ANNUAL REPORT 2013

TEN YEARS OF CHALLENGING TIMES, INVALUABLE EXPERIENCE AND SHAREHOLDER RETURNS

ABOUT THE COMPANY

COMPANY OVERVIEW

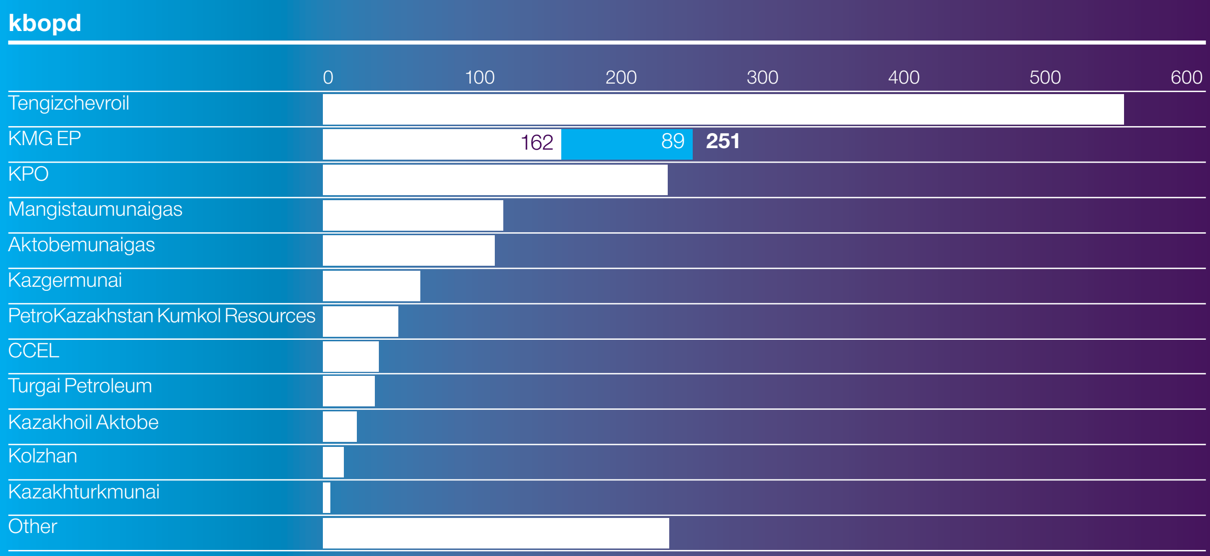
KazMunaiGas Exploration Production JSC (KMG EP or the Company) was formed in March 2004 through the merger of JSC Ozenmunaigas (OMG) and JSC Embamunaigas (EMG).

In 2013, KMG EP was one of Kazakhstan's top three oil producers. In terms of consolidated production, KMG EP accounts for around 15% of Kazakhstan's total output, and its consolidated proven reserves amount to about 4% of the national total. As of year-end 2013, the proven and probable reserves of KMG EP, including its subsidiaries and joint venture interests, stood at 200 million tonnes (1,466 billion barrels), of which JSC Ozenmunaigas and JSC Embamunaigas account for 140.9 million tonnes (1,031 million barrels).

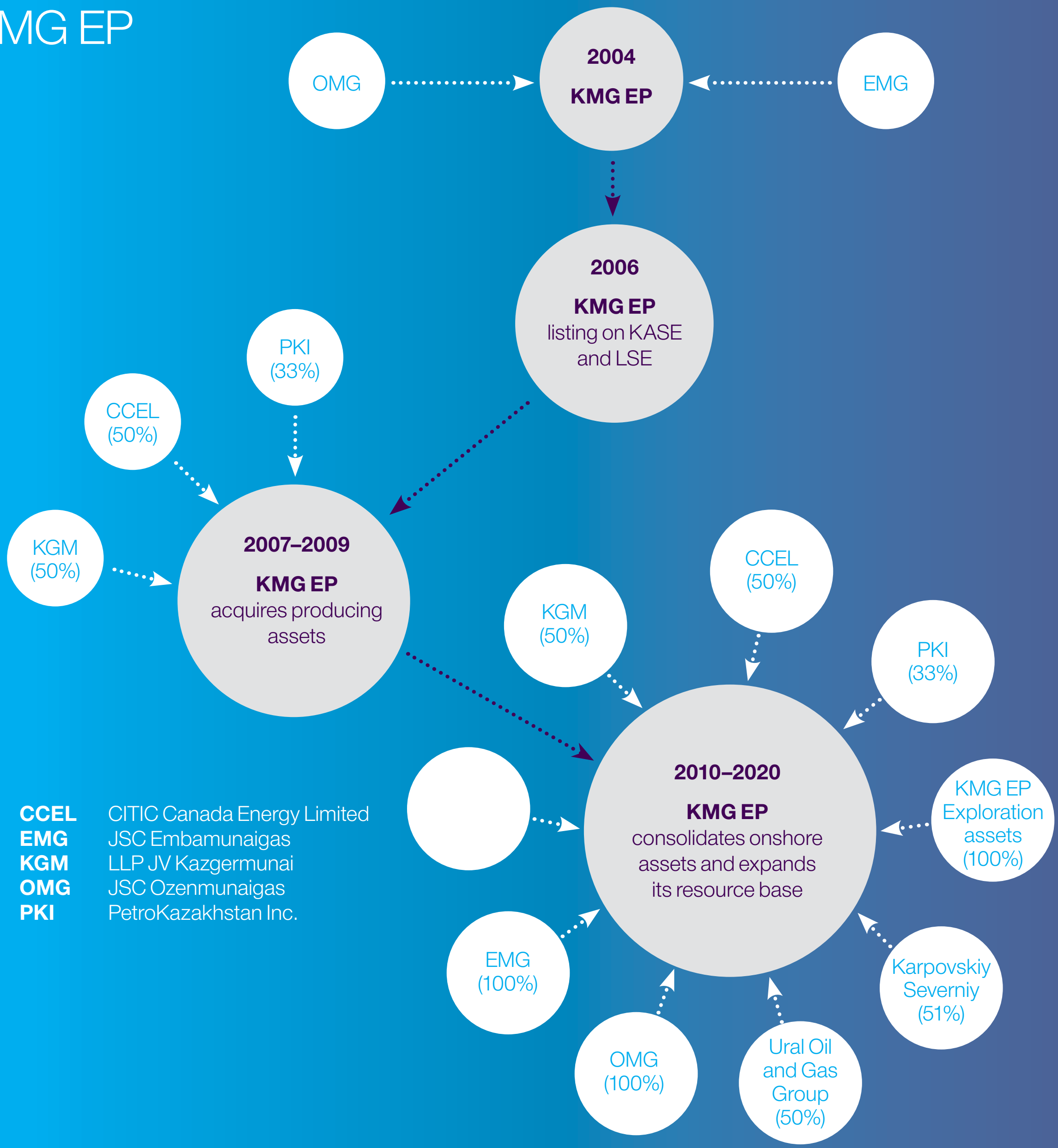
The Company has its shares listed on the Kazakhstan Stock Exchange (KASE) and has global depositary receipts (GDRs) listed on the London Stock Exchange (LSE).

Since its IPO, KMG EP has utilised a unique advantage, namely, the relationship with its parent company National Company KazMunayGas (NC KMG), through which KMG EP enjoys priority access to oil and gas assets, as well as infrastructure, in Kazakhstan.

OIL PRODUCTION IN KAZAKHSTAN IN 2013



ABOUT KMG EP



MISSION

KMG EP's mission is to produce hydrocarbons in an efficient and sustainable manner that will maximise benefits for its shareholders, create long-term economic and social value for the regions where it operates, and help each employee realise his or her potential.

STRATEGY

Since its flotation on the London and Kazakhstan Stock Exchanges, KMG EP has followed its shareholder-approved strategy. Having successfully achieved earlier objectives, KMG EP updated its strategy in 2010, keeping its core principles unchanged, particularly the focus on growing value for shareholders. The medium-term strategy of KMG EP is heavily influenced by the strategy of its parent company, KMG NC.

KMG EP STRATEGY IMPLEMENTATION

The Company plans to explore existing and new blocks, to maintain production at existing fields (using modern technologies for enhanced oil recovery), and to expand its oil and gas portfolio through the acquisition of assets in Kazakhstan and abroad.

The Company's strategy related to the existing fields involves base production maintenance, cost control measures, and the use of enhanced oil recovery (EOR) through the implementation of new technologies. This goal could potentially be achieved through strategic partnerships in joint EOR projects at KMG EP mature fields.

