

JSC “National Company “KazMunayGas”

Interim condensed consolidated financial statements (unaudited)

For the six months ended June 30, 2014

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Report on review of interim condensed consolidated financial statements

To the Shareholder and Management of JSC “National Company “KazMunayGas”:

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC “National Company “KazMunayGas” and its subsidiaries, comprising the interim consolidated statement of financial position as at 30 June 2014, and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of JSC "National Company "KazMunayGas" as at 30 June 2014 and for the six-month period then ended are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / audit partner



Auditor qualification certificate
No. MΦ-0000099 dated 27 August 2012

14 August 2014

Evgeny Zhemaletdinov
General Director
Ernst and Young LLP



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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In thousands of tenge</i>	Note	June 30, 2014 (unaudited)	December 31, 2013 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	4	4,250,590,661	3,739,035,749
Exploration and evaluation assets	5	248,701,289	221,699,938
Investment property	6	27,938,947	28,243,320
Intangible assets	7	206,068,180	200,442,883
Long-term bank deposits	8	93,574,795	81,935,736
Investments in joint ventures and associates	9	1,218,611,468	998,490,176
Deferred income tax assets		47,808,914	29,688,534
VAT receivable		21,283,814	18,921,820
Advances for non-current assets		97,796,943	84,500,167
Bonds receivable from the Parent Company	28	37,030,815	36,922,676
Note receivable from a shareholder of a joint venture		17,381,300	13,222,376
Note receivable from associate	28	27,576,782	22,411,853
Loans due from related parties		29,472,135	22,558,713
Other non-current assets		26,263,888	28,237,430
		6,350,099,931	5,526,311,371
Current assets			
Inventories	10	233,845,605	204,342,042
VAT receivable		153,856,319	151,553,582
Income taxes prepaid		42,684,978	52,345,584
Trade accounts receivable	11	259,567,217	284,447,047
Short-term financial assets	12	787,561,690	814,592,127
Bonds receivable from the Parent Company	28	2,220,000	4,440,000
Note receivable from a shareholder of a joint venture		2,445,207	3,969,193
Dividends receivable from joint ventures and associate	9	35,492,458	19,262,694
Other current assets	11	86,243,374	74,084,738
Cash and cash equivalents	13	646,005,146	407,326,766
		2,249,921,994	2,016,363,773
Assets classified as held for sale		15,067,843	15,510,696
		2,264,989,837	2,031,874,469
TOTAL ASSETS		8,615,089,768	7,558,185,840

The accounting policies and explanatory notes on pages 10 through 37 form an integral part of these interim condensed consolidated financial statements.

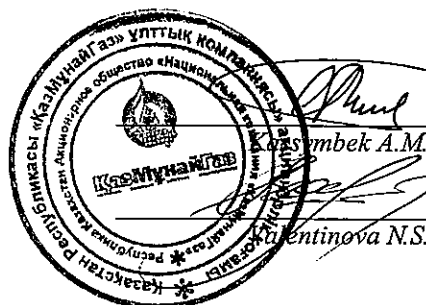
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

<i>In thousands of tenge</i>	<i>Note</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)*
EQUITY AND LIABILITIES			
Equity			
Share capital	14	550,308,973	546,485,470
Additional paid-in capital	14	26,437,497	19,645,866
Other equity	14	2,156,561	2,185,813
Currency translation reserve	14	456,498,645	269,950,758
Retained earnings		2,870,787,635	2,611,367,993
Attributable to equity holder of the Parent Company		3,906,189,311	3,449,635,900
Non-controlling interest	14	626,731,861	586,555,014
Total equity		4,532,921,172	4,036,190,914
Non-current liabilities			
Borrowings	15	2,085,767,056	2,005,432,081
Payable for the acquisition of additional interest in North Caspian Project	16	391,912,011	214,885,792
Financial guarantee		19,052,003	—
Provisions	17	131,168,482	114,584,815
Deferred income tax liabilities		181,324,096	157,991,090
Other non-current liabilities		13,169,794	13,850,020
		2,822,393,442	2,506,743,798
Current liabilities			
Borrowings	15	611,730,883	301,710,769
Payable for the acquisition of additional interest in North Caspian Project	16	—	107,443,991
Financial guarantee		1,519,627	—
Provisions	17	107,192,272	93,273,602
Income taxes payable		28,715,786	55,365,055
Trade accounts payable	18	230,630,275	225,091,612
Other taxes payable	19	134,684,281	109,643,397
Derivatives		1,116,304	441,058
Other current liabilities	18	141,566,949	119,197,681
		1,257,156,377	1,012,167,165
Liabilities directly associated with assets classified as held for sale		2,618,777	3,083,963
Total liabilities		4,082,168,596	3,521,994,926
TOTAL EQUITY AND LIABILITIES		8,615,089,768	7,558,185,840

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

Managing director for economics and finance

Chief Accountant



The accounting policies and explanatory notes on pages 10 through 37 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of tenge</i>	Note	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Revenue	20	1,607,886,603	1,418,090,806
Cost of sales	21	(1,110,660,149)	(990,144,469)
Gross profit		497,226,454	427,946,337
General and administrative expenses	22	(70,975,061)	(79,914,244)
Transportation and selling expenses	23	(185,148,874)	(146,133,374)
Impairment of property, plant and equipment and intangible assets, other than goodwill	4, 7	(24,748,671)	(57,859,883)
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		(3,655,104)	(1,799,206)
Other operating income		10,464,100	15,782,809
Other operating expenses		(8,358,318)	(3,685,326)
Operating profit		214,804,526	154,337,113
Net foreign exchange gain / (loss)		80,901,377	(8,627,311)
Finance income	24	28,450,653	17,280,954
Finance costs	25	(101,820,675)	(87,234,744)
Impairment of goodwill	7	(1,622,222)	–
Impairment of investments in joint ventures	9	(343,359)	–
Share in profit of joint ventures and associates, net	26	222,695,867	245,672,641
Profit before income tax		443,066,167	321,428,653
Income tax expense	27	(107,305,630)	(79,193,398)
Profit for the period from continuing operations		335,760,537	242,235,255
Discontinued operations			
Loss after income tax for the period from discontinued operations		(219,489)	(163,820)
Net profit for the period		335,541,048	242,071,435
Net profit for the period attributable to:			
Equity holder of the Parent Company		262,578,545	230,642,217
Non-controlling interests		72,962,503	11,429,218
		335,541,048	242,071,435

The accounting policies and explanatory notes on pages 10 through 37 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

<i>In thousands of tenge</i>	Note	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		207,716,051	17,059,876
Other comprehensive income to be reclassified to profit or loss in subsequent periods		207,716,051	17,059,876
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial loss on defined benefit plans		(1,288,585)	—
Income tax effect		192,719	—
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(1,095,866)	—
Other comprehensive income for the period		206,620,185	17,059,876
Total comprehensive income for the period, net of tax		542,161,233	259,131,311
Total comprehensive income for the period attributable to:			
Equity holder of the Parent Company		448,107,654	247,148,680
Non-controlling interests		94,053,579	11,982,631
		542,161,233	259,131,311

Managing director for economics and finance

Chief Accountant



Symbek A.M.

