's consolidated statement of financial position can be affected significantly by movement in the US Dollar / tenge exchange rates. The Group also has transactional currency exposures. Such exposure arises from revenues in the US Dollars. Approximately 66% of the Group's revenue is denominated in the US Dollars, whilst 47% of cost of sales is denominated in tenge.

The Group has a policy on managing its foreign currency risk in USD by matching USD denominated financial assets with USD denominated financial liabilities and/or by designating hedge between non-financial assets and financial liabilities.

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). The sensitivity of possible the changes in exchange rates for other currencies are not considered due to its insignificance to the consolidated financial results of Group's operations.

In thousands of tenge	Increase / decrease in tenge to US Dollar exchange rate	Effect on profit before tax
2013	**+30%**	**(274,547,604)**
	+10%	**(89,386,085)**
2012	+1.57%	(26,203,450)
	-1.57%	26,203,450

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates.

The Group's policy is to manage its interest rate cost using a mix of fixed and variable rate borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings) and equity. There is no significant impact on the Group's equity.

In thousands of tenge	Increase / decrease in basis points	Effect on profit before tax
2013	**+0.03**	**(987,439)**
LIBOR	**-0.03**	**987,439**
2012		
LIBOR	+0.05	(548,928)
	-0.05	548,928

Credit risk

The Group trades only with recognized, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 15*. There are no significant concentrations of credit risk within the Group.

With respect to credit risks arising on other financial assets of the Group, which comprise cash and cash equivalents, bank deposits, trade accounts receivable, bonds receivable, loans and notes receivable and other financial assets, the Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The table below shows the balances of major subsidiaries' cash and cash equivalents, short-term and long-term deposits (*Notes 11, 16* and *17*) held in banks at the reporting date using the Standard and Poor's and Fitch's credit ratings.

		Rating[1]			
Banks	Location	2013	2012	2013	2012
Halyk Bank	Kazakhstan	BB (stable)	BB- (stable)	**312,879,998**	328,749,165
Kazkommertsbank	Kazakhstan	B2 (negative)	B+ (stable)	**255,323,932**	168,238,877
BNP Paribas	United Kingdom	A+ (negative)	A+ (negative)	**82,581,066**	79,531,603
HSBC Kazakhstan	United Kingdom	BB+ (stable)	AA-(stable)	**29,533,549**	75,062,011
Deutsche Bank	the Netherlands and the United Kingdom	A (stable)	A+ (negative)	**112,656,657**	72,117,709
ATF Bank	Kazakhstan	BBB (negative)	BBB (negative)	**55,113,895**	49,001,255
ING Bank	The Netherlands	A (stable)	A+ (stable)	**71,087,600**	48,701,109
Citibank	Kazakhstan	A (stable)	A (negative)	**44,422,490**	34,758,912
Citibank	United Kingdom	A (stable)	A (negative)	**28,612,864**	21,992,597
RBS Kazakhstan	Kazakhstan	A- (negative)	A (stable)	**5,137,852**	14,754,244
Credit Suisse	British Virgin Islands	A (stable)	A (negative)	**8,205,790**	12,366,246
HSBC	Kazakhstan	BBB (stable)	BBB (stable)	**14,134,588**	9,245,191
BankCenterCredit	Kazakhstan	B+ (stable)	B+ (stable)	**34,084,225**	7,141,721
KazInvestBank	Kazakhstan	B- (stable)	B-(negative)	**6,588,679**	4,907,507
Sberbank of Russia	Kazakhstan	B- (stable)	BBB- (stable)	**48,687,946**	3,654,524
Eurasian Bank	Kazakhstan	BBB (stable)	B+ (stable)	**50,856,342**	3,833,031
Tsesnabank	Kazakhstan	B (stable)	B (stable)	**47,366,371**	23,161,847
Alliance Bank	Kazakhstan	CCC (negative)	B3 (negative)	**10,118,770**	8,143,940
Kaspi Bank	Kazakhstan	BB- (stable)	B- (stable)	**2,331,983**	31,278
Other banks				**78,094,704**	84,743,056
				1,297,819,301	1,050,135,823

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

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

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2013 and 2012 based on contractual undiscounted payments.

In thousands of tenge	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after 5 years	Total
As at December 31, 2013						
Borrowings	49,531,576	90,588,885	274,420,387	1,337,782,238	1,586,834,979	**3,339,158,065**
Payable for the acquisition of additional interest in North Caspian Project	–	–	120,040,849	253,665,875	–	**373,706,724**
Trade accounts payable	89,246,239	116,755,286	39,893,263	464,320	–	**246,359,108**
	138,777,815	**207,344,171**	**434,354,499**	**1,591,912,433**	**1,586,834,979**	**3,959,223,897**
As at December 31, 2012						
Borrowings	33,343,532	97,572,373	559,409,024	988,871,761	986,711,844	**2,665,908,534**
Payable for the acquisition of additional interest in North Caspian Project	–	760,031	123,506,558	244,051,979	–	**368,318,568**
Trade accounts payable	52,964,583	68,988,334	105,162,875	–	–	**227,115,792**
	86,308,115	**167,320,738**	**788,078,457**	**1,232,923,740**	**986,711,844**	**3,261,342,894**

Capital management

The Group manages its capital to ensure that Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2007.