Starting from 2017, the subsoil contracts held by the KMG EP group of companies will begin to expire; and by 2022 most of them will have elapsed. By the end of 2020, the Company expects that fields operated by OMG and EMG will still hold significant oil reserves, in exce ss of 1 billion barrels. KMG EP intends to extend the subsoil rights contracts for fields operated by OMG, EMG, and its joint ventures, subject to economic feasibility.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

2P reserves MMBL[2]

1,101m +1%

2012	1,092
2013	**1,101**

Oil production KBOPD[1]

251 +2%

2012	247
2013	**251**

Sales KBOPD[1]

247 +2%

2012	243
2013	**247**

Exports KBOPD[1]

198 +4%

2012	190
2013	**198**

Revenue BN TENGE[2]

817bn +2%

2012	797
2013	**817**

Average KZT/USD rate in 2012 – 149.1; in 2013 – 152.1

Net profit BN TENGE

142bn –12%

2012	161
2013	**142**

Average KZT/USD rate in 2012 – 149.1; in 2013 – 152.1

Capital expenditure BN TENGE[4]

144bn +8%

2012	133
2013	**144**

Average KZT/USD rate in 2012 – 149.1; in 2013 – 152.1

Net cash BN TENGE[3]

616bn –12%

2012	699
2013	**616**

End of period KZT/USD rate in 2012 – 150.7; in 2013 – 153.6

Dividend per share TENGE

1,976 +22%

2012	1,619
2013	**1,976**

Dividend per GDR US$

1.8 0%

2012	1.8
2013	**1.8**

Brent US$/BBL

US$ 108.7 –3%

2012	111.7
2013	**108.7**

[1] Including interest in KGM, CCEL and PKI
[2] Excluding interest in KGM, CCEL and PKI
[3] Cash, cash equivalents and other financial assets less borrowings
[4] Capex approach revised

OWNERSHIP STRUCTURE

REPUBLIC OF KAZAKHSTAN

100%

HOLDING SAMRUK-KAZYNA

100%

NATIONAL COMPANY KAZMUNAYGAS

58.0%

KAZMUNAIGAS
EXPLORATION
PRODUCTION

MINING	
Tau-Ken Samruk	100%
ENERGY	
Kegoc	100%
Samruk Energy	100%
FINANCIAL SECTOR	
BTA	97%
Kazkommerstsbank	21%
Alliance Bank	67%
Temir Bank	80%
OTHER NATIONAL COMPANIES	
Air Astana	51%
Kazakhstan Temir Zholy	100%
Kazakhtelecom	51%
Kazatomprom	100%
Kazpost	100%

PRODUCING ASSETS	
JSC Ozenmunaigas	100%
JSC Embamunaigas	100%
PRODUCING JOINT VENTURES AND ASSOCIATES	
JV Kazgermunai LLP	50% (2007)
JSC Karazhanbasmunai	50% (2007)
Petrokazakhstan Inc.	33% (2009)
EXPLORATION ASSETS	
KMG EP LLP exploration assets (formerly SapaBarlau Service)	100% (2010)
JSC Ural Oil and Gas	50% (2011)
KS EP Investments BV (LLP Karpovskiy Severniy)	51% (2011)

33.7%

FREE FLOAT

CIC (11% of total number of shares outstanding (issued shares less treasury shares as at 31.12.2013) according to CIC statement as of September 2009).

Foreign and Kazakhstani institutional investors.

UPSTREAM

Tengizchevroil	20%
Kashagan	16.88%
Karachaganak	10%
Kazmunaiteniz	100%
Kazakhoil Aktobe	50%
Kazakhturkmunai	51%
Mangistaumunaigas	50%

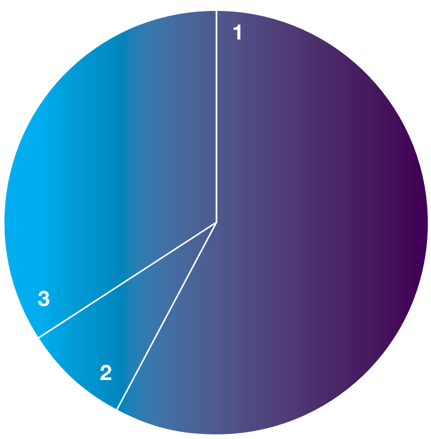
TRANSPORTATION

Kaztransoil	90%
– KCP	50%
– MunaiTas	51%
Kaztransgas	100%
CPC	20.75%

REFINING, MARKETING, SERVICES

KMG-refinery and Marketing	100%
– Atyrau Refinery	99.5%
– PKOP	50%
– Pavlodar petrochemical plant	100%
Kazrosgas	50%
Tenizservice	49%
King (Research Institute)	98%
Rompetrol	100%

KMG EP SHARE CAPITAL STRUCTURE[1]
%



1	NATIONAL COMPANY KAZMUNAYGAS	58%
2	TREASURY SHARES	8.3%
3	FREE FLOAT	33.7%

[1]Percentage is based on total number of issued shares as of 31.12.2013.

CHAIRMAN'S STATEMENT DANIYAR BERLIBAEV

2013 dividend payment per share

1,976

Dear Shareholders,

Kazakhstan's oil and gas industry makes up a powerful sector of the national economy that continues to grow. Over the past 20 years, Kazakh oil production has more than tripled and gas production more than quintupled; for the foreseeable future, our country is set to further increase its hydrocarbon production.

For ten years now, KazMunaiGas Exploration Production JSC (KMG EP) has been heavily contributing to those impressive figures. KMG EP exemplifies a modern business characterised by high professionalism and social responsibility to the community.

The IPO in September 2006 marked a key milestone for the young company. At that point, it clearly saw that, unless it raised external finance, there would have been no way to implement its ambitious plans to expand the Company's resource base. At the same time, the Kazakh Government tasked the Samruk Holding with developing Kazakhstan's stock market. The IPO of KMG EP on the London and Kazakhstan Stock Exchanges facilitated the achievement of both objectives.

KMG EP plays a key role within National Company KazMunayGas (NC KMG). It has taken the production assets of NC KMG to the investment market without losing state support, and turned KazMunayGas into a recognisable brand abroad and attracted substantial funds for the development of the Uzen and Emba fields. Moreover, KMG EP has also paved the way to the stock market for other subsidiaries of NC KazMunayGas, by demonstrating that the task is achievable. In 2013, KazTransOil JSC listed its shares on the KASE; at present, IPOs of other KazMunayGas entities are being considered.

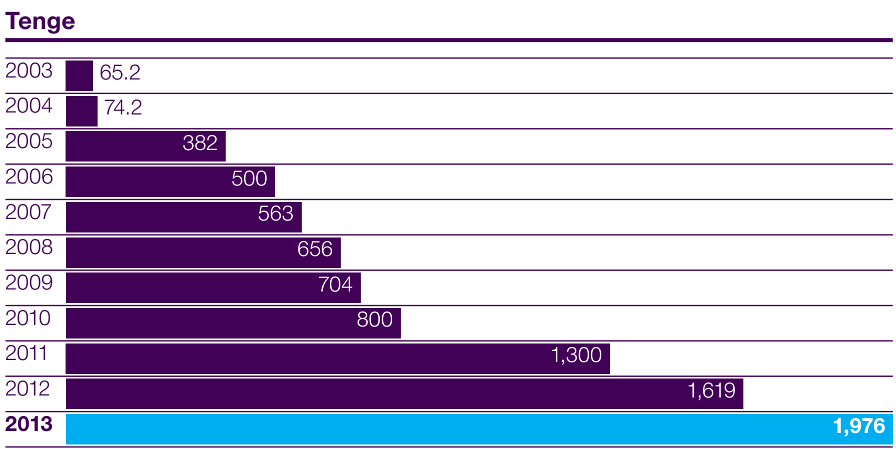
International credit rating agencies recognise KMG EP as a transparent company, reflecting our commitment to a higher standard of corporate governance and the increased competitiveness of the national economy. KMG EP is implementing international standards and principles of transparent business into its operations. It is evident that management structure optimisation, coupled with the integration of new management techniques and internal controls into the existing business processes, is leading to an improvement in the Company's overall performance.

Within Kazakhstan, KMG EP is a major taxpayer. In ten years, the Company has paid in excess of 2.3 trillion tenge (about US$ 17 billion) to the national budget. Roughly 60% of its dividends go to NC KMG, the state-owned holding company, and have added roughly 254 billion tenge (US$ 1.8 billion) over the years.