Valentinova N.S.

The accounting policies and explanatory notes on pages 10 through 37 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of tenge</i>	<i>Note</i>	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Cash flows from operating activities			
Profit before income tax from continued operations		443,066,167	321,428,653
Loss before income tax from discontinued operations		(219,489)	(163,820)
		442,846,678	321,264,833
<i>Adjustments for:</i>			
Depreciation, depletion and amortization	21, 22, 23	101,126,963	86,913,670
Share in profit of joint ventures and associates, net	26	(222,695,867)	(245,672,641)
Finance costs	25	101,820,675	87,234,744
Finance income	24	(28,450,653)	(17,280,954)
Impairment of property, plant and equipment and intangible assets other than goodwill	4, 7	24,748,671	57,859,883
Impairment of goodwill	7	1,622,222	–
Impairment of investments in joint ventures	9	343,359	–
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		3,655,104	1,799,206
Provisions		20,479,137	22,108,865
Allowance for impairment of trade accounts receivable and other current assets	22	3,157,771	1,734,108
(Reversal)/ accrual of provision for obsolete and slow- moving inventories	22	(1,031,012)	1,502,073
Forfeiture of share based payments		(46,509)	–
Recognition of share based payments		–	12,657
Unrealized foreign exchange (gain) / loss		(66,572,945)	7,138,652
Operating profit before working capital changes		381,003,594	324,615,096
Change in inventory		(10,424,473)	10,855,199
Change in VAT receivable		4,778,748	(13,879,200)
Change in trade accounts receivable and other assets		50,678,634	28,590,877
Change in other taxes payable		17,214,319	(14,418,686)
Change in trade accounts payable		12,607,677	(20,118,601)
Change in other liabilities		(2,184,530)	(22,642,090)
Cash generated from operations		453,673,969	293,002,595
Income taxes paid		(117,271,433)	(125,113,429)
Interest received		22,990,715	10,491,171
Interest paid		(64,675,131)	(44,632,345)
Net cash flows from operating activities		294,718,120	133,747,992

The accounting policies and explanatory notes on pages 10 through 37 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In thousands of tenge</i>	<i>Note</i>	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Cash flows from investing activities			
Placement of bank deposits, net		144,088,075	(86,932,479)
Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets		(237,915,149)	(216,675,786)
Proceeds from sale of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets		409,408	3,181,663
Dividends received from joint ventures and associates, net		114,319,195	165,696,102
Acquisition of joint ventures	9	(2,200,000)	–
Acquisition of a subsidiary		(1,201,299)	–
Loans provided to related parties		(21,451,668)	–
Net cash flows used in investing activities		(3,951,438)	(134,730,500)
Cash flows from financing activities			
Proceeds from borrowings		146,107,230	644,597,994
Repayment of borrowings		(194,837,477)	(264,927,019)
Dividends paid to non-controlling interests	14	(43,253,070)	–
Issue of shares		–	8,916,901
Acquisition of treasury shares by subsidiary		–	(430,751)
Sponsorship provided based on the Shareholder's order		–	(2,554,420)
Net cash flows (used in)/from financing activities		(91,983,317)	385,602,705
Effects of exchange rate changes on cash and cash equivalents		39,895,015	2,659,559
Net change in cash and cash equivalents		238,678,380	387,279,756
Cash and cash equivalents, at the beginning of the period	13	407,326,766	415,085,451
Cash and cash equivalents, at the end of the period	13	646,005,146	802,365,207

NON-CASH TRANSACTIONS: SUPPLEMENTAL DISCLOSURE

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

Hedge of losses on translation of borrowings denominated in US dollar

For the six months ended June 30, 2014 the Group utilized hedging of net investments in certain subsidiaries classified as foreign operations against selected borrowings denominated in US dollar (*Note 15*). Effect of hedging was equal to 322,933,870 thousand tenge which was reclassified from profits and losses to other comprehensive income, under exchange differences on translation of foreign operations (for the six months ended June 30, 2013: nil).

Financial guarantee

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

Contribution of pipelines

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

The accounting policies and explanatory notes on pages 10 through 37 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**NON-CASH TRANSACTIONS: SUPPLEMENTAL DISCLOSURE (continued)***Capitalization of borrowing costs*

For the six months ended June 30, 2014 the Group capitalized in the carrying amount of property, plant and equipment borrowing costs in the amount of 8,304,961 thousand tenge (for the six months, ended June 30, 2013: 4,585,859 thousand tenge) (Note 4).

Account payable for non-current assets

For the six months ended June 30, 2014 trade payables for purchases of property, plant and equipment increased by 25,222,081 thousand tenge (for the six months ended June 30, 2013: decreased by 9,038,912 thousand tenge).

Managing director for economics and finance

Chief Accountant



The accounting policies and explanatory notes on pages 10 through 37 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In thousands of tenge</i>	Attributable to equity holder of the Parent Company					
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Non-controlling interest
					Total	Total
As at December 31, 2012 (audited)	527,760,531	19,062,712	2,180,382	222,112,349	2,241,272,475	581,147,319
Net profit for the period	-	-	-	-	230,642,217	11,429,218
Other comprehensive income	-	-	-	16,506,463	-	553,413
Total comprehensive income for the period	-	-	-	16,506,463	230,642,217	11,982,631
As at June 30, 2013 (unaudited)	536,677,432	19,645,866	2,182,987	238,618,812	2,440,001,733	549,259,569
Contribution by the Parent Company	8,916,901	583,154	-	-	-	-
Dividends (Note 14)	-	-	-	-	(38,961,364)	(43,576,318)
Distributions to the Parent Company	-	-	-	-	7,173,045	-
Recognition of share based payments at subsidiaries	-	-	2,605	-	46,273	(36,221)
Change in ownership of subsidiaries	-	-	-	-	(170,913)	(257,842)
As at June 30, 2013 (unaudited)	536,677,432	19,645,866	2,182,987	238,618,812	2,440,001,733	549,259,569
					3,237,126,830	3,786,386,399

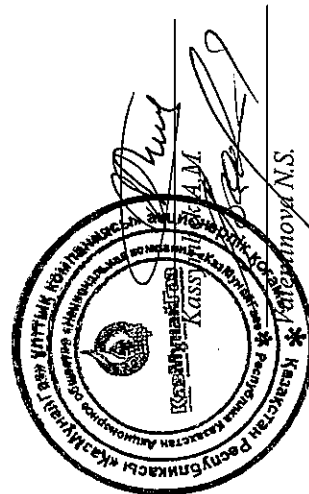
The accounting policies and explanatory notes on pages 10 through 37 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

In thousands of tenge	Attributable to equity holder of the Parent Company					Non-controlling interest	Total
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings		
As at December 31, 2013 (audited)	546,485,470	19,645,866	2,185,813	269,950,758	2,611,367,993	586,555,014	4,036,190,914
Net profit for the period	-	-	-	-	262,578,545	72,962,503	335,541,048
Other comprehensive income	-	-	-	186,547,887	(1,018,778)	21,091,076	206,620,185
Total comprehensive income for the period	-	-	-	186,547,887	261,559,767	94,053,579	542,161,233
Issue of share capital (Note 14)	3,823,503	-	-	-	-	-	3,823,503
Transactions with the Parent Company (Note 14)	-	6,791,631	-	-	-	-	6,791,631
Dividends (Note 14)	-	-	-	-	-	(53,859,310)	(53,859,310)
Distributions to the Parent Company (Note 14)	-	-	-	-	(2,144,887)	-	(2,144,887)
Exercise of employee options	-	-	149	-	2,757	1,691	4,597
Forfeiture of share based payments	-	-	(29,401)	-	-	(17,108)	(46,509)
Acquisition of non-controlling interest	-	-	-	-	2,005	(2,005)	-
As at June 30, 2014 (unaudited)	550,308,973	26,437,497	2,156,561	456,498,645	2,870,787,635	626,731,861	4,532,921,172

Managing director for economics and finance

Chief Accountant



The accounting policies and explanatory notes on pages 10 through 37 form an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the six months ended June 30, 2014**

1. GENERAL

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

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

As at June 30, 2014, the Company has a direct interest in 39 operating companies (as of December 31, 2013: 41) (jointly the “Group”).