The capital structure of the Group consists of borrowings disclosed in *Note 19* and equity, comprising share capital, additional paid-in capital, other reserves and retained earnings as disclosed in *Note 18*.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target net debt to net capitalization ratio of no more than 50%.The ratio as at December 31 was as follows:

In thousands of tenge	2013	2012
Borrowings (*Note 19*)	**2,307,142,850**	2,063,648,165
Payable for the acquisition of additional interest in North Caspian Project (*Note 20*)	**322,329,783**	339,549,990
Other liabilities composing net debt	**1,657,424**	1,872,717
Debt	**2,631,130,057**	2,405,070,872
Less: Cash and cash equivalents and short-term bank deposits	**(1,216,480,171)**	(1,048,208,032)
Net debt	**1,414,649,886**	1,356,862,840
Net capitalization *	**4,864,285,786**	4,369,251,289
Net debt to net capitalization	**29%**	31%

* Net capitalization is net debt plus equity attributable to equity holder of the Parent Company as at December 31 of the respective year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Fair values of financial instruments

The carrying amount of the Group financial instruments as at December 31, 2013 and 2012 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

	2013				
	Carrying amount	Fair value	Fair value by level of assessment		
In thousands of tenge			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	–	–

	2012				
	Carrying amount	Fair value	Fair value by level of assessment		
In thousands of tenge			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	41,165,575	59,728,271	59,728,271	–	–
Fixed interest rate borrowings	1,560,512,307	1,593,218,585	1,593,218,585	–	–

The fair value of bonds receivable from the Parent Company and fixed-rate borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates.

34. CONSOLIDATION

The following significant subsidiaries have been included in these consolidated financial statements:

Significant entities	Main activity	Country of incorporation	Percentage ownership 2013	2012
KazMunayGas Exploration Production JSC and its subsidiaries	Exploration and production	Kazakhstan	**63.22%**	63.21%
KazTransGas JSC and its subsidiaries ("KTG")	Gas transportation	Kazakhstan	**100.00%**	100.00%
KazTransOil JSC and its subsidiaries	Oil transportation	Kazakhstan	**90.00%**	90.00%
KazMunayGas – refining and marketing JSC and subsidiaries	Refinery and marketing of oil products	Kazakhstan	**100.00%**	100.00%
KazMunayTeniz JSC and its subsidiaries ("KMT")	Exploration and production	Kazakhstan	**100.00%**	100.00%
KazMunayGas-Service LLP and its subsidiaries	Service projects	Kazakhstan	**100.00%**	100.00%
KMG Kashagan B.V. ("Kashagan")	Exploration and production	Netherlands	**100.00%**	100.00%
Cooperative KazMunayGas PKI U.A. and its subsidiaries	Refinery and marketing of oil products	Netherlands	**100.00%**	100.00%
N Operating Company LLP	Exploration and production	Kazakhstan	**100.00%**	100.00%
KMG Transcaspian LLP	Support services	Kazakhstan	**100.00%**	100.00%
Kazakhstan Pipeline Ventures LLC and associate	Oil transportation	the United States of America	**100.00%**	100.00%
KMG Karachaganak LLP	Exploration and production	Kazakhstan	**100.00%**	100.00%
KazMorTransFlot JSC	Oil transportation and construction	Kazakhstan	**100.00%**	100.00%
Aktaunefteservice LLP	Oil support services	Kazakhstan	**100.00%**	100.00%

35. CONTINGENT LIABILITIES AND COMMITMENTS

Environment

Environmental regulations in Kazakhstan are evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Group's consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows other than those amounts provided in *Note 21*.

Commodity price risk

The Group generates most of its revenue from the sale of commodities, primarily crude oil and oil products. Historically, the prices of these products have been volatile and have fluctuated widely in response to changes in supply and demand, market uncertainty, the performance of the global or regional economies and cyclicality in industries.

Prices may also be affected by government actions, including the imposition of tariffs and import duties, speculative trades, an increase in capacity or an oversupply of the Group's products in its main markets. These external factors and the volatility of the commodity markets make it difficult to estimate future prices.

A substantial or extended decline in commodity prices would materially and adversely affect the Group's business and the consolidated financial results and cash flows of operations. The Group does not hedge significantly its exposure to the risk of fluctuations in the price of its products.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Insurance matters

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and consolidated financial position.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 (five) calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2013.

As at December 31, 2013, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

Transfer pricing control

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the arm's length principle.

The new law on transfer pricing came into effect in Kazakhstan from January 1, 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest at December 31, 2013.

As at December 31, 2013 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Tax audit of KMG EP

On July 12, 2012 the Tax committee of the Ministry of finance of the Republic of Kazakhstan completed comprehensive tax audit of KMG EP for 2006-2008 fiscal years. As a result of the tax audit, which was commenced in October 2011, the tax authorities provided a tax assessment to KMG EP in the amount 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, adjustment of revenues based on transfer pricing regulations.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Tax audit of KMG EP (continued)

KMG EP disagreed with the above assessments and filed an appeal to the Tax committee. The management believes its interpretations of the tax legislation were appropriate. However, as management believes the outcome of the dispute is uncertain and further believes that it is more likely than not that KMG EP may not be entirely successful in its appeals, due to the ambiguity contained in the tax legislation and a history of varying interpretations and inconsistent opinions of the authorities and courts, management has accrued for certain matters that arose in the assessment. During 2013 the Tax committee conducted a limited scope tax review that resulted in a notification dated February 10, 2014 on the basis of which KMG EP has reversed 1,819 million tenge that consists of 811 million tenge of principal, 405 million tenge of administrative fines and 603 million tenge of late payment interest. As at December, 31 2013, remaining provision for tax includes 14,625 million tenge, including principal of 6,400 million tenge, fines of 3,411 million tenge and late payment interest of 4,814 million tenge. Management believes that KMG EP will be successful in appealing the remaining balances of principal, fines, and late payment interest of the assessments.