In recent years, KMG EP invested about US$ 3.5 billion to acquire exploration and production assets. Its largest acquisitions, made with the support of the Government and its parent company NC KMG, have already paid off and are now providing a steady stream of income to KMG EP.

In 2013, KMG EP focused on stabilising its oil production and implementing more modern operation techniques. The fields discovered several decades ago could get a new lease of life thanks to new technologies that have only become available in recent years. Improved scientific methods of oil production, enhanced drilling processes, expanded stocks of production wells, and the introduction of innovative equipment combine to improve oil production efficiency.

DIVIDEND PER SHARE



As a result of its modernisation programme, the Company intends to transit to more manageable and predictable operations. This is an area of focus for many investors, and one they will use as a yardstick in assessing the success of the steps we take.

In 2013, our consolidated production increased by 2% on the previous year, in line with our production plans. Meanwhile, the Company continues to pay a steady stream of high dividends.

Since its inception, KMG EP has become a major employer in Kazakhstan and buyer of locally produced goods, as well as a sponsor of social programmes. The social projects undertaken by KMG EP include multifunctional sports facilities in Zhanaozen and Atyrau, subsidised deliveries of drinking water and gas, the creation of social jobs in Zhanaozen, the resettlement of residents from depressed villages in the Atyrau Region, the construction of kindergartens and the repair of schools in the regions of its operation.

We believe that, just like ten years ago, KMG EP holds a great promise that could be unlocked provided the interests of all parties concerned are duly balanced, social stability maintained, and operational performance improved.

Daniyar Berlibaev
BOARD CHAIRMAN
OF KMG EP

"IN 2013, OUR CONSOLIDATED PRODUCTION INCREASED BY 2% ON THE PREVIOUS YEAR, IN LINE WITH OUR PRODUCTION PLANS. MEANWHILE, THE COMPANY CONTINUES TO PAY A STEADY STREAM OF HIGH DIVIDENDS."

CHIEF EXECUTIVE'S STATEMENT
ABAT NURSEITOV

Dear Shareholders,

KazMunaiGas Exploration Production JSC will celebrate its tenth anniversary in 2014. Over this relatively short period of time, the Company has made great strides forward, marked by significant achievements, as well as lessons learned from major trials and tribulations. While the key milestones of our Company's development could be summed up in a few lines, each of them has involved bold planning, solutions to complex problems, the united efforts of likeminded people and, most importantly, invaluable experience.

The direct predecessors of KMG EP – Ozenmunaigas and Embamunaigas – were established in the mid-1990s through the corporatisation of enterprises that were part of the Soviet Ministry of Oil Industry. Later, in 2004, a decision was made to consolidate government-held oil production assets in order to set up a common onshore oil production operator under the umbrella of National Company KazMunayGas. Thus, KMG EP came into existence.

Net cash as of 31.12.2013

BN TENGE **616**

In October 2006, the Company successfully placed its shares on the Kazakhstan and London Stock Exchanges. The IPO marked a major milestone, not only for KMG EP, but also for the entire nation. Having gone public, KMG EP was now elevated to a new level of relations with investors, joining the international business community and offering both domestic and foreign stock market players the opportunity to reap rewards and grow with the Company. KMG EP raised in excess of US$ 2 billion from domestic and international investors, adding another "blue chip" to the instruments of the Kazakh stock market. Pension funds, investment companies, and a broad range of foreign investors became shareholders in KMG EP. In the meantime, the Company has carried out extensive work to develop a system of corporate governance that is fully compliant with the strictest international requirements and it is now the recognised leader of corporate governance in Kazakhstan.

Post-IPO, the Company has focused on implementing its growth strategies. It has made a number of key acquisitions: a 50% stake in JV Kazgermunai and CCEL (JSC Karazhanbasmunai) and a 33% stake in PetroKazakhstan Inc. On consolidated production, KMG EP currently holds second place after Tengizchevroil and Karachaganak Petroleum Operating. Meanwhile, our Company is the only one among the top three that is publicly traded.

The fields we operate are mature; thus sustaining a flat production profile is a tough challenge. As a result, from year to year, we have to address escalating capital and operating expenditures, enhanced oil recovery, and oil field profitability. Furthermore, in 2011, we faced some complex difficulties in the region where our subsidiary JSC Ozenmunaigas (OMG) operates. It took us more than two years to resolve those problems. However, in 2013, we managed to successfully address most of the issues, and production at OMG began to recover.

Notwithstanding their maturity, the fields operated by KMG EP still contain significant oil reserves and could remain in production for years to come, subject to strict cost control. We do our utmost to sustain optimum production levels at our facilities, but we firmly believe they have the requisite potential for further growth. We expect that by 2018 aggregate production from our core assets will have increased by 4% vs. the 2013 production; this includes a 7% improvement by OMG, to reach 5.57 million tonnes.

The priorities of KMG EP today include a remodelling of our business through operational upgrades. The goal of the modernisation programme launched by KMG EP in 2012 is to upgrade field infrastructure, build production facilities, and optimise operating processes. All in all, some US$ 350-450 million is earmarked for investment in the programme between 2012 and 2018. The programme's first facilities are already operational, and we are receiving positive employee feedback on performance improvements thanks to the new equipment.

Our hope is that, through the implementation of this modernisation programme, KMG EP will become a more modern company, and meet the highest standards of ergonomic operation in compliance with health and environmental protection requirements.

The success of KMG EP is not just limited to the Company, but extends well beyond to large swathes of the Kazakhstani people. In fact, the Company's operations benefit employees, local communities, Kazakh producers of goods and services and, first and foremost, the government in its capacity as the principal shareholder in KMG EP.

In the years since the IPO, shareholders in the Company have earned a substantial return, in excess of about US$ 3.8 billion. The Company has repurchased its common shares twice and its preferred shares once, a total of about US$ 660 million; it also maintains a high bar on dividend payouts every year. In 2014, shareholders approved a dividend payout of 1976 tenge (US$ 1.8 per GDR) on common and preferred shares, a record amount since the 2006 IPO. Meanwhile, over the past ten years, the national budget has received 2.3 trillion tenge (about US$ 17 billion) in taxes.

The Company's social expenditure continues to grow; over the past three years, the average amount has more than tripled vs. 2004, with a cumulative total of 45 billion tenge (roughly US$ 320 million) in ten years. The Mangistau Region is the largest recipient of the Company's social expenditure, followed by the Atyrau Region in second place. I emphasise that KMG EP shoulders this social burden in addition to its tax liabilities, rather than at the expense of reducing such liabilities.

During the past ten years, our Company has accumulated significant financial resources and gained competitive advantages founded on the close relationship with our parent company NC KMG. These advantages have enabled us to expand substantially through the acquisition of equity stakes in Kazakh oil and gas assets.

KMG EP intends to continue developing and improving its business. To that end, we have the necessary cash reserves, expertise, experience and opportunities, both at home and abroad.

Abat Nurseitov
CEO OF KMG EP

"THE SUCCESS OF KMG EP IS NOT JUST LIMITED TO THE COMPANY, BUT EXTENDS WELL BEYOND TO LARGE SWATHES OF THE KAZAKH PEOPLE."

OUR BACKGROUND

OUR KEY HISTORIC HIGHLIGHTS

2004
KMG EP was founded in March 2004 by the merger of two oil production companies, Uzenmunaigas and Embamunaigas, and became the third largest oil producer in Kazakhstan in terms of annual production of crude.

2005
The Company sold its majority stake (99.1%) in Atyrau Refinery in December 2005 to a subsidiary of NC KMG.

2006
KMG EP carried out its Initial Public Offering on the London Stock Exchange (LSE), and raised over US$ 2 billion.

2007
In April 2007 KMG EP acquired a 50% stake in JV Kazgermunai LLP which had a contract for exploration and production in Akshabulak, Nuraly, and Aksay. In December 2007 KMG EP acquired a 50% stake in CCEL (Karazhanbasmunai) that was developing a Karazhanbas oil and gas field.

2008
The Board of Directors of KMG EP has approved a share buyback programme to purchase its common shares listed on the Kazakhstan Stock Exchange (KASE) and GDRs listed on the London Stock Exchange (LSE) up to the aggregate amount of US$ 350 million. The Company initiated two further share buyback programmes after this.