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

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

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

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

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

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

Foreign currency translation*Functional and presentation currency*

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

Transactions and balances

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

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

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

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

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

Group Companies

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

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

Exchange rates

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

The currency exchange rates of KASE as at June 30, 2014 and December 31, 2013 were 183.52 and 153.61 tenge to 1 US dollar accordingly. These rates were used for translation of monetary assets and liabilities denominated in US dollars at June 30, 2014 and December 31, 2013. The currency exchange rate of KASE as at August 14, 2014 was 182.00 tenge to 1 US dollar.

New and amended standards and interpretations

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

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

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

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

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

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

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

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

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

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

IFRIC 21 Levies

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

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

3. SEASONALITY OF OPERATIONS

The Group's operating costs are subject to seasonal fluctuations, with higher expenses for materials and repair, maintenance and other services usually expected later in the year rather than in the first six months. These fluctuations are mainly due to the requirement to conduct formal public tenders during the first six months for goods and services purchased in the second six months of the year.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. PROPERTY, PLANT AND EQUIPMENT**

<i>In thousands of tenge</i>	Oil and gas assets	Pipelines	Refinery assets	Buildings and improve- ments	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Net book value as at December 31, 2013 (audited)	2,067,707,778	300,227,747	467,774,426	218,999,708	238,070,105	95,080,967	28,503,984	322,671,034	3,739,035,749
Foreign currency translation	342,857,413	–	62,374,293	11,037,874	5,883,566	4,250,109	774,177	2,147,995	429,325,427
Additions	52,870,567	13,232,281	890,875	117,000	2,216,459	1,191,147	1,288,097	136,220,689	208,027,115
Acquisition of subsidiary	–	374,983	–	94,947	43,854	51,771	17,671	199,801	783,027
Disposals	(3,523,095)	(162,608)	(959,398)	(2,805,666)	(2,940,935)	(796,988)	(1,162,375)	(273,701)	(12,624,766)
Depreciation charge	(32,880,047)	(7,829,374)	(24,936,211)	(6,954,579)	(14,175,040)	(6,330,184)	(3,703,924)	–	(96,809,359)
Accumulated depreciation and impairment on disposals	3,522,455	87,702	708,745	1,224,570	1,205,712	535,057	597,230	756,274	8,637,745
(Impairment)/reversal of impairment	(23,998,454)	(48,844)	–	757,316	1,201,085	(470,540)	(100,164)	(2,117,652)	(24,777,253)
Transfers from exploration and evaluation assets (Note 5)	60,447	–	–	–	–	–	–	–	60,447
Transfers to intangible assets (Note 7)	(99,683)	–	–	–	–	–	–	(740,447)	(840,130)
Transfers to assets classified as held for sale	–	–	(206,505)	–	–	(20,002)	–	(834)	(227,341)
Transfers and reclassifications	45,843,729	15,522,305	5,368,974	7,001,675	7,362,340	6,382,042	2,483,483	(89,964,548)	–
Net book value as at June 30, 2014 (unaudited)	2,452,361,110	321,404,192	511,015,199	229,472,845	238,867,146	99,873,379	28,698,179	368,898,611	4,250,590,661
At cost	2,943,999,530	412,128,301	759,588,338	343,267,376	414,448,044	166,198,319	69,510,222	380,219,540	5,489,359,670
Accumulated depreciation and impairment	(491,638,420)	(90,724,109)	(248,573,139)	(113,794,531)	(175,580,898)	(66,324,940)	(40,812,043)	(11,320,929)	(1,238,769,009)
Net book value as at June 30, 2014 (unaudited)	2,452,361,110	321,404,192	511,015,199	229,472,845	238,867,146	99,873,379	28,698,179	368,898,611	4,250,590,661
At cost	2,497,105,567	382,618,606	670,151,777	319,808,146	396,762,801	153,473,884	63,536,427	331,354,456	4,814,811,664
Accumulated depreciation and impairment	(429,397,789)	(82,390,859)	(202,377,351)	(100,808,438)	(158,692,696)	(58,392,917)	(35,032,443)	(8,683,422)	(1,075,775,915)
Net book value as at December 31, 2013 (audited)	2,067,707,778	300,227,747	467,774,426	218,999,708	238,070,105	95,080,967	28,503,984	322,671,034	3,739,035,749

For the six months ended June 30, 2014, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 5.96% in the amount of 8,304,961 thousand tenge which are related to the construction of new assets (for the six months ended June 30, 2013: 4,585,859 thousand tenge at the average interest rate of 6.57%).

As at June 30, 2014, items of property, plant and equipment with the net book value of 1,530,039,597 thousand tenge (as at December 31, 2013: 1,305,221,887 thousand tenge) were pledged as collateral to secure borrowings and payables of the Group (Notes 15 and 16).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Impairment of property, plant and equipment

For the six months ended June 30, 2014, the Group recorded net impairment loss in the amount of 24,777,253 thousand tenge, which is mainly attributable to impairment of property, plant and equipment of KMG EP in the amount of 27,437,000 thousand tenge. Impairment loss at KMG EP was primarily due to the increase in employee benefit costs and export custom duty from April 12, 2014 – from 60 US dollar per ton to 80 US dollar per ton.

5. EXPLORATION AND EVALUATION ASSETS

<i>In thousands of tenge</i>	Tangible	Intangible	Total
Net book value as at December 31, 2013 (audited)	199,570,672	22,129,266	221,699,938
Foreign currency translation	19,654,651	1,644,500	21,299,151
Additions	8,995,407	6,619	9,002,026
Transfer to property, plant and equipment (Note 4)	(60,447)	–	(60,447)
Disposals	(3,210,316)	(1,352,157)	(4,562,473)
Accumulated impairment on disposals	–	1,323,094	1,323,094
Transfers and reclassifications	(177,334)	177,334	–
Net book value as at June 30, 2014 (unaudited)	224,772,633	23,928,656	248,701,289

As at June 30, 2014, certain exploration and evaluation assets with the carrying amount of 52,783,446 thousand tenge were pledged as collateral to secure payables of the Group (as at December 31, 2013: 45,736,815 thousand tenge) (Note 16).