Mineral extraction tax (KMG EP)

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

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

KMG EP disagrees with the above notification and has provided the written explanations of its position. The tax authorities have not yet audited KMG EP on this matter and hence no tax assessment has been done yet. Should the tax authorities audit KMG EP and assess additional MET liabilities, KMG EP will definitely appeal such assessment. As management believes that it is more likely than not that KMG EP will be successful in its appeal, no provisions in relation to this matter have been made in the consolidated financial statements as at December 31, 2013.

PetroKazakhstan Kumkol Resources JSC (PKKR) comprehensive tax audit (KMG EP)

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

PKKR disagreed with the comprehensive tax audit results and is planning to file an appeal with the Tax committee of the Ministry of finance. PKI management assessed the risk of unfavourable outcome of this claim as probable and recognized a provision for 19,423 million tenge in its 2013 consolidated financial statements; the Group's share being of 6,410 million tenge. PKI Management believes that PKKR has a strong position on any other potential claims as a result of tax audit for 2009-2012.

OMG environmental audit 2011-2012 (KMG EP)

On January 25, 2013 OMG, received a notification from the Department of ecology of Mangystau oblast to pay fine of 59.3 billion tenge for environmental damage. The total amount was determined as a result of an inspection that covered the period from August 2011 to November 2012. OMG believes that the act was illegal and that calculations were not reliable and on February 26, 2013 filed an appeal to the Specialized Interregional Economic Court of Mangystau oblast. On March 7, 2013 the Department of ecology of Mangystau oblast filed a claim with the same Court for the forced payment of the fines.

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

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

OMG environmental audit 2011-2012 (KMG EP) (continued)

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

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

OMG environmental audit 2012-2013 (KMG EP)

On January 24, 2014 OMG received a notification from the Department of ecology of Mangystau oblast to pay a fine of 213 billion tenge for the environmental damage. The total amount was determined as a result of an inspection that covered 2012 and 2013.

On February 7, 2014 OMG filed an appeal against this notification. On February 21, 2014 the Specialized Administrative Court of Aktau city satisfied the appeal. The court decision cannot be appealed against by appellate and cassational procedures, but may be appealed against by the prosecutor.

In addition, on February 14, 2014 the Department of ecology of Mangystau oblast sent a notification to OMG to pay an additional fine in the amount of 327.9 billion Tenge for the environmental damage. This new environmental fine relates to the same matters where the Department of ecology previously attempted to impose fine of 59.3 billion, and this clam was rejected by the court.

OMG filed an appeal against the above compensation fine. On March 6, 2014 the Specialized Interregional Economic Court of Mangystau oblast cancelled the above notification and recognised it as illegal.

Considering successful appeal history, the Group believes that it will continue to successfully appeal the results of the inspection, and therefore, no provision has been accrued for these matters in the consolidated financial statements as at December 31, 2013.

Embamunaigas environmental audit (KMG EP)

In July 2013 the Department of ecology of Atyrau oblast conducted an unplanned inspection to determine whether production activities of JSC "Embamunaigas" comply with environmental requirements, including associated gas utilization requirements. The Department of ecology of Atyrau oblast concluded that gas utilization on three oilfields does not comply with the approved technological development plans.

On September 24, 2013 the Specialized Interregional Economic Court of Atyrau oblast in its decision ruled to suspend commercial development of these three oilfields until violations of ecological norms are eliminated and a positive government ecological conclusion is obtained. On October 21, 2013 JSC "Embamunaigas" filed an appeal to the Atyrau Regional Court to request the cancellation of this decision. On November 21, 2013 JSC "Embamunaigas" received positive conclusion of the state ecological examination from the Committee of ecological regulation and control of the Ministry of environment and water resources of the Republic of Kazakhstan and on December 10, 2013 – from the Department of ecology of Atyrau oblast. As a result, litigation under this case has finished.

Embamunaigas gas flaring (KMG EP)

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

The Group disagreed with this notification and currently takes appropriate actions to appeal the claim of the Department of ecology of Atyrau oblast. The Group believes that it can successfully appeal the results of the inspection and the claim for environment damages, and therefore no provision has been accrued for this matter as at December 31, 2013.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Kashagan environmental audit (KMG Kashagan B.V.)

During the period from September 12, 2013 to February 7, 2014 the Department of ecology of Atyrau oblast performed unplanned inspection of North Caspian Operating Company and its agent, Agip KCO, for compliance with the environmental legislation. As a result of the inspection, acts and protocols on the violation of the environmental legislation were issued, and a notification was received by North Caspian Operating Company and Agip KCO to compensate the environmental damage in the amount of 134.3 billion tenge (the Group's share is 22.7 billion tenge).