10 YEARS AT A GLANCE

Oil production growth in 10 years[1]

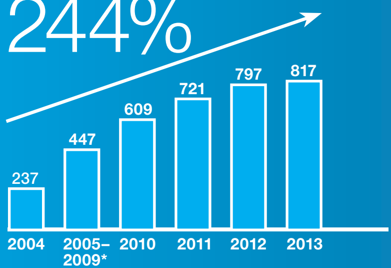
39%

[1]2013 vs 2004 incl. stakes in KGM, CCEL and PKI

Central processing station at Embamunaigas.

Revenue growth in 10 years
BN TENGE

244%



Assets

2004
PF Ozenmunaigas, PF Embamunaigas

2014
JSC Ozenmunaigas, JSC Embamunaigas, 50% in LLP JV Kazgermunai, 50% in CCEL (JSC Karazhanbasmunai), 33% in PetroKazakhstan Inc., KMG EP Exploration Assets LLP, 50% in JSC Ural Group Limited, 51% in KS EP Investments BV (Karpovskiy Severniy LLP)

*Average 2005–2009

Cumulative distributions to shareholders since IPO
BN TENGE

670 (US$ 4.5bn)

Cash and financial assets growth 2013 vs 2004

13 times

Spent on social projects in 2004–2013 BN TENGE

45 (US$ 323m)

THERE WAS AN INCREASE IN DAILY PRODUCTION AT UZEN WITH SUSTAINABLE PRODUCTION GROWTH THROUGHOUT THE YEAR

2009
KMG EP acquired 33% in PetroKazakhstan Inc (PKI). As a result of this acquisition KMG EP managed to increase its production volumes by around 17% in 2010, and expand its business. PKI had 11 licenses in South Turgai basin in Central Kazakhstan.

2010
An oil discovery at the Liman Block. The deposit is in close proximity to the oil fields operated by Embamunaigaz.

In September 2010 the Company acquired new exploration assets: SapaBarlau Service and NBK.

2011
An illegal protest action took place in Ozenmunaigaz which had a significant impact on subsequent production plans.

In December 2011 KMG EP acquired 100% in JSC Karpovskiy Severniy, and 50% in Urals Group Limited.

2012
Production branches Ozenmunaigas and Embamunaigas were reorganised into joint stock companies wholly owned by KMG EP. In addition, the Company set up two new support service companies, UTTiOS and UBR, that would provide services to KMG EP and to other oil producers.

2013
For the first time in two years, there was an increase in daily production at Uzen, with sustainable production growth throughout the year.

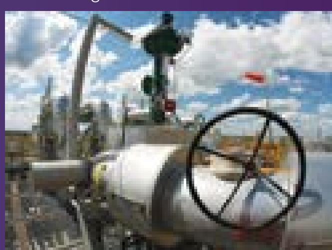
As part of the Modernisation Programme, large facilities were commissioned: a station for diagnosis and repair of underground equipment; well killing liquids preparation unit; and two units for associated gas utilisation.

Well servicing at Ozenmunaigas.

Employees trained over 5 years

61,359

Oil metering unit.



10-year cumulative tax payments in 2004–2013 TRLN TENGE

2.3 (US$ 16.7bn)

Procurement of local goods and services in 2013
TENGE

214bn

Average KZT/USD in 2013 – 152.1

10-year cumulative oil transportation domestic and exports tonnes

86.8m

OUR COMPETITIVE ADVANTAGES AND INDUSTRY STANDING

KMG EP is a prime example of how shareholder capital combined with Company funds can translate into steady operations and robust operating and financial performance; and this successful combination is now expanding to the international platform through the continuous improvement of its corporate governance practices. KMG EP enjoys a number of unique advantages over other companies.

KMG EP IS KAZAKHSTAN'S LARGEST OIL AND GAS COMPANY WITH GDRS AND SHARES LISTED ON THE LONDON AND KAZAKHSTAN STOCK EXCHANGES

NC KazMunayGas (NC KMG) is the Company's major shareholder, holding 61% of the total common shares outstanding. China Investment Corporation (CIC), the People's Republic of China state investment fund, has roughly an 11% stake. The remaining shares are held by institutional investors from the UK, continental Europe, the US, Asia, and Kazakhstan.

As of 2013 end, 13 of 14 equity analysts rated KMG EP shares 'buy' or 'hold'.

PRE-EMPTIVE ACCESS TO KAZAKHSTAN'S ONSHORE OIL AND GAS ASSETS

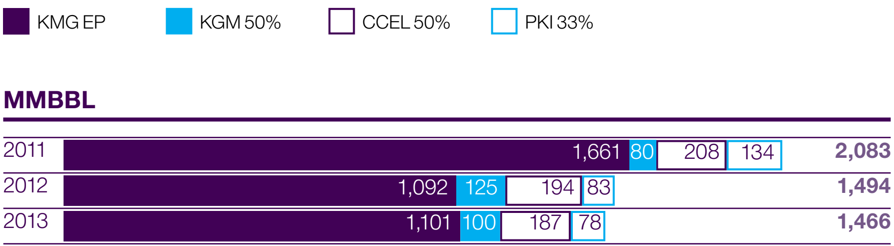
National Company KazMunayGas (NC KMG) has the right to enter into contracts for subsoil use at unlicensed areas without participating in competition, but on the basis of direct negotiations. In the case of alienation of subsoil use rights and (or) an object associated with the subsoil, NC KMG is entitled on behalf of the state to purchase the alienated subsoil use right and (or) object associated with the subsoil right. KMG EP, as a subsidiary of NC KMG, may avail itself of such rights should the economic interest be mutual. Investors in KMG EP shares earn the same returns as the majority shareholder.

In addition, by leveraging NC KMG's right of direct negotiation with the Kazakh Ministry of Oil and Gas, KMG EP can obtain mineral rights to unlicensed prospects, while bypassing competitive tender procedures.

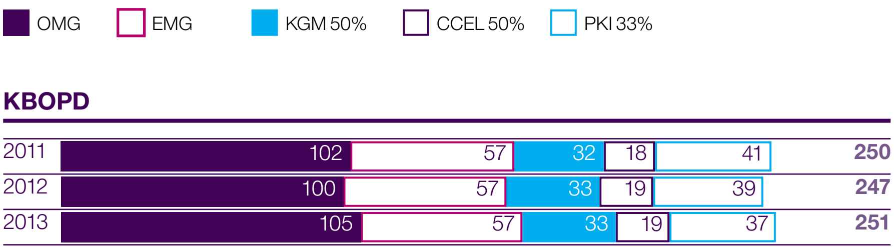
CORPORATE GOVERNANCE COMPLIES WITH INTERNATIONAL STANDARDS AND PROTECTS THE RIGHTS OF MINORITY SHAREHOLDERS

Another strong element of the Company is the approach it takes to corporate governance, which is aimed at protecting the interests of minority shareholders. KMG EP has been a pioneer among Kazakh enterprises in its extensive application of corporate governance practices, which conform to international standards. Over the years, this system has been put to the test under various situations and market developments; invariably, it has received the highest accolades for its effectiveness from credit rating agencies, analysts, National Company KazMunayGas, and Sovereign Wealth Fund Samruk-Kazyna.

2P RESERVES



CONSOLIDATED PRODUCTION VOLUME



SUCCESSFUL PARTNERSHIPS AND EQUITY STAKES IN KAZAKH OIL AND GAS PRODUCERS

At present, KMG EP holds 50% stakes in oil and gas production joint ventures with Kazgermunai and CCEL (JSC Karazhanbasmunai), as well as a 33% stake in PetroKazakhstan Inc.

LLP JV Kazgermunai, one of Kazakhstan's top ten oil producers, operates oilfields in the Kyzylorda Region. JSC Karazhanbasmunai operates the largest shallow field of extra-heavy crude oil in the CIS, using thermal enhanced oil recovery methods. PetroKazakhstan Inc. ranks among the top five oil and gas producers in Kazakhstan. Each of these companies makes a tangible contribution to the development of Kazakhstan's petroleum sector and participates in the implementation of social programmes in areas of operation. Relationships with these companies have proven a success and offer a strong foundation towards the development of KMG EP. The relevant equity acquisitions have already been paid in full. Since 2007, KMG EP has received US$3.2 billion in dividends and payouts from KGM, PKI and CCEL, while the Company spent US$ 2.1 billion to acquire the equity stakes in the aforementioned assets.

STABLE PERFORMANCE IN TERMS OF FREE CASH FLOWS

As long as oil prices remain favourable, KMG EP will generate significant cash flows and maintain sufficient funds for investment purposes. As a result, the Company is in a position to continue searching for acquisition opportunities in Kazakhstan and abroad; either independently or with strategic partners possessing relevant expertise and technology.