6. INVESTMENT PROPERTY

<i>In thousands of tenge</i>	Total
Net book value as at December 31, 2013 (audited)	28,243,320
Depreciation charge	(304,373)
Disposals	(3,956)
Accumulated depreciation and impairment on disposals	3,956
Net book value as at June 30, 2014 (unaudited)	27,938,947
At cost	29,309,063
Accumulated depreciation and impairment	(1,370,116)
Net book value as at June 30, 2014 (unaudited)	27,938,947
At cost	29,313,019
Accumulated depreciation and impairment	(1,069,699)
Net book value as at December 31, 2013 (audited)	28,243,320

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INTANGIBLE ASSETS

<i>In thousands of tenge</i>	Goodwill	Marketing related intangible assets	Software	Other	Total
Net book value as at December 31, 2013 (audited)	135,080,474	27,956,406	19,201,029	18,204,974	200,442,883
Foreign currency translation	(551,108)	5,440,790	1,313,042	3,062,587	9,265,311
Additions	—	706	769,740	545,789	1,316,235
Disposals	—	—	(981,367)	(25,252)	(1,006,619)
Amortization charge	—	—	(3,234,526)	(956,096)	(4,190,622)
Accumulated amortization on disposals	—	—	979,107	15,395	994,502
Impairment	(1,622,222)	—	—	28,582	(1,593,640)
Transfer from property, plant and equipment (Note 4)	—	—	607,627	232,503	840,130
Transfers	—	—	1,156,231	(1,156,231)	—
Net book value as at June 30, 2014 (unaudited)	132,907,144	33,397,902	19,810,883	19,952,251	206,068,180
At cost	165,251,060	34,133,384	46,303,295	42,494,296	288,182,035
Accumulated amortization and impairment	(32,343,916)	(735,482)	(26,492,412)	(22,542,045)	(82,113,855)
Net book value as at June 30, 2014 (unaudited)	132,907,144	33,397,902	19,810,883	19,952,251	206,068,180
At cost	165,802,168	28,585,862	42,789,530	37,181,369	274,358,929
Accumulated amortization and impairment	(30,721,694)	(629,456)	(23,588,501)	(18,976,395)	(73,916,046)
Net book value as at December 31, 2013 (audited)	135,080,474	27,956,406	19,201,029	18,204,974	200,442,883

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

Cash-generating unit	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Refining	9,456,670	11,045,697
Downstream Romania	6,777,844	6,688,772
Dyneff	5,478,453	5,222,688
Other	9,268,347	8,575,265
Cash generating units of KMG International N.V. (former TRG)	30,981,314	31,532,422
Cash-generating units of PNHZ	88,553,296	88,553,296
Other	13,372,534	14,994,756
Total goodwill	132,907,144	135,080,474

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. LONG-TERM BANK DEPOSITS

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Denominated in US Dollar	65,451,864	38,739,598
Denominated in KZT	28,122,931	43,196,138
	93,574,795	81,935,736

As at June 30, 2014, the weighted average interest rate for long-term bank deposits was 3.98% in US Dollars and 7.88% in tenge, respectively (as at December 31, 2013: 2.66% in US dollars and 5.23% in tenge, respectively).

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Maturities between 1 and 2 years	10,131,360	34,235,660
Maturities over 2 years	83,443,435	47,700,076
	93,574,795	81,935,736

As at June 30, 2014, long-term bank deposits include cash pledged as collateral in the amount of 56,018,950 thousand tenge (as at December 31, 2013: 31,735,113 thousand tenge).

As at June 30, 2014, long-term bank deposits include an amount of 8,500,000 thousand tenge placed with Alliance Bank JSC (as at December 31, 2013: 6,431,153 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

In thousands of tenge	Main activity	Place of business	June 30, 2014 (unaudited)		December 31, 2013 (audited)	
			Carrying amount	Percentage ownership	Carrying amount	Percentage ownership
<u>Joint ventures:</u>						
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	452,130,140	20.00%	311,880,773	20.00%
Mangistau Investments B.V.	Oil and gas development and production	Netherlands	206,974,284	50.00%	185,003,198	50.00%
Kazakhroil-Aktobe LLP	Production and sale of crude oil	Kazakhstan	88,206,252	50.00%	83,800,157	50.00%
Beineu-Shymkent Pipeline LLP	Construction and operation of the Beineu-Shymkent gas pipeline	Kazakhstan	74,528,541	50.00%	70,268,878	50.00%
KazRosGas LLP	Processing and sale of natural gas and refined gas products	Kazakhstan	70,262,199	50.00%	46,081,108	50.00%
KazGerMunay LLP	Exploration, production and processing of oil and gas	Kazakhstan	75,435,680	50.00%	69,047,486	50.00%
Other			99,370,044		121,483,321	
<u>Associates:</u>						
PetroKazakhstan Inc. ("PKI")	Exploration, production and processing of oil and gas	Kazakhstan	121,038,159	33.00%	86,391,266	33.00%
Other			30,666,169		24,533,989	
			1,218,611,468		998,490,176	

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

As at June, 30 2014, the Group's share in unrecognized losses of joint ventures and associates was equal to 74,096,934 thousand tenge (as at December 31, 2013: 22,979,168 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

In thousands of tenge

At January 1, 2014 (audited)	998,490,176
Financial guarantee issued by the Group for the benefit of joint venture	19,223,304
Acquisition of joint venture	2,200,000
Share in profits of joint ventures and associates, net (Note 26)	222,695,867
Dividends received	(126,987,054)
Change in dividends receivable	(16,229,764)
Discount on loan provided to joint ventures by the Group	1,050,779
Impairment of investments	(343,359)
Foreign currency translation	118,511,519
At June 30, 2014 (unaudited)	1,218,611,468

10. INVENTORIES

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Materials and supplies	99,705,995	92,901,093
Refined products	85,760,186	66,798,121
Crude oil	57,262,765	49,514,262
Gas products	4,630,632	8,213,243
Less: provision for obsolete inventory	(13,513,973)	(13,084,677)
	233,845,605	204,342,042

As at June 30, 2014 the Group has inventories in the amount of 58,565,198 thousand tenge pledged as loan collateral (as at December 31, 2013: 51,301,439 thousand tenge).

11. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Prepaid and deferred expenses	35,460,742	22,798,266
Taxes receivable	18,409,907	18,139,829
Other current assets	50,945,258	47,329,519
Less: allowance for impairment	(18,572,533)	(14,182,876)
Total other current assets	86,243,374	74,084,738
Trade accounts receivable	290,902,581	311,156,649
Less: allowance for impairment	(31,335,364)	(26,709,602)
Trade accounts receivable	259,567,217	284,447,047

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

As at June 30, 2014 the Group has trade accounts receivable in the amount of 42,184,178 thousand tenge pledged as loan collateral (as at December 31, 2013: 91,914,387 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	June 30, 2013 (unaudited)
As at January 1 (audited)	40,892,478	30,772,399
Charge for the period	3,376,011	2,207,828
Write-off	(2,159,853)	(532,585)
Foreign currency translation	8,017,501	(154,598)
Reinstatement	–	5,930,926
Recovered	(218,240)	(868,665)
As at June 30 (unaudited)	49,907,897	37,355,305

12. SHORT-TERM FINANCIAL ASSETS

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Short-term bank deposits	764,968,490	809,153,405
Loans due from related parties	28,392,379	11,237,901
Less: allowance for impairment of loans to related parties	(5,799,179)	(5,799,179)
	787,561,690	814,592,127

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Short-term financial assets in US Dollars	584,388,655	534,303,888
Short-term financial assets in tenge	200,756,985	280,048,556
Short-term financial assets in other foreign currencies	2,416,050	239,683
	787,561,690	814,592,127

As at June 30, 2014, the weighted average interest rate for short-term bank deposits was 2.02% in US dollars, 6.53% in tenge and 1.07% in other foreign currencies, respectively (as at December 31, 2013: 2.13% in US dollars, 5.47% in tenge and 0.18% in other foreign currencies, respectively).