North Caspian Operating Company and Agip KCO does not agree with the claim of the Department of ecology and intends to appeal this fine in the full amount in accordance with all appropriate instances, as it believes that gas flaring and environmental emissions were made under the conditions and within the limit stated in the obtained permits. Management of the Group supports the position of North Caspian Operating Company and Agip KCO and assesses the risk related to this matter as possible. Thus, no provision has been accrued in regard of this matter as at December 31, 2013.

ANPZ environmental audit (KMG RM)

On March 5, 2014 the Department of ecology of Atyrau oblast has ordered Atyrau Refinery LLP (ANPZ) to pay an environmental fine of 23.7 billion tenge. The Atyrau regional prosecutor's office and the regional environmental department conducted a joint inspection at ANPZ and determined that ANPZ had allegedly flared 693,753 cubic meters of sour gas without necessary permits. As a result of the inspection, ANPZ was ordered to pay a fine for the environmental damage caused by the unauthorized flaring of gas.

Management of the Group believes that claim filed by the Department of ecology was imposed as a result of use of inappropriate input data. The Group is in process of engaging local and foreign experts to conduct an independent inspection. Management of the Group believes that they have a strong position and assesses the risk related to this matter as possible. Thus, no provision has been accrued in regard of this matter as at December 31, 2013.

Tax contingencies of Georgian entities (KTO)

According to the Tax Code of Georgia (TCG), tax administration is authorized to make decision on use of market prices for taxation purposes if transaction takes place between related parties. Although TCG contains certain guidance on the determination of market prices of goods and services, the mechanism is not developed and there is no separate transfer pricing legislation in Georgia. Existence of such ambiguity creates uncertainties as related to the position that tax authorities might take when considering taxation of transactions between related parties.

The Georgian subsidiaries of the Group have significant transactions with off-shore subsidiaries of the Group as well as amongst each other. These transactions fall within the definition of transactions between related parties and may be challenged by tax authorities of Georgia. Management of the Group believes that it has sufficient arguments to assert that pricing of transactions between entities of the Group is at arm's length, however due to absent legislative basis for determination of market prices tax authorities might take position different from that of the Group.

Expropriation of the Batumi Sea Port assets (KTO)

In accordance with Management Right agreement for Batumi Sea Port (BSP) between BTL (former BIHL) and the Georgian Government, Georgian Government has the right for expropriation of the BSP's assets, in case the BSP will not meet its obligations on minimum volume of transhipment, which is 6 million tons per year. As at December 31, 2013, BSP was not exposed to risk of asset expropriation from the Georgian Government, as actual volumes of transhipment were 10,170 million tons.

Kazakhstan local market obligation

The Government requires oil companies in the Republic of Kazakhstan to supply a portion of the products to meet the Kazakhstan domestic energy requirement on an annual basis, mainly to maintain oil products supply balance on the local market and to support agricultural producers during the spring and autumn sowing and harvest campaigns.

Kazakhstan local market oil prices are significantly lower than export prices and even lower than the normal domestic market prices determined in an arm-length transaction. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Group, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Group's business, prospects, consolidated financial position and results of operations.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Kazakhstan local market obligation (continued)

In 2013, in accordance with its obligations, the Group delivered 2,898,025 tons of crude oil (2012: 2,936,540 tons), including joint ventures, to the Kazakhstan market.

Commitments under subsoil use contracts

As at December 31, 2013 the Group had the following commitments related to minimal working program in accordance with terms of licenses, production sharing agreements and subsoil use contracts, signed with the Government:

Year	Capital expenditures	Operational expenditures
2014	190,603,548	11,242,000
2015	77,133,480	3,237,000
2016	72,456,904	3,108,000
2017	19,261,379	3,028,000
2018-2024	30,874,673	9,601,000
Total	**390,329,984**	**30,216,000**

Other contractual commitments

As at December 31, 2013, the Group had other capital commitments of approximately 641 billion tenge (2012: 540 billion tenge), including joint ventures, related to acquisition and construction of property, plant and equipment.

Cost recovery audit (KMG Kashagan B.V.)

Under the base principles of NCPSA, the Government of the Republic of Kazakhstan transferred to the contractors exclusive rights to conduct activity involving a subsoil area, but did not transfer rights to such subsoil area into either ownership or lease. Therefore, all extracted and processed hydrocarbons (i.e. the extracted product) is the property of the state. The work is carried out on a compensation basis, with the state paying the contractors not in cash, but with a portion of the hydrocarbon 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 future cost recovery.

The Group considers that all recoverable costs are appropriately classified in accordance with the NCPSA and that those identified as recoverable costs are eligible for recovery as at December 31, 2013.

However, certain expenditures have not been approved by the ManCom in accordance with Sections 13 and 14 of the NCPSA. These expenditures are deemed to be non-recoverable costs for KMG Kashagan B.V. until the ManCom approves them. Negotiations continue with the Competent body to resolve these issues.As a result of cost recovery audits performed for the period from 2001 to 2008 expenditures in the amount of 7,974,680 thousand US Dollars (1,224,991 million tenge at December 31, 2013 exchange rate) were disallowed from cost recovery. Group share in the expenditures was 1,340,336 thousand US Dollars (205,889 million tenge at December 31, 2013 exchange rate). As a result of the work performed by the contractors to resolve the comments, on November 28, 2011 the Competent body (PSA LLP) and the contractors signed the resolution, according to which the disallowed for recovery costs were reduced to 2,958,634 thousand US Dollars (454,476 million tenge at December 31, 2013 exchange rate) with the Group's share amounting to 497,249 thousand US Dollars (76,382 million tenge at December 31, 2013 exchange rate).