PROSPECTIVE RESOURCE BASE

On the results of 2013 the Company's portfolio consisted of 11 exploration blocks. A large amount of 2D and 3D seismic data has been acquired. Most importantly, new oil discoveries have been made.

Meanwhile, KMG EP operates Uzen – the largest and well-explored onshore field in Kazakhstan. Following two years of inspection, the experts of Kazakh Institute of Oil and Gas have concluded that the field has the potential for further development. Work is currently underway there to introduce modern techniques of enhanced oil recovery: the existing infrastructure has been adapted to drill horizontal wells; and exploration work has commenced to target the underlying formations.

HIGH GRADES FROM INDEPENDENT OBSERVERS

In August 2013, Moody's assigned KMG EP a Baa3 rating with Positive Outlook. Its base credit score of ba1 reflects the Company's sizeable scope of business, which is underpinned by its resources and operations base, low debt and solid cash flow figures.

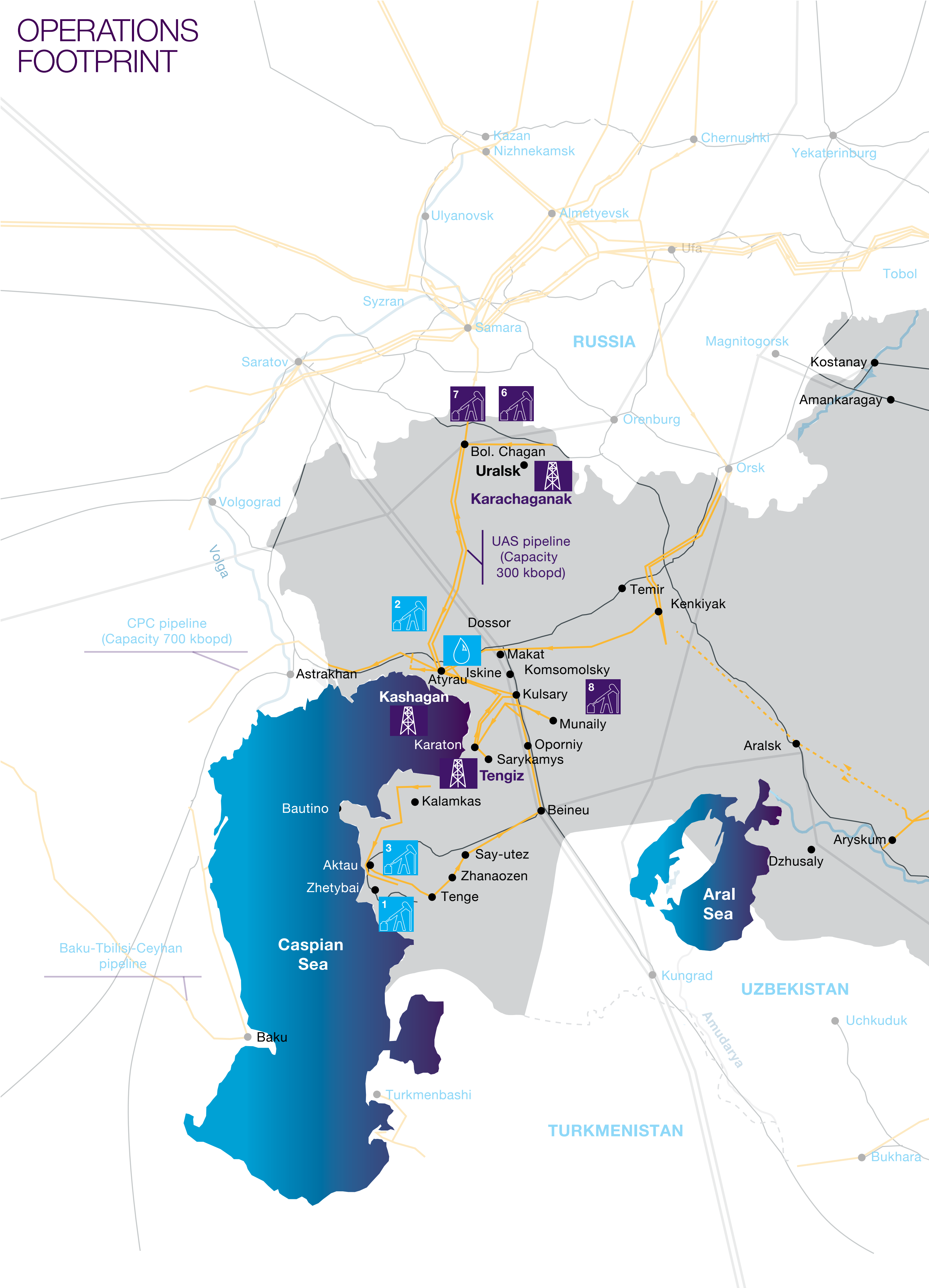
In 2013, Standard & Poor's assigned KMG EP a BBB- credit rating with Stable Outlook. Standard & Poor's noted KMG EP's ability to generate free cash flows while maintaining a low debt load. In addition, they highlighted the stable profit margins maintained by KMG EP and its strong position as an oil and gas major controlled by the government via its major shareholder.

HIGH DIVIDENDS

KMG EP has always subscribed to the practice of stable dividends. In recent years, the Company has demonstrated a pragmatic approach that balances a trade-off between investments and payouts to shareholders. The Company paid out record dividends for 2011 and 2012. Its dividend yield has ranged between 7% and 10%, substantially above the industry average. The payout for 2013 is targeted at 1,976 tenge per share (US$ 1.8 per GDR).

Geologists from Embamunaigas at work.