As at June 30, 2014, short-term bank deposits include 1,060,000 thousand tenge with Alliance Bank JSC (as at December 31, 2013: 1,000,000 thousand tenge).

Loans due from related parties are stated at amortized cost.

13. CASH AND CASH EQUIVALENTS

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Term deposits with banks – tenge	259,474,319	140,218,188
Term deposits with banks – US Dollars	206,695,495	169,904,989
Current accounts with banks – US Dollars	86,687,404	35,053,982
Current accounts with banks – tenge	59,436,452	36,660,389
Term deposits with banks – other currencies	11,708,448	15,080,167
Current accounts with banks – other currencies	9,341,169	8,657,778
Cash-on-hand	12,661,859	1,751,273
	646,005,146	407,326,766

Term deposits with banks are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. As at June 30, 2014, the weighted average interest rate for time deposits with banks was 1.02% in US dollars and 7.14% in tenge, respectively (as at December 31, 2013: 0.39% in US dollars and 6.32% in tenge, respectively).

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

13. CASH AND CASH EQUIVALENTS (continued)

As at June 30, 2014, cash and cash equivalents include an amount of 87,224 thousand tenge placed with Alliance Bank JSC (as at December 31, 2013: 2,687,617 thousand tenge).

As at June 30, 2014 cash and cash equivalents in the amount of 1,118,677 thousand tenge were pledged as collateral (as at December 31, 2013: 1,286,330 thousand tenge).

14. EQUITY**Share capital**

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

Transactions with the Parent Company

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

Distributions to the Parent Company

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

Dividends

For the six months ended June 30, 2014 the Group has not declared dividends to the Shareholder (for the six months ended June 30, 2013: 75.19 tenge per common share totaling to 38,961,363 thousand tenge).

For the six months ended June 30, 2014 the Group declared dividends of 53,859,310 thousand tenge to the holders of non-controlling interest (for the six months ended June 30, 2013: 43,567,318 thousand tenge). During the six months ended June 30, 2014 the Group paid dividends 43,253,070 thousand tenge to the holders of non-controlling interest (for the six months ended June 30, 2013: nil).

Currency translation reserves

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

Non-controlling interest

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

	Country of incorporation and operation	June 30, 2014 (unaudited)		December 31, 2013 (audited)	
		Share	Carrying value	Share	Carrying value
KazMunayGas Exploration Production JSC	Kazakhstan	36.78%	552,612,142	36.78%	504,354,642
KazTransOil JSC	Kazakhstan	10.00%	34,106,360	10.00%	34,452,183
Rompetrol Rafinare S.A.	Romania	45.37%	21,191,740	45.37%	24,470,078
Rompetrol Downstream S.R.L.	Romania	45.37%	24,513,191	45.37%	20,437,441
Rompetrol Petrochemicals S.R.L.	Romania	45.37%	12,687,385	45.37%	7,460,843
Rompetrol Vega	Romania	45.37%	(11,114,531)	45.37%	(9,130,586)
Other			(7,264,426)		4,510,413
			626,731,861		586,555,014

15. BORROWINGS

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Fixed interest rate borrowings	1,949,054,400	1,638,355,440
Weighted average interest rates	7.41%	7.09%
Variable interest rate borrowings	748,443,539	668,787,410
Weighted average interest rates	4.03%	3.94%
	2,697,497,939	2,307,142,850

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
US dollar – denominated borrowings	2,412,392,980	2,033,475,198
Tenge – denominated borrowings	253,358,835	237,962,390
Euro – denominated borrowings	31,230,095	33,042,893
Other currency – denominated borrowings	516,029	2,662,369
	2,697,497,939	2,307,142,850

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Current portion	611,730,883	301,710,769
Non-current portion	2,085,767,056	2,005,432,081
	2,697,497,939	2,307,142,850

As at June 30, 2014 the Group's property, plant and equipment with carrying value of 646,584,347 thousand tenge (December 31, 2013: 588,678,447 thousand tenge) (Note 4), inventories of 58,565,198 thousand tenge (as at December 31, 2013: 51,301,439 thousand tenge) (Note 10) and trade accounts receivable of 42,184,178 thousand tenge (as at December 31, 2013: 91,914,387 thousand tenge) (Note 11) were pledged as loan collateral.

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

15. BORROWINGS (continued)

For the six months ended June 30, 2014 the Group placed bonds and received borrowings in the total amount of 146,107,230 thousand tenge and settled borrowings in the amount of 165,721,921 thousand tenge.

The increase in US dollars denominated borrowings is mainly related to the devaluation of tenge by 20% in relation to US dollar to 183,51 tenge for 1 US dollar as at June 30, 2014.

Hedge of net investment in the foreign operations

As at June 30, 2014 certain borrowings denominated in foreign currency were designated as hedge instrument for the net investment in the foreign operations. For the six months ended June 30, 2014, losses of 322,933,870 thousand tenge on the translation of these borrowings were transferred to other comprehensive income and offset the gains on translation of the net investments in the foreign operations.

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

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

The interest acquired in the NCP of 8.48%, or property, plant and equipment and exploration and evaluation assets with carrying value of 883,455,250 thousand tenge (*Note 4*) and 52,783,446 thousand tenge (*Note 5*), respectively, as of 30 June 2014 was pledged in favour of other Contractors until full repayment of the payable (December 31, 2013: 8.48%, or property, plant and equipment and exploration and evaluation assets with carrying value of 716,543,440 thousand tenge (*Note 4*) and 45,736,815 thousand tenge (*Note 5*), respectively).

As at June 30, 2014 the amortized cost of this payable was equal to 391,912,011 thousand tenge (as at December 31, 2013: 322,329,783 thousand tenge).