Within the framework of the Settlement Agreement signed on May 17, 2012 further negotiations with the Competent body were concluded and resulted in the downward revision of the costs disallowed for recovery to 229,900 thousand US Dollars (35,315 million tenge at December 31, 2013 exchange rate) with the Group's share amounting to 38,639 thousand US Dollars (5,953 million tenge at December 31, 2013 exchange rate).

Cost recovery audit for 2009 was completed in 2012. As a result of the audit performed costs in the amount of 875,000 thousand US Dollars (134,409 million tenge at December 31, 2013 exchange rate) were disallowed for recovery, with the Group's share amounting to 147,060 thousand US Dollars (22,590 million tenge at December 31, 2013 exchange rate). Further negotiations are conducted to resolve the issue in favour of the contractors.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Cost recovery audit (KMG Kashagan B.V.) (continued)

Cost recovery audit for 2010 was completed in 2013. As a result of the audit performed expenditures in the amount of 1,335,537 thousand US Dollars were initially disallowed for cost recovery. As a result of negotiations and work performed by the contractors to resolve comments an amount of 2,083 thousand US Dollars was classified as non-recoverable costs and 785,101 thousand US Dollars remain unresolved. The Groups's share in these costs is 350 thousand US Dollars and 131,950 thousand US Dollars , respectively. Further negotiations are conducted to resolve the issue in the favour of the contractors.

Commitments under subsoil use contract (Karachaganak FPSA)

FPSA is subject to periodic reviews of its activities by state authorities with respect to its requirements. Management cooperates with state authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of the FPSA could result in fines, penalties, FPSA limitation, suspension or revocation.

Based on the Final Production Sharing Agreement, the Government of the Republic of Kazakhstan transferred to the contracting companies ("CCs") exclusive rights to carry out activities involving a subsoil use area but did not transfer rights to such subsoil area into either ownership or lease. Therefore, all extracted and processed hydrocarbons (i.e. the extracted product) are the property of the state. The works to extract hydrocarbons are carried out on a compensated basis with the state paying the CCs not in cash but with a portion of the hydrocarbon production thus allowing the CCs to recover their costs and earn profits.

Under the FPSA not all costs incurred by the Contractors could be reimbursed. Future costs for reimbursement must be approved by the Joint Operating Committee ("JOC").

The Competent body provided acts for audit of 2010-2011 recoverable costs. The Contracting companies of Karachaganak FPSA and competent body represented by PSA LLP are currently discussing the results of the revision act on results of examination of recoverable costs calculation of the Petroleum Operations Account for 2010 contracting year under the FPSA for the contract area of Karachaganak oil and gas condensate field dated November 18, 1997 (hereinafter, "2010 revision act"). According to the above revision act, the Competent body raised a claim to include an amount of 456,866 thousand US Dollars (70,179 million tenge at December 31, 2013 exchange rate) within recoverable costs for 2010. In this case the amount of 8,869 thousand US Dollars (1,362 million tenge at December 31, 2013 exchange rate) was recognized as non-recoverable by the Contracting companies. Based on the results of the 3rd round of negotiations between the Contracting companies and the Competent body (as at January 2014), the amount of potential dispute/arbitration was 205,563 thousand US Dollars (31,577 million tenge at December 31, 2013 exchange rate).

According to 2011 revision act, the Competent body raised a claim to include an amount of 200,606 thousand US Dollars (30,815 million tenge at December 31, 2013 exchange rate) within recoverable costs for 2011. The results are currently under consideration of the Contracting companies.

Convertible debt instrument and related litigations (TRG)

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 TRG – 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 TRG and/or Rompetrol Rafinare S.A.

During the first half of 2010 in order to increase its interest in Rompetrol Rafinare S.A. the Group was required to make a public offer to all shareholders. In August 2010 Rompetrol Rafinare S.A. increased its share capital by issuance of new shares amounting to RON 329.4 million (equivalent of 78 million Euros at the date of subscription), all of which were subscribed and fully paid for by TRG, further increasing the Group's interest in Rompetrol Rafinare S.A. of these proceeds from the share issuance, during the same month, Rompetrol Rafinare S.A. repaid 54 million Euros (equivalent to 10,463,778 thousand tenge) out of the total debt of 570.3 million Euros in relation to the convertible debt instrument to the Romanian State. In September 2010, Rompetrol Rafinare S.A. paid the last coupon, amounting to 17 million Euros (equivalent to 3,314,915 thousand tenge), leading to a nil balance of the liability component of the convertible debt instrument.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Convertible debt instrument and related litigations (TRG) (continued)

On September 30, 2010 the Extraordinary General Meeting (GMS) of the shareholders of Rompetrol Rafinare S.A. approved the conversion of the unredeemed convertible debt instrument into shares, the corresponding share capital increase and the exact numbers of shares to be received by the Romanian State for the convertible debt it held, calculated based on the exchange rate in force on such date, together with a share premium calculated as a difference of the exchange rate valid on September 30, 2010 and issuance date on September 30, 2003. This resulted in a non-controlling position of the Romanian State in Rompetrol Rafinare S.A. of 44.6959%.