OPERATIONS FOOTPRINT



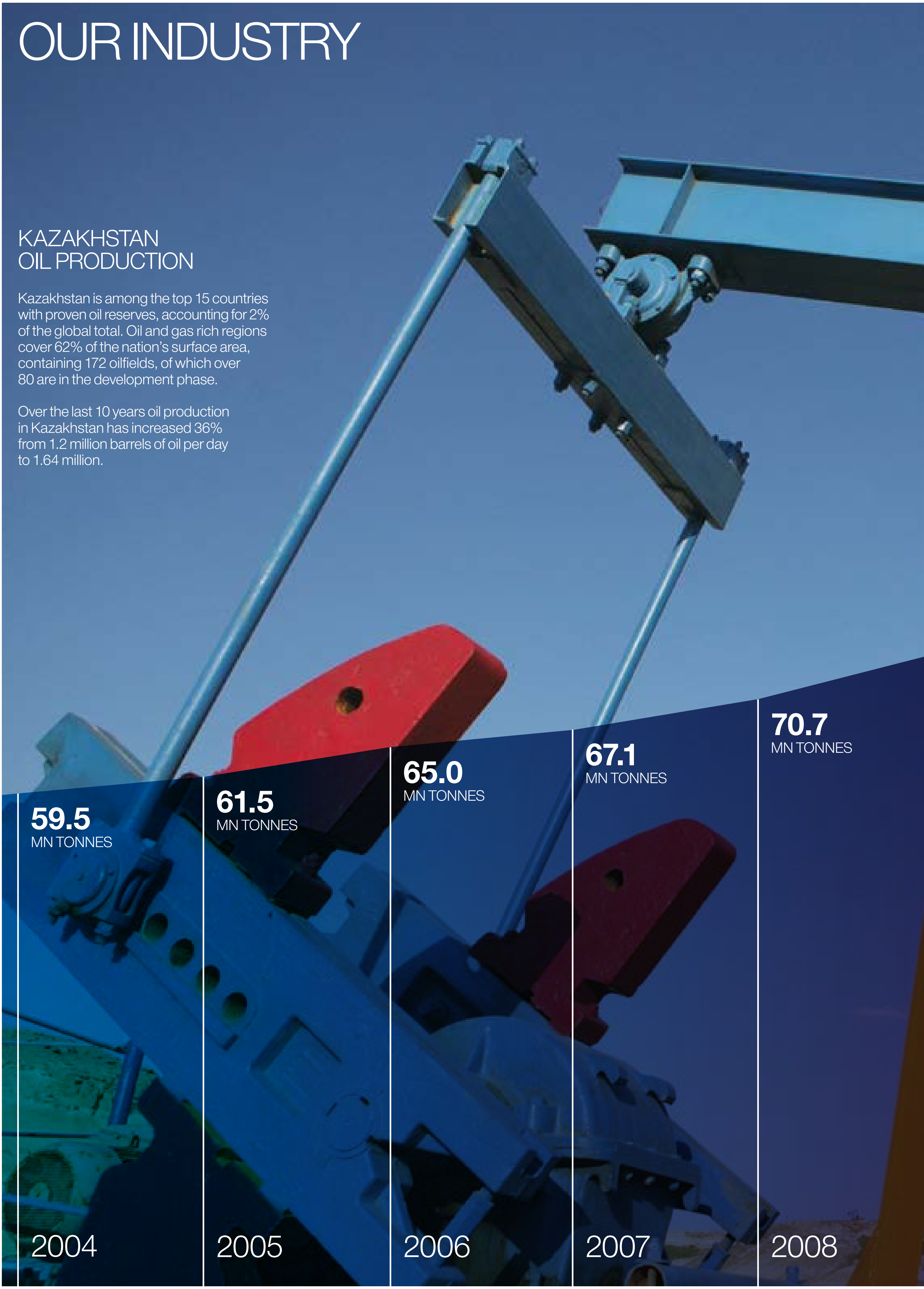

Tyumen
Yurgamysh
Petropavlovsk
Omsk
Anzhero Sudzhensk
Kemerovo
Novosibirsk
Barnaul
Biisk
Kokshetau
Aysara
Kochara
Tavolzhan
Pavlodar
Ishim
Astana
RUSSIA
Irtysh
Semey
Temirtau
Karaganda
KAZAKHSTAN
Karagaily
Lake Zaisan
KCP pipeline
(Capacity 240 kbopd)
Sayak
Aktogay
Balkhash
Lake Balkhash
Druzhba (Alashankou)
Urumchi
4
5
CHINA
Tasta
Almaty
Syrdaria
Birlik
Bishkek
Taraz
Shymkent
KYRGYZSTAN
Tashkent
Fergana
KEY
Oil refinery
Oil pipeline
City/town
Oil field
Gas pipeline
Railway
KMG EP ASSETS IN KAZAKHSTAN
Production assets
Exploration assets
1 Ozenmunaigas JSC 6
2 Embamunaigas JSC
3 Karaz hanbasmunai LLP
4 Kazgermunai LLP JV
5 PetroKazakhstan Inc.
6 Ural Oil & Gas LLP (Fyodorovskiy block)
7 Karpovski y Severniy LLP (Karpovski y Severniy block)
8 KMG EP LLP Exploration Assets

OUR INDUSTRY

KAZAKHSTAN OIL PRODUCTION

Kazakhstan is among the top 15 countries with proven oil reserves, accounting for 2% of the global total. Oil and gas rich regions cover 62% of the nation's surface area, containing 172 oilfields, of which over 80 are in the development phase.

Over the last 10 years oil production in Kazakhstan has increased 36% from 1.2 million barrels of oil per day to 1.64 million.




76.5
MN TONNES
79.7
MN TONNES
80.1
MN TONNES
79.2
MN TONNES
81.8
MN TONNES
2009
2010
2011
2012
2013

OUR OVERVIEW OF THE OIL AND GAS INDUSTRY IN KAZAKHSTAN

Kazakhstan is among the top 15 countries on proven oil reserves, accounting for 2% of the global total. Oil and gas rich regions cover 62% of the nation's surface area, containing 172 oilfields, of which over 80 are in the development phase.

The 15 largest fields – Tengiz, Kashagan, Karachaganak, Uzen, Zhetibai, Zhanazhol, Kalamkas, Kenkiyak, Karazhanbas, Kumkol, Severnye Buzachi, Alibekmola, Central and Eastern Prorva, Kenbai, and Korolevskoe – comprise over 90% of the country's oil reserves. Oil fields exist in six of Kazakhstan's 14 regions: Aktobe, Atyrau, Western Kazakhstan, Karaganda, Kyzylorda and Mangistau. Meanwhile, about 70% of hydrocarbon reserves are located in western areas of Kazakhstan.

In 2013, Kazakhstan's Ministry of Oil and Gas estimated proven hydrocarbon reserves, both onshore and offshore, at 4.8 billion tonnes or over 35 billion barrels, which is a marked improvement on 2001, when explored and booked oil reserves stood at a mere 2.9 billion tonnes (21 billion barrels). Moreover, according to some industry experts, the Kazakh sector of the Caspian Sea could hold projected oil reserves in excess of 17 billion tonnes or 124 billion barrels. Given its oil and gas reserves and steady production growth, Kazakhstan will remain at the centre of global oil production for the foreseeable future.

According to Kazakhstan's Ministry of Oil and Gas, production of oil and gas condensate reached 81.8 million tonnes in 2013. In 2014 it is planned to produce 83 million tonnes of crude oil and gas condensate.

Annual throughput at Kazakhstan's oil refineries amounted to 14.3 million tonnes of crude oil. To meet Kazakhstan's demand for quality petroleum products, refinery upgrades are ongoing. By 2016, it is planned to increase throughput capacity to 18 million tonnes per year due to modernisation of all three refineries. Before January 1, 2014 a duty-free supply of Russian oil was carried out according to the agreement between the Russian Government and the Government of Kazakhstan on trade and economic cooperation in supplies of oil and petroleum products to Kazakhstan. In December, 2013 the Governments of Russia and Kazakhstan signed an agreement on the transit of 7 million tonnes per annum of Russian oil to China via Kazakhstan. The agreement specifies only relationships in the supply of oil and petroleum products between Russia and Kazakhstan, and does not apply to subsoil users directly.

On November 11, 2013 in Yekaterinburg a preliminary agreement for transit transportation was also signed between Rosneft, NC KazMunayGas and KazTransOil for transit of 7 million tonnes per annum. The final agreement on transit was signed in December between Rosneft and KazTransOil.

GIVEN ITS OIL AND GAS RESERVES AND STEADY PRODUCTION GROWTH, KAZAKHSTAN WILL REMAIN AT THE EPICENTRE OF GLOBAL OIL PRODUCTION FOR THE FORESEEABLE FUTURE

14.1 Mt

oil transported to Kazakhstan refineries through KazTransOil trunk piplines in 2013

Kazakhstan exports the bulk of its oil output via pipelines. In 2013, oil and gas condensate exports stood at 72.1 million tonnes, of which 15.4 million tonnes were transported via the Atyrau–Samara pipeline and 32.7 million tonnes via the Caspian Pipeline Consortium (CPC) pipeline. As part of the drive to diversify and expand the nation's oil transportation system, the throughput of the Atasu–Alashankou line was expanded to 20 million tonnes in 2013. In monetary terms, the value of crude oil exports came in at US$ 55 billion, accounting for 72% of the nation's aggregate exports.

In 2013, 14.1 million tonnes of oil were transported to Kazakh refineries through KazTransOil trunk pipelines.

In 2013, a lot of effort was devoted to geological surveys. On the instructions of NC KazMunayGas and with the backing of the Geology Committee of Kazakhstan's Ministry for Industry and New Technologies, the Kazakh Institute of Oil and Gas (KIOG) and the Consortium of Geology Research and Operations Entities compiled a map of the oil and gas bearing and prospective sedimentary basins in the Republic of Kazakhstan.

It is anticipated that the Eurasia Project could become a major exploration venture; it is planned to be implemented through cooperation with a consortium of global oil and gas majors. This project could significantly expand Kazakhstan's hydrocarbon reserves.

Going forward, Kazakhstan's oil and gas production will continue its upward trend. This production growth will be driven, in particular, by two factors: first, significant investments inflow; and second, the industry's extensive offshore exploration in the basins of Caspian and Aral Seas.

Kazakhstan's Ministry of Oil and Gas projects that beyond 2020 the country's oil output will total 2 million barrels per day (100 million tonnes per annum).

2%
of proven global oil reserves held in Kazakhstan as of 2013

81.8Mt
of oil and gas condensate produced in Kazakhstan in 2013

172 oil fields
in Kazakhstan as of 2013

Information sources: Ministry of Oil and Gas of Republic of Kazakhstan, Agency of the Republic of Kazakhstan on Statistics, BP Statistical Review of World Energy. June 2013.

ABOUT KAZAKHSTAN

Population	17.2 million (as of 01.01.2014)
Area	2.7 million km^2
Capital city	Astana (moved from Almaty in 1997)
GDP (2013*)	34,140 bn Tenge (US$224.4 bn)
Real GDP growth	6% in 2013; 5.3% average in 2009 – 2013
Inflation (December 2013 – December 2012)	4.8%
Currency	Tenge (average 2013 exchange rate of 152.14 tenge per US$)

On February 11, 2014, the National Bank of Kazakhstan (NBK) made a decision to abandon its support of the tenge, reducing foreign exchange interventions and efforts to control the rate of the tenge. To prevent destabilisation of the financial markets and the economy as a whole, NBK established a tenge-dollar fluctuation band at 185 tenge per US dollar plus or minus 3 tenge, thus continuing the bank's policy of smoothing over exchange rate spikes and short-term volatility.