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. PROVISIONS

<i>In thousands of tenge</i>	Asset retirement obligations	Provision for expenses related to gas borrowing	Provision for environmental obligation	Provision for taxes	Other	Total
As at December 31, 2013 (audited)	57,177,225	21,267,496	36,839,537	20,230,129	72,344,030	207,858,417
Foreign currency translation	4,575,331	1,645,840	3,112,425	36,298	(583,746)	8,786,148
Change in estimate	3,781,592	19,614,970	(2,078,598)	—	—	21,317,964
Unwinding of discount	956,118	—	547,863	—	3,793	1,507,774
Provision for the period	8,673,787	—	46,507	388,800	11,185,565	20,294,659
Unused amounts reversed	—	—	(56,289)	—	(210,305)	(266,594)
Use of provision	(6,028,354)	(781,673)	(412,749)	(3,040,075)	(10,874,763)	(21,137,614)
As at June 30, 2014 (unaudited)	69,135,699	41,746,633	37,998,696	17,615,152	71,864,574	238,360,754

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

<i>In thousands of tenge</i>	Asset retirement obligations	Provision for expenses related to gas borrowing	Provision for environmental obligation	Provision for taxes	Other	Total
As at June 30, 2014 (unaudited)						
Current portion	1,206,432	41,746,633	6,544,025	17,615,152	40,080,030	107,192,272
Long-term portion	67,929,267	—	31,454,671	—	31,784,544	131,168,482
Provision as at June 30, 2014 (unaudited)	69,135,699	41,746,633	37,998,696	17,615,152	71,864,574	238,360,754
As at December 31, 2013 (audited)						
Current portion	1,160,568	21,267,496	6,941,759	20,230,129	43,673,650	93,273,602
Long-term portion	56,016,657	—	29,897,778	—	28,670,380	114,584,815
As at December 31, 2013 (audited)	57,177,225	21,267,496	36,839,537	20,230,129	72,344,030	207,858,417

18. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Advances received	46,405,677	38,470,634
Due to employees	27,730,528	29,962,274
Other	67,430,744	50,764,773
Total other current liabilities	141,566,949	119,197,681
Trade accounts payable	230,630,275	225,091,612

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

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
US dollars	91,511,290	69,382,201
Tenge	82,446,249	114,725,508
Euro	27,267,358	19,414,475
Other currency	29,405,378	21,569,428
Total	230,630,275	225,091,612

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. OTHER TAXES PAYABLE

<i>In thousands of tenge</i>	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Rent tax on crude oil export	41,775,541	38,273,745
Mineral extraction tax	25,482,795	23,008,726
Excise tax	20,679,115	14,086,448
VAT	18,419,877	12,405,653
Special fund on petroleum products	1,573,782	1,300,616
Other	26,753,171	20,568,209
	134,684,281	109,643,397

20. REVENUE

<i>In thousands of tenge</i>	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Sales of refined products	1,010,531,077	821,521,971
Sales of crude oil	363,541,497	377,052,281
Transportation fee	143,614,178	129,329,529
Sales of gas and gas products	140,911,374	115,198,340
Other revenue	129,568,003	96,368,071
Less: sales taxes and commercial discounts	(180,279,526)	(121,379,386)
	1,607,886,603	1,418,090,806

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

21. COST OF SALES

<i>In thousands of tenge</i>	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Materials and supplies	734,991,707	685,694,479
Payroll	124,660,789	92,817,631
Depreciation, depletion and amortization	87,198,296	72,693,568
Mineral extraction tax	48,512,252	38,736,613
Electricity	24,061,653	21,465,227
Repair and maintenance	16,594,022	14,138,172
Other taxes	10,709,863	14,970,685
Other	63,931,567	49,628,094
	1,110,660,149	990,144,469

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of tenge</i>	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Payroll	30,351,592	23,048,319
Depreciation and amortization	7,923,609	8,260,270
Charitable donations and sponsorship	5,365,717	6,402,122
Consulting services	3,893,944	3,947,523
Allowance for impairment of trade accounts receivable and other current assets (Note 11)	3,157,771	1,734,108
Other taxes	2,868,579	9,804,023
Fines and penalties	2,575,136	5,150,275
Provision	—	7,222,578
(Reversal)/ accrual of provision for obsolete and slow-moving inventories	(1,031,012)	1,502,073
Other	15,869,725	12,842,953
	70,975,061	79,914,244

23. TRANSPORTATION AND SELLING EXPENSES

<i>In thousands of tenge</i>	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Rent tax on crude oil export	88,637,624	75,614,211
Customs duty	41,954,354	23,603,936
Transportation	26,905,786	24,575,312
Payroll	10,134,588	7,784,361
Depreciation and amortization	6,005,058	5,814,048
Other	11,511,464	8,741,506
	185,148,874	146,133,374

24. FINANCE INCOME

<i>In thousands of tenge</i>	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Interest income on bank deposits, loans and bonds	23,349,151	14,190,311
Other	5,101,502	3,090,643
	28,450,653	17,280,954

25. FINANCE COSTS

<i>In thousands of tenge</i>	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Interest on loans and debt securities issued	78,213,894	66,809,766
Interest on payable for the acquisition of additional interest in North Caspian Project	7,323,498	6,478,178
Amortization of discount on loans and debt securities issued	2,904,497	2,628,789
Unwinding of discount on provisions	2,647,323	1,517,973
Discount on assets with non-market interest rate	470,771	2,390,746
Other	10,260,692	7,409,292
	101,820,675	87,234,744

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

<i>In thousands of tenge</i>	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Tengizchevroil LLP	173,855,578	149,478,673
Mangistau Investments B.V.	44,080,694	27,021,018
PetroKazakhstan Inc.	17,970,922	15,036,571
KazGerMunay LLP	15,420,401	20,037,916
KazRosGas LLP	14,607,969	10,353,928
Kazakhoil-Aktobe LLP	4,406,095	6,072,888
Asian Gas Pipeline LLP	(24,438,856)	11,440,335
Share in profit/ (loss) of other joint ventures and associates	(23,206,936)	6,231,312
	222,695,867	245,672,641

27. INCOME TAX EXPENSE

<i>In thousands of tenge</i>	For the six months ended June 30, 2014 (unaudited)	For the six months ended June 30, 2013 (unaudited)
Current income tax:		
Corporate income tax	87,645,260	57,959,304
Excess profit tax	8,815,513	4,613,616
Withholding tax on dividends and interest income	14,251,792	18,189,202
Deferred income tax:		
Corporate income tax	(18,686,497)	(9,759,702)
Excess profit tax	(5,757,843)	4,564,668
Withholding tax on dividends and interest income	21,037,405	3,626,310
Income tax expense	107,305,630	79,193,398

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. RELATED PARTY DISCLOSURES

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

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

<i>In thousands of tenge</i>		Due from related parties	Due to related parties	Cash and deposits placed with related parties	Borrowings payable to related parties
Samruk-Kazyna entities	June 30, 2014	45,552,572	797,477	9,936,735	7,034,446
	December 31, 2013	47,859,637	782,487	28,346,122	7,027,531
Associates	June 30, 2014	51,002,623	365,157	–	–
	December 31, 2013	42,390,553	1,941,683	–	–
Other related parties	June 30, 2014	–	–	183,524	354,444,621
	December 31, 2013	–	–	1,025,970	278,318,367
Joint ventures in which the Group is a venturer	June 30, 2014	85,016,802	35,224,335	–	–
	December 31, 2013	42,163,076	30,635,788	–	–

Due from related parties

As at June 30, 2014, due from related parties included bonds receivable from the Parent Company with the carrying amount of 39,250,815 thousand tenge (as at December 31, 2013: 41,362,676 thousand tenge). These bonds are maturing in 2044 and coupon rate is 4% per annum.