These transactions resulted in a decrease of retained earnings by 113,467,108 thousand tenge and increase of non-controlling interest by 103,003,330 thousand tenge in 2010.

In 2010, the Romanian State, represented by the Ministry of public finance of the Romanian State (MFP), initiated a legal action against the decision of Rompetrol Rafinare S.A. to increase the share capital and convert the convertible debt instrument partially in cash and partially by issuance of shares.

Constanta Tribunal dismissed the Romanian State request: (a) for some of the annulment reasons considering that the Romanian State lacks the capacity to stand trial, arguing that it did not have the capacity of shareholder when such acts were adopted, (b) for some of the annulment reasons considering that they were not grounded.

Furthermore, on November 17, 2010 the Ministry of public finance of the Romanian State issued a Summons and Forced Execution Title for the amount of RON 2,205,592,436 (for presentation purposes 516.3 million Euros and, at the exchange rate as at December 31, 2010 is 100,797,249 thousand tenge) as a result of the Romanian Authorities disagreement with the decision of the Group to partially settle the instrument by issuance of shares. Rompetrol Rafinare S.A. filed a claim against a forced execution requesting cancelation of the Summons and Forced Execution Title. The hearing of the case had been suspended in June 2012 and can be resumed during one year period, until June 6, 2013.

In addition, on September 10, 2010 the Romanian authorities, represented by The National Agency for Fiscal Administration (ANAF), issued a decision for a precautionary seizure on all the participations held by Rompetrol Rafinare S.A. in its affiliates as well as on all movable and immovable assets of Rompetrol Rafinare S.A. except for inventories. This measure is still in force and being challenged by the Group. As of the reporting date this seizure has not been enforced as the Romanian authorities did not initiate forced execution procedures. Management believes that the enforcement of the seizure by the authorities would not be practicable.

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.

Therefore, the Ministry of public finances shall perform all necessary actions, prepare documents and procedures for the withdrawal of the litigations, including the main claim, on which the next hearing is expected to take place on March 24, 2014.

Litigation regarding CO2 emission allowances (TRG)

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.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Litigation regarding CO2 emission allowances (TRG) (continued)

According to the current Romanian and European legislation, the certificates obtained for 2008-2012 period may be owned and used also for the next period of 2013-2020. The market value for a CO2 emission certificate as of December 2013 is 4.5 Euros per certificate.

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 Ministry of Environment and the Romanian state, the claimed amount is 36 million Euros, the next hearing being set on April 10, 2014.

Other litigations related to TRG

As of December 31, 2013 TRG was engaged in litigations against Romanian Competition Council and SC Bioromoil SRL for a total amount of 8.6 billion tenge and 5.1 billion tenge, respectively. According to opinion of lawyers of TRG, management of the Group believes that it has a strong basis to win the mentioned litigations and assessed the risks relating to these issues as possible.

Changes to the Concession Agreement (ICA)

On May 31, 2012 ICA received a letter from the Committee of state property and privatization (the "Committee") of the Ministry of finance of the Republic of Kazakhstan on termination of the Agreement between ICA and the Government on operation of mainline gas distribution network on the Republic of Kazakhstan ("Concession Agreement") accompanied with the proposal to sign trust management agreement with the maturity date January 1, 2013. The early termination of the Concession Agreement was initiated by the Committee with the intention to transfer Agreement assets to ICA's ownership in 2012 through the Parent Company.

In accordance with the Additional agreement dated July 30, 2012 to the Concession Agreement, ICA recognized additional expenses for rent payments under the Agreement for 2012, payable in 2013, equal to the difference between 25% of the net profit of ICA for 2012, and previously established fixed amount of 2,082,287 thousand tenge.

According to the Concession Agreement before January 1, 2013 the Committee and ICA should negotiate rental payments in respect to 5 (five) year period starting January 1, 2013 with the range of 25% to 40% of net income. As at December 31, 2013 final range of variable rental payments was not agreed. On March 31, 2006 the Republic of Kazakhstan, as represented by the Ministry of finance, and ICA signed the amendment (the "Amendment") to the Concession Agreement. According to this Amendment for the period starting from January 1, 2008 and additional 5-year period, starting from January 1, 2013, the annual payments will be agreed at the beginning of each period. In case annual rental payments are not agreed, ICA shall pay fixed amount of 2,082,287 thousand tenge per annum. ICA assessed that additional rent payment for 2013 payable in 2014 will be agreed in the amount of the difference between 25% of 2013 net profit of ICA, and previously established fixed amount of 2,082,287 thousand tenge. Thus, additional expenses under the Concession Agreement for 2013 in the amount of 1,956,806 thousand tenge were recognised in the 2013 consolidated statement of comprehensive income.

Prior to December 31, 2005, ICA paid to the Government 10% of its net profits in accordance with the Concession Agreement.