With most of the Company's cash, cash equivalents and other financial assets denominated in US dollars at the moment of devaluation, a significant foreign exchange gain was obtained in the first quarter of 2014.

* SARK preliminary data

2013 MILESTONES

Q1

– KMG EP announced the results of its share buyback programme. During the programme – October 11, 2011 through to December 31, 2012 – the Company repurchased 19,461 common shares and 14,386,605 GDRs totalling US$ 263 million.

– The Board of Directors elected Abat Nurseitov as Chief Executive Officer (Management Board Chairman) of KMG EP; prior to that he held the position of Deputy CEO for Production. He replaced Alik Aydarbaev, who was appointed the head of Administration of Mangistau Region.

– After its equity interests in JV Kazgermunai (KGM), CCEL (CCEL) and PetroKazakhstan Inc. (PKI), KMG EP produced 3,002 tonnes of crude oil (247 thousand barrels per day) over the first three months of 2013, a 1% year-on-year reduction.

– According to consolidated interim financials, the Company's revenue dropped 2% year-on-year to 202 billion tenge (US$ 1,342 million) in the first three months of 2013 due to lower oil prices, which were partially offset by higher prices for domestic sales. The Company recorded a net loss of 0.7 billion tenge (US$ 4 million), equating to a loss per share of 10 tenge (US$ 0.01 per GDR), largely due to additional impairment charges at JSC Ozenmunaigas. Operating expenses stood at 43 billion tenge (US$ 284 million), a 36% increase on the same period of 2012. The significant growth was due to higher payroll costs, electricity charges, plus well workover and maintenance costs.

Crude oil production in 3M 2013
Thousands of barrels per day

247

KMG EP credit rating in 2013

Moody's
Baa3
Standard & Poor's
BBB–

THE SHAREHOLDERS' ANNUAL GENERAL MEETING APPROVED A 2012 DIVIDEND OF 1,619 TENGE PER SHARE

Q2

– In the first half of 2013, consolidated production after equity interests in KGM, CCEL, and PKI stood at 6,093 tonnes (249 thousand barrels per day), which is 1% above the same period of 2012.

– Based on consolidated interim financials for the first half of 2013, the Company's revenue dropped 4% year-on-year to 384 billion tenge (US$ 2,544 million), due to lower oil prices and reduced volumes of oil exports, although it was partially offset by higher prices and volumes of domestic deliveries. The Company made a net profit of 38.8 billion tenge (US$ 257 million), which was 68% below the same period of the previous year, largely due to impairment charges incurred in Q1 of 2013.

– JSC Ozenmunaigas put into operation a new station for diagnosis and repair of underground equipment.

– Production tests of a subsalt well within the Fyodorovskiy block resulted in a gas rate of 239,450 m^3/day and a condensate rate of 247 m^3/day.

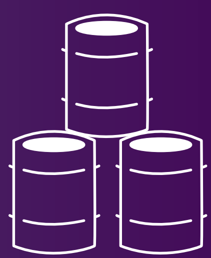
– An Extraordinary General Meeting elected the Company's Board of Directors for a one-year term.

– National Company KazMunayGas JSC (NC KMG) notified KMG EP of its intent to pay the outstanding amount and accrued interest on its bonds using its own funds. KMG EP acquired NC KMG bonds worth 222 billion tenge (US$ 1.5 billion) in June 2010; the bonds were due on June 24, 2013. The NC KMG used dividends received from KMG EP in 2011-2012 to offset about 40% of the bond's amount. As of December 31, 2012, the outstanding amount and accrued interest on NC KMG bonds stood at 134 billion tenge (US$ 891 million). The bond was fully repaid.

– The Shareholders' Annual General Meeting approved a 2012 dividend of 1,619 tenge per share (common and preferred), including taxes to be withheld under Kazakhstan law. The aggregate dividend for 2012 totalled roughly 110 billion tenge (approximately US$ 740 million).

Crude oil production in 6M 2013
Thousands of barrels per day

249



110 BN TENGE

Aggregate dividend for 2012

Average KZT/USD in 2012 – 149.1

2013 MILESTONES

Q3

– In the first nine months of 2013, after its equity stakes in KGM, CCEL, and PKI, KMG EP produced 9,227 thousand tonnes of crude oil (or 250 thousand barrels per day), a 119 thousand tonne or 1% improvement on the same period of 2012.

– According to consolidated interim financials for the first nine months of 2013, the Company's revenue remained virtually flat year-on-year at 606 billion tenge (US$ 4,000 million). Net profit came in at 93.2 billion tenge (US$ 615 million), a drop of 46% on the same period of the previous year. The drop in profit was largely driven by the impairment charges made in the first quarter of 2013 and lower income from joint ventures and associates against a backdrop of escalating operating expenses.

– In July 2013, JSC Ozenmunaigas completed construction of a well killing liquids preparation unit.

– KMG EP signed a Memorandum of Understanding with Petrofac Limited, under which Petrofac intended to evaluate the fields of JSC Embamunaigas and submit an offer for the long-term improvement of the development and production in selected EMG fields, in order to enter into a contract for enhanced oil recovery services.

– Daniyar Berlibayev, First Deputy Chairman of the Management Board of NC KazMunayGas JSC in charge of corporate development, was elected Chairman of the KMG EP Board of Directors.

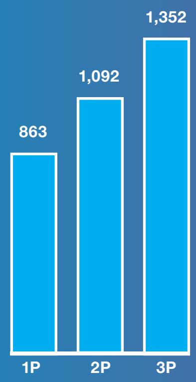
– The KMG EP Board of Directors approved a revised budget for 2013. Following the revisions, capital expenditure totalling 168 billion tenge (US$ 1,121 million) was budgeted for 2013, which is 17 billion tenge (US$ 114 million) below the figure of 185 billion tenge (US$ 1,235 million) approved in December 2012. The capex reduction was driven, in particular, by the 11 billion tenge slashed off the exploration drilling budget.

– The modernisation programme was revised downwards by 7 billion tenge (US$ 47 million). The reduction of the programme outlays for 2013 was facilitated by the deferral of several construction projects.

Crude oil production in 9M 2013
Thousand of barrels per day

250

Total oil reserves as of end 2012[1] Mn bl

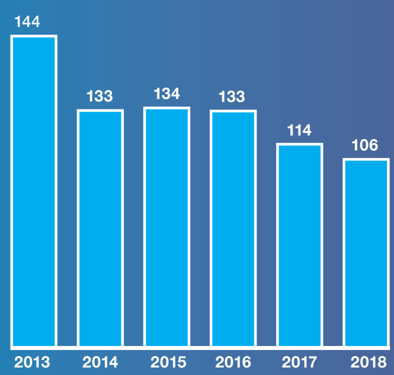


Dividends received from joint ventures and associates in 2013

68 BN TENGE

Average KZT/USD in 2013 – 152.1

Capex
BN TENGE



Average KZT/USD in
2013 – 152.1
2014–2018 B – 185

[1] Excl. stakes in KGM, CCEL, PKI

Q4

- The results of an oil reserve assessment carried out by Miller and Lents, Ltd. (MLL) as of December 31, 2012 were announced. According to the MLL report, the Company's 2P oil reserves as of end-2012, net of KMG EP interests in associates, stood at 148.0 million tonnes (1,092 million barrels). 1P oil reserves totalled 116.8 million tonnes (863 million barrels), while 3P reserves amounted to 183.5 million tonnes (1,352 million barrels).

- An Extraordinary General Meeting elected new members to the Board of Directors: Yerzhan Zhangaulov and Alastair Ferguson, an independent director.

- The Board of Directors approved a new production strategy for JSC Ozenmunaigas (OMG), calling for 5.35 million tonnes of crude oil (108 thousand barrels per day) output in 2014. Meanwhile, the production plan for JSC Embamunaigas (EMG) remained unchanged at 2.8 million tonnes (57 thousand barrels per day). The production profile revision at OMG was necessitated mostly by the low production over the past three years, including 2011, when industrial disputes within OMG triggered an unexpected drop in production. Capital expenditure for 2014 has been set at 133 billion tenge (US$719 million). Between 2014 and 2018, capital expenditure is expected to total roughly US$ 3.4 billion, of which US$ 200-300 million will be spent on a modernisation programme. Therefore, expenditure on the modernisation programme will total some US$ 350-450 million between 2012 and 2018.