As at June 30, 2014 and December 31, 2013 due from associates include dividends receivable from PKI in the amount of 21,861,546 thousand tenge (as at December 31, 2013: 19,262,694 thousand tenge) and note receivable from Caspian Pipeline Consortium in the amount of 27,576,782 thousand tenge (as at December 31, 2013: 22,411,853 thousand tenge).

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

Due to related parties

As at June 30, 2014 due to joint ventures include trade payable to Kazakhoil Aktobe LLP, Asian Gas Pipeline LLP and Mangistaumunaigas JSC in the amount of 6,210,733 thousand tenge, 2,808,729 thousand tenge and 15,542,562 thousand tenge, respectively (as at December 31, 2013: 11,405,648 thousand tenge, 4,474,917 thousand tenge and 5,795,937 thousand tenge, respectively).

Cash and deposits placed with related parties

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

Borrowings payable to related parties

As at June 30, 2014, borrowings payable to related parties included loans payable to the Parent Company with the carrying amount of 7,034,446 thousand tenge (as at December 31, 2013: 6,881,519 thousand tenge).

As at June 30, 2014, borrowings payable to related parties mainly included bonds and loans payable to DBK and Housing Construction Savings Bank of Kazakhstan JSC with the carrying amount of 338,530,040 thousand tenge and 11,118,882 thousand tenge, respectively (as at December 31, 2013: 274,184,930 thousand tenge and nil, respectively).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. RELATED PARTY DISCLOSURES (continued)

Borrowings payable to related parties (continued)

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

<i>In thousands of tenge</i>		Sales to related parties	Purchases from related parties	Interest earned from related parties	Interest incurred to related parties
Samruk-Kazyna entities	June 30, 2014	25,623,110	15,781,837	2,987,565	289,280
	June 30, 2013	18,975,822	14,392,795	2,711,911	3,450,585
Associates	June 30, 2014	754,138	1,485,361	—	—
	June 30, 2013	6,204,953	2,192	295,064	143,526
Other related parties	June 30, 2014	—	—	—	462,833
	June 30, 2013	76,478	646,007	—	5,444,956
Joint ventures in which the Group is a venturer	June 30, 2014	98,002,248	64,497,161	3,186,103	—
	June 30, 2013	86,399,605	82,521,591	2,585,712	2,458,588

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

Key management employee compensation

Total compensation to key management personnel included in general and administrative expenses in the accompanying interim consolidated statement of comprehensive income was equal to 3,099,846 thousand tenge and 2,564,117 thousand tenge for the six months ended June 30, 2014 and June 30, 2013, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

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

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

	June 30, 2014 (unaudited)			
	Fair value by level of assessment			Based on the
		Quotations in an active market (Level 1)	From the observed market (Level 2)	significant amount of unobserved (Level 3)
<i>In thousands of tenge</i>	Carrying amount	Fair value		
Bonds receivable from the Parent Company	39,250,815	74,161,207	74,161,207	—
Fixed interest rate borrowings	1,949,054,400	2,119,149,377	2,119,149,377	—

December 31, 2013 (audited)

December 31, 2016 (continued)				
	Fair value by level of assessment			Based on the significant amount of unobserved (Level 3)
	Quotations in an active market (Level 1)	From the observed market (Level 2)		
<i>In thousands of tenge</i>	Carrying amount	Fair value		
Bonds receivable from the Parent Company	41,362,676	74,068,954	74,068,954	—
Fixed interest rate borrowings	1,638,355,440	1,854,074,777	1,854,074,777	—

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

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

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

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

Tax audit of 2006-2008 (KMG EP)

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

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

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

As at June 30, 2014 existing provision for taxes include an amount 11,969 million tenge, comprised of principal of 4,809 million tenge, fines of 2,615 million tenge and late payment interest of 4,545 million tenge. Management believes that KMG EP will be successful in appealing the remaining balances of principal, fines, and late payment interest of the assessments.

Ozenmunaigas environmental audit 2012-2013 (KMG EP)

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

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

30. CONTINGENT LIABILITIES AND COMMITMENTS (continued)**Embamunaigas Gas flaring (KMG EP)**

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

EMG disagreed with this notification and appealed the claim of the DEAR. On June 3, 2014 EMG received the final assessment with reduced amount of ecological damages and the liability to pay 1,959 million tenge. The amount was accrued and paid during June 2014.

Ecological audit (KMG Kashagan B.V.)

During 2013 production at Kashagan field, there was a gas leakage on the pipeline. DEAR has conducted the extraordinary inspection of the NCOC, the Operator, and Agip KCO, its agent, for the period from September 2013 to February 2014. As a result of inspection Acts, orders, injunctions related to gas flaring and emissions into environment were issued. Based on the issued documents the following claims were filed including administrative fines for violation of environmental laws in the amount of US dollars 9,256 thousand (1,699 million tenge at June 30, 2014 exchange rate) and fine for pollution in the amount of US dollars 123,507 thousand (23 billion tenge at June 30, 2014 exchange rate). Based on the decision of Atyrau specialized administrative court administrative fine for violation of environmental laws was paid in May 2014. The Management of the Company assessed the risk of paying the fine for pollution as possible and no provision was recognized for the above stated amount (31 December 2013: nil).

Ecological audit of ANPZ (KMG PM)

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

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

Cost recovery audit***KMG Kashagan B.V.***

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

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

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

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

As a result of cost recovery audits performed for the periods from 2001 to 2008 expenditures in the amount of US dollars 7,974,680 thousand (1,463 billion tenge at June 30, 2014 exchange rate) were disallowed from cost recovery.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Cost recovery audit (continued)

KMG Kashagan B.V. (continued)

The Group's share in these expenditures was US dollars 1,340,336 thousand (246 billion tenge at June 30, 2014 exchange rate). As a result of the work performed by the contractors to resolve the comments, the Management

Committee signed the resolutions, according to which the disallowed recovery costs were reduced to US dollars 556,311 thousand (102 billion tenge at June 30, 2014 exchange rate) with the Group's share amounting to US dollars 93,887 thousand (17 billion tenge at June 30, 2014 exchange rate). The amount unsettled up to date is US dollars 118,456 thousand (22 billion tenge at June 30, 2014 exchange rate) with the Group's share amounting to US dollars 19,991 thousand (3,669 million tenge at June 30, 2014 exchange rate).

Cost recovery audit for 2009 was completed in 2012. As a result of the audit performed expenditures in the amount of US dollars 1,783,971 thousand (327 billion tenge at June 30, 2014 exchange rate) were initially disallowed for cost recovery, after resolving the comments the disallowed recovery costs were reduced to US dollars 875,000 thousand (161 billion tenge at June 30, 2014 exchange rate). The amount unsettled up to date is US dollars 416,682 thousand (76 billion tenge at June 30, 2014 exchange rate). The Group's share in these expenditures is US dollars 70,322 thousand (13 billion tenge at June 30, 2014 exchange rate). Further negotiations are conducted to resolve the issue in the favour of the contractors.