Investments and other obligations under the Concession Agreement (ICA)

Investments for the improvements of gas transportation assets

Under the terms of the Concession Agreement, the Group has an obligation to invest 30 million US Dollars each year (4,608,000 thousand tenge at December 31, 2013 exchange rate) for the improvement and repair of the gas transportation assets transferred and for investments in new gas transportation assets. As at December 31, 2013 the Group had approximately 72,700,741 thousand tenge in contractual commitments related to this investment obligation (2012: 52,329,902 thousand tenge).

This investment obligation is contingent upon the fulfillment of certain conditions. One of them is that the physical throughput of gas remains stable or increases from its 1996 level and, that the ongoing business conditions of gas transport contracts with foreign customers remain on as favorable terms as they were prior to establishment of the Concession Agreement. If gas transportation tariffs and cash payment defaults by customers make it impractical to carry out improvement and investment, the Group is entitled to apply to the Government of the Republic of Kazakhstan for an adjustment of the domestic tariff or an adjustment to the level of its investment obligations. As at December 31, 2013 the Group complied with these conditions.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Royalty (ICA)

From July 17, 1997, the Group is obliged to pay a royalty to the Republic of Kazakhstan amounting to approximately 2% of the throughput of gas in the Western System. However, in accordance with the Concession Agreement, this payment is only due and payable for the Western System after the issue of resolution the Government of the Republic of Kazakhstan or order of the Ministry of finance advising the customers of the Western System of their obligation to pay the royalty to the Group. As at December 31, 2013, no such resolution or order had been issued. Due to the uncertainty surrounding the implementation of the royalty, the Group has to date not been charging royalty to its customers.

Also, the Group has not received any indication from the Government of the Republic of Kazakhstan that royalties should have been or should be charged, nor that the Group is liable for any past royalty amounts.

Management is working to clarify the matter with the Government of the Republic of Kazakhstan and believes that no past or future royalties will be payable by the Group or its customers.

Kyrgyz By-Pass (ICA)

The Group is obliged, subject to certain conditions, which include tariff recovery, to design and construct the Kyrgyz By-Pass at a cost, which was estimated in the Concession Agreement, of approximately 90 million US Dollars to 100 million US Dollars. This asset will be transferred to the Republic of Kazakhstan at the later of the end of the term of the Concession Agreement or after twenty years from the completion for 1 US Dollar. Construction of this bypass has not yet begun.

Management believes that they have taken all necessary steps to fulfill the Group's obligations in this respect, as well as considering the issue of taking into management a part of gas-pipeline belonging to the Kyrgyz Republic. However, the new domestic tariffs which, per the Concession Agreement, are a precondition for the commencement of construction of the Kyrgyz By-Pass have not been published as at December 31, 2013.

The Government of the Republic of Kazakhstan reviews the Group's compliance with its obligations under the Concession Agreement, including the fulfillment of the investment commitments. The review of the Group's compliance with its obligations under the Concession Agreement for 2013 will be performed in 2014. The Management believes that as at December 31, 2013 the Group is in compliance with investment requirements.

Gas supply and purchase obligations (KTG)

As at December 31, 2013 KTG had contractual obligations on gas export deliveries in the amount of 754,498 thousand US Dollars (115,898,438 thousand tenge) (2012: 13,512,026 thousand tenge). The amount of contractual obligations on gas purchases were equal to 528,200 thousand US Dollars (81,136,802 thousand tenge).

In accordance with sales contracts with "Gazprom Schweiz AG" in case of Monthly contractual natural gas volumes underdelivered due to KTG fault, the Group is liable to pay fine of 0.01% of the value of underdelivered natural gas volume. As of December 31, 2013 and 2012 the Management believes that there is no obligation to "Gazprom Schweiz AG" related to liability clause in accordance with the sales contract.

Gas supply and purchase obligations (KTG-Aimak)

As at December 31, 2013, the contractual commitments of KTG-Aimak JSC on gas purchase were equal to 13,246,218 thousand tenge (2012: 3,220,519 thousand tenge), and gas delivery commitments were equal to 3,597,823 thousand tenge (48,748,088 thousand tenge).

36. 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 profit and loss, and assets and liabilities of operating segments of the Group for 2013:

In thousands of tenge	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	29,141,974	175,731,110	287,371,297	2,669,324,082	91,150,652	–	3,252,719,115
Revenues from sales to other segments	895,270,259	33,142,021	945,892	3,736,918	20,588,878	(953,683,968)	–
Total revenue	**924,412,233**	**208,873,131**	**288,317,189**	**2,673,061,000**	**111,739,530**	(953,683,968)	**3,252,719,115**
Gross profit	**602,675,190**	**91,241,519**	**78,639,233**	**158,948,887**	**10,004,220**	**(42,898,860)**	**898,610,189**
Finance income	23,797,011	5,297,069	1,453,037	1,972,448	29,220,022	(19,351,158)	**42,388,429**
Finance costs	(24,622,578)	(2,722,023)	(7,307,947)	(14,826,055)	(143,830,830)	21,565,556	**(171,743,877)**
Depreciation, depletion and amortization	(63,376,963)	(22,520,263)	(23,727,501)	(60,002,281)	(10,995,759)	–	**(180,622,767)**
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets other than goodwill	(60,043,694)	(316,451)	(679,953)	(1,211,141)	(231,338)	–	**(62,482,577)**
Share in profit of joint ventures and associates, net	429,113,313	13,815,015	43,414,989	(3,568,083)	742,156	–	**483,517,390**
Income tax expenses	(96,458,552)	(18,502,724)	(16,942,779)	(12,483,231)	(49,008,643)	–	**(193,395,929)**
Net profit for the year	**256,765,127**	**84,275,215**	**31,964,075**	**(6,606,972)**	**121,513,502**	**731,240**	**488,642,187**
Other segment information							
Investments in joint ventures and associates	760,440,794	27,559,409	141,035,226	23,505,336	45,949,411	–	**998,490,176**
Capital expenditures	282,839,692	45,871,312	105,649,010	129,046,404	40,449,510	–	**603,855,928**
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(690,968)	(2,551,226)	(7,571,848)	(38,074,635)	(10,887,657)	–	**(59,776,334)**
Assets of the segment	**4,366,273,188**	**539,167,807**	**742,891,231**	**1,982,339,326**	**387,696,846**	**(460,182,558)**	**7,558,185,840**
Liabilities of the segment	**791,452,378**	**120,401,132**	**247,331,570**	**686,328,416**	**2,133,653,003**	**(457,171,573)**	**3,521,994,926**

Eliminations represent the exclusion of intra-group turnovers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. 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 profit and loss, and assets and liabilities of operating segments of the Group for 2012:

In thousands of tenge	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	10,593,111	138,943,626	261,558,865	2,461,476,519	87,846,370	–	2,960,418,491
Revenues from sales to other segments	843,063,187	24,935,333	592,093	213,428,454	20,702,838	(1,102,721,905)	–
Total revenue	**853,656,298**	**163,878,959**	**262,150,958**	**2,674,904,973**	**108,549,208**	**(1,102,721,905)**	**2,960,418,491**
Gross profit	**585,926,556**	**54,118,708**	**64,093,675**	**183,770,518**	**16,964,201**	**(35,273,280)**	**869,600,378**
Finance income	19,660,979	3,353,061	1,293,251	3,119,888	26,342,220	(24,744,959)	**29,024,440**
Finance costs	(23,296,069)	(2,184,025)	(6,682,834)	(19,103,688)	(142,015,341)	24,098,151	**(169,183,806)**
Depreciation, depletion and amortization	(53,839,524)	(21,085,450)	(21,020,822)	(57,398,673)	(10,288,583)	–	**(163,633,052)**
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets other than goodwill	(77,011,651)	(902,560)	(220,876)	(1,169,860)	(6,040,307)	–	**(85,345,254)**
Share in profit of joint ventures and associates, net	418,544,189	10,086,921	41,584,577	507,328	363,460	–	**471,086,475**
Income tax expenses	(114,756,549)	(10,358,296)	(11,372,051)	(2,010,959)	(38,632,845)	–	**(177,130,700)**
Net profit for the year	**300,561,882**	**41,750,563**	**(73,728,633)**	**(23,156,593)**	**169,610,616**	**(1,614,676)**	**413,423,159**
Other segment information							
Investments in joint ventures and associates	680,488,873	36,791,618	137,288,807	29,018,388	10,509,353	–	**894,097,039**
Capital expenditures	546,613,842	41,206,879	97,280,228	95,645,704	59,846,126	(2,379,992)	**838,212,787**
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(3,994,547)	(689,908)	(3,361,481)	(39,800,288)	(607,061)	–	**(48,453,285)**
Assets of the segment	**3,988,886,267**	**461,461,754**	**661,797,622**	**1,955,948,005**	**312,408,275**	**(546,780,500)**	**6,833,721,423**
Liabilities of the segment	**756,643,626**	**113,117,992**	**209,237,824**	**654,257,515**	**2,047,865,873**	**(540,937,175)**	**3,240,185,655**

37. SUBSEQUENT EVENTS

Devaluation of the tenge

On February 11, 2014 Tenge was devaluated against US Dollar and other major currencies approximately 20%.

Export customs duty

The Government of the Republic of Kazakhstan plans to raise a custom duty on crude oil exports from 60 US Dollars to 80 US Dollars per ton, effective from April 1, 2014.

Other

On January 17, 2014 the Company partially repaid debts on issued bonds, which are held by DBK. Repayment was of 12,631,666 thousand tenge, including interest in the amount of 4,396,559 thousand tenge.

Starting January 1, 2014 the order of Agency of the Republic of Kazakhstan on Regulation of Natural Monopolies dated as of November 21, 2013 was made effective, which approved increase of KTO oil transportation tariffs for domestic and export markets.

On January 22, 2014, the Memorandum of Understanding was approved by the Government of Romania, pursuant to which the Ministry of public finance of Romania has been authorized and mandated to pursue all procedural actions required to withdraw litigations, related to the convertible debt instrument, initiated against TRG (Note 35).

On January-March 2014, KTG Aimak placed bonds in the amount of 5,826,280 thousand tenge on KASE. The bonds bear coupon rate of 7.5% p.a., mature in 2018 and have the yield of 8.2% p.a.

Beineu-Shymkent Pipeline LLP received a new tranch of 27 billion tenge from its credit line from Bank of China of 1.8 billion US Dollars.

PNHZ fully settled its borrowing from Natixis, Paris in the amount 18 billion tenge.