Cost recovery audit for 2010 was completed in 2013. As a result of the audit performed expenditures in the amount of US dollars 1,335,537 thousand (245 billion tenge at June 30, 2014 exchange rate) were initially disallowed for cost recovery. As a result of negotiations and work performed by the Operator to resolve comments an amount of US dollars 60,371 thousand (11 billion tenge at June 30, 2014 exchange rate) was classified as non-recoverable costs and US dollars 726,813 thousand (133 billion tenge at June 30, 2014 exchange rate) remain unresolved. The Group's share in these costs is US dollars 10,189 thousand (1,870 million tenge at June 30, 2014 exchange rate) and US dollars 122,662 thousand (23 billion tenge at June 30, 2014 exchange rate), respectively. Further negotiations are conducted to resolve the issue in the favour of the contractors.

Cost recovery audit for 2011 was completed in December 2013. As a result of the audit performed expenditures in the amount of US dollars 1,305,331 thousand (240 billion tenge at June 30, 2014 exchange rate) were disallowed for cost recovery. The Group's share in these costs is US dollars 220,297 thousand (40 billion tenge at June 30, 2014 exchange rate). The amount of disallowed costs could be reduced based on the results of negotiations between the Operator and the Authority.

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

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

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

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

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

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

30. CONTINGENT LIABILITIES AND COMMITMENTS (continued)**Convertible debt instrument and related litigations (KMG International N.V.) (continued)**

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

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

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

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

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

Temporary compensatory tariff (KTO)

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

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

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

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

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

Purchase-sale agreement

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

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. SEGMENT REPORTING

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

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

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

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

<i>In thousands of tenge</i>	Exploration and production of oil and gas	Oil transportation	Gas transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	5,317,772	89,857,531	172,435,446	1,294,087,802	46,188,052	–	1,607,886,603
Revenues from sales to other segments	521,830,448	19,056,247	627,243	2,966,468	10,328,454	(554,808,860)	–
Total revenue	527,148,220	108,913,778	173,062,689	1,297,054,270	56,516,506	(554,808,860)	1,607,886,603
Gross profit	345,731,143	54,740,495	34,506,603	88,789,486	(365,609)	(26,175,664)	497,226,454
Finance income	14,528,971	3,766,610	954,081	1,632,231	18,201,306	(10,632,546)	28,450,653
Finance costs	(10,180,854)	(1,212,131)	(9,960,367)	(8,422,126)	(81,147,351)	9,102,154	(101,820,675)
Depreciation, depletion and amortization	(36,382,241)	(11,214,211)	(13,628,866)	(33,644,955)	(6,311,506)	–	(101,126,963)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets other than goodwill	(27,498,025)	(49,263)	(182,532)	2,981,149	–	–	(24,748,671)
Share in profit of joint ventures and associates, net	256,140,061	(8,741,775)	(24,781,065)	(371,761)	450,407	–	222,695,867
Income tax expenses	(82,703,905)	(11,165,378)	(7,237,516)	508,123	(6,706,954)	–	(107,305,630)
Net profit for the period	285,166,610	36,033,007	(30,747,610)	(15,264,14)	56,389,689	3,963,466	335,541,048
Other segment information							
Investments in joint ventures and associates	973,517,690	22,526,641	126,405,525	26,856,049	69,305,563	–	1,218,611,468
Capital expenditures	114,725,256	23,551,154	32,462,037	37,946,812	9,913,600	(1,569,718)	217,029,141
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(3,584,219)	(717,630)	(3,737,312)	(53,821,939)	(7,359,949)	–	(69,221,049)
Assets of the segment	4,988,867,033	597,977,873	815,731,084	2,204,642,303	642,106,058	(634,234,583)	8,615,089,768
Liabilities of the segment	880,232,362	170,311,229	330,156,578	846,708,579	2,489,616,631	(634,856,783)	4,082,168,596

Eliminations represent the exclusion of intra-group turnovers.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. SEGMENT REPORTING (continued)

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

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

<i>In thousands of tenge</i>	Exploration and production of oil and gas	Oil transportation	Gas transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	16,416,551	85,413,213	148,864,435	1,125,357,102	42,039,505	–	1,418,090,806
Revenues from sales to other segments	417,488,887	15,457,166	530,758	1,697,648	9,571,309	(444,745,768)	–
Total revenue	433,905,438	100,870,379	149,395,193	1,127,054,750	51,610,814	(444,745,768)	1,418,090,806
Gross profit	277,194,727	49,719,594	51,997,580	65,632,854	4,342,833	(20,941,251)	427,946,337
Finance income	12,583,510	2,433,071	699,149	897,461	11,645,876	(10,978,113)	17,280,954
Finance costs	(12,127,955)	(1,289,656)	(3,381,195)	(6,240,188)	(75,043,743)	10,847,993	(87,234,744)
Depreciation, depletion and amortization	(30,068,823)	(11,548,189)	(11,646,532)	(29,119,662)	(4,530,464)	–	(86,913,670)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets other than goodwill	(58,592,491)	(49,761)	(450,138)	961,169	271,338	–	(57,859,883)
Share in profit of joint ventures and associates, net	219,851,767	7,290,686	21,301,796	(2,904,824)	133,216	–	245,672,641
Income tax expenses	(40,588,271)	(9,662,425)	(9,173,172)	(3,807,820)	(15,961,710)	–	(79,193,398)
Net profit for the period	108,559,441	44,865,531	53,309,539	(7,333,721)	42,464,540	206,105	242,071,435
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	125,677,941	8,101,613	29,839,622	56,962,219	20,223,197	–	240,804,592
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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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32. SUBSEQUENT EVENTS

In accordance with the amendment on July 9, 2014 to the contract with Tengizchevroil LLP dated December 25, 2001 the gas transportation tariff increased from 2.8 US dollars to 3.00 U.S. dollars per 1,000 cubic meters per 100 kilometers (KTG).

On July 1, 2014 the Group paid interest on Eurobonds (issue of US 1.600 billion dollars) in the amount of US 73,000 thousand dollars (13,397 million tenge at June 30, 2014 exchange rate).

On July 21, 2014 the Group paid interest on Eurobonds (issue of US 1.500 billion dollars) in the amount of US 88,125 thousand dollars (16,173 million tenge at June 30, 2014 exchange rate).

On July 1, 2014 Tengizchevroil LLP paid dividends to the Group in the amount of 11,013,035 thousand tenge.

On August 1, 2014 Tengizchevroil LLP paid dividends to the Group in the amount of 12,793,311 thousand tenge.

Based on the decision of the General Meeting of Shareholders on 28 May 2014 Group has paid dividends to holders of non-controlling interest in KTO on July 3, 2014 in the amount of 4,192,528 thousand tenge.

On July 10, 2014 the partners of Kazgermunai agreed to distribute 100 million US Dollars (18,351 billion tenge at June 30, 2014 exchange rate) as a dividend payment for the results of the 1st quarter 2014. The Group received its 50% share of the above dividend on July 14, 2014.

On July 17, 2014 the Group acquired 50% of shares of its joint venture KirKazGaz LLC, becoming the sole shareholder of KirKazGaz LLC. The consideration paid was equal to 15 thousand US Dollars (2,753 thousand tenge at June 30, 2014 exchange rate).

On July 15, 2014 the Group made a partial repayment of Syndicated loan in the amount of 36,702 million tenge (USD 200 million).