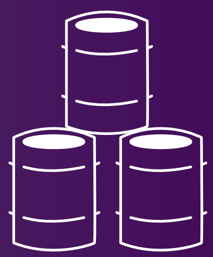
- In the S. Balgimbaev field, JSC Embamunaigas completed an associated gas utilisation plant with an annual capacity of 20 mmcm. Meanwhile, an associated gas utilisation plant of 40 mmcm rated capacity was launched at the Makat Vostochny field.

- KMG EP, including Company's stakes in KGM, CCEL, and PKI, produced 12,388 thousand tonnes of crude oil (251 barrels per day) in 2013, exceeding the 2012 figure by 2% and meeting the production target.

- KMG EP received US$ 27 million from CCEL as a priority payment US$ 219 million from PKI and US$ 200 million from KGM as dividend.

Crude oil production in 2013
Thousands of barrels per day

251



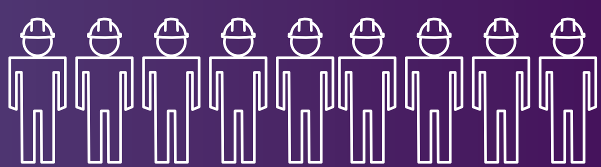
133 BN TENGE

Capital expenditure set for 2014

2014 B KZT/USD rate – 185

Modernisation programme spend in 2012 – 2018

60 – 80 BN TENGE



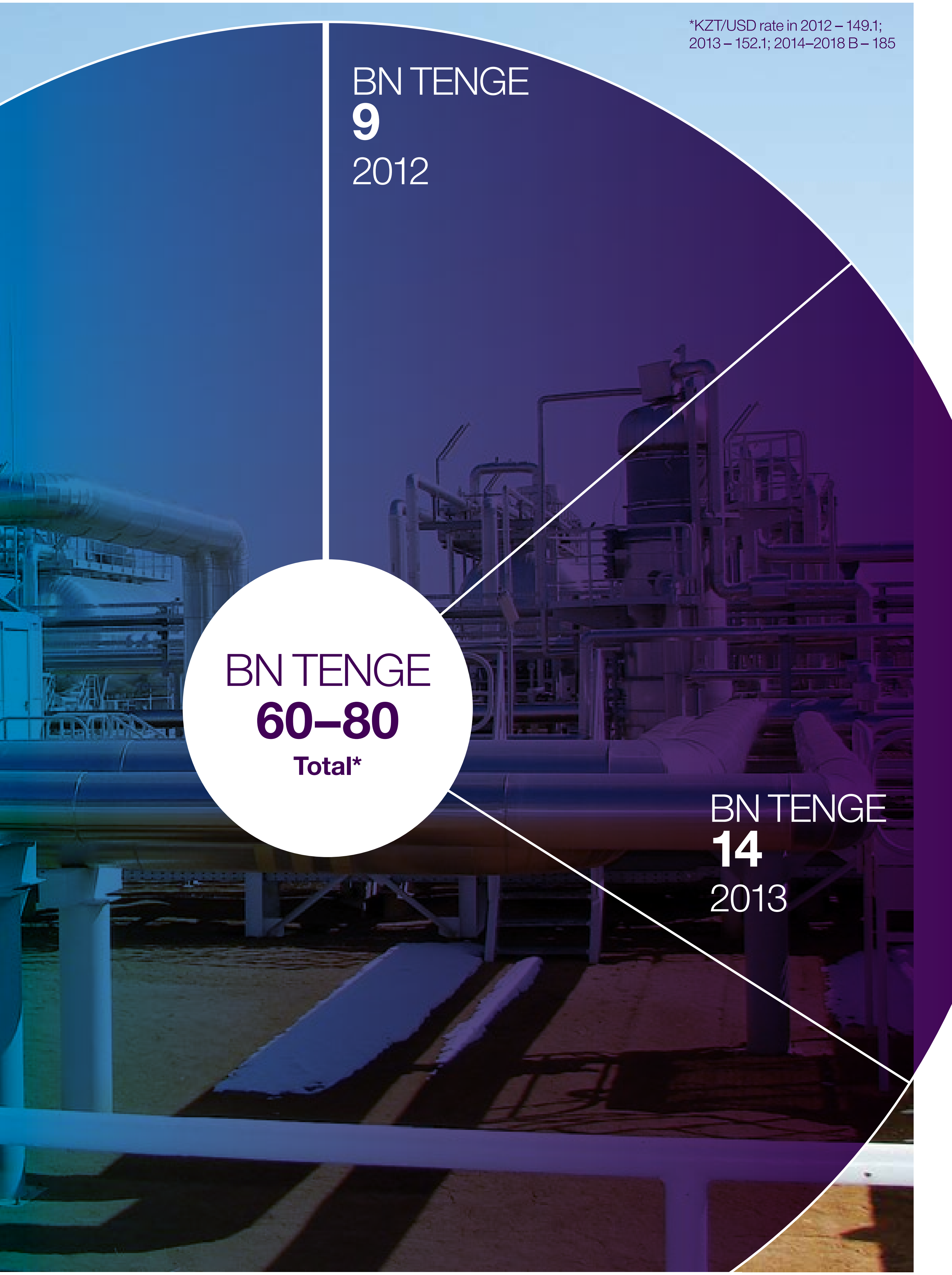
OUR OPERATIONS

INVESTMENT IN MODERNISATION

Our comprehensive modernisation programme will see continued investment in construction and reconstruction projects in order to deliver operational efficiencies, improve working and social conditions, and increase mid-term production volumes.

By 2018 we will have invested a total of US$ 350 – 450m in modernisation.

BN TENGE
37–56
2014–18


*KZT/USD rate in 2012 – 149.1;
2013 – 152.1; 2014–2018 B – 185
BN TENGE
9
2012
BN TENGE
60–80
Total*
BN TENGE
14
2013

OPERATIONAL ACTIVITY

PRODUCTION AND SALE OF OIL

In 2013, the Company managed to meet its targets, as its key producing assets recorded a production recovery.

In 2013, KMG EP, including its interests in LLP JV Kazgermunai (KGM), CCEL and PetroKazakhstan Inc. (PKI), produced 12,388 thousand tonnes of oil (251 barrels per day), an increase of 197 thousand tonnes (2% higher) on 2012, meeting its production target.

JSC Ozenmunaigas (OMG) produced 5,208 thousand tonnes (105 thousand barrels per day) in 2013, surpassing the 2012 figure by 5%. JSC Embamunaigas (EMG) produced 2,841 thousand tonnes (57 thousand barrels per day), a 1% gain on 2012. As a result, the aggregate production by OMG and EMG totalled 8,049 thousand tonnes (162 thousand barrels per day), a 4% increase on 2012.

During the period, OMG recorded its first increase in daily production in two years and, in fact, maintained steady production growth throughout the year. The 2011-12 production drop experienced by OMG was, for the most part, due to an increase in the number of idle and marginal wells, as well as workover delays due to a 2011 industrial dispute. As a result, the number of wells lacking proper maintenance ballooned. Therefore, in 2012-13, the Company not only had to maintain its wells but also to execute workovers on them.

In 2013, the core assets OMG and EMG drilled 311 commercial production and injection wells, a 21% increase on 2012.

A total of 1,151 wells at OMG and EMG underwent major workovers in 2013 compared to 957 wells in 2012. The number of well servicing rose 10% to 18,625 wells. As a result, the Company managed to reduce the share of idle wells in its development well stock from 13% in 2012 to 8% in 2013. In the medium term, this ratio will be maintained at 5%, the optimum level for the Uzen field.

In addition, thanks to infrastructure improvements, 2013 saw a reduction in the number of wells shut down due to power outages.

The Board of Directors set OMG's 2014 production target at 5.35 million tonnes of crude oil (108 thousand barrels per day). Meanwhile, EMG's production target remains flat at 2.8 million tonnes (57 thousand barrels per day). The revision of OMG's production profile is largely driven by the low production posted in the last three years, including 2011, when production dropped precipitously. The Company believes that its 2014 production targets are feasible and fully achievable.

To meet the 2014 production target, the in-house production assets of KMG EP have planned drilling of 173 production wells and 96 injection wells. In addition, scheduled work will be carried out, including fracking operations, well workovers, acid treatments, and the rehabilitation of idle producers.

By 2018, the Company expects aggregate production at OMG and EMG to surpass the 2013 production figure by 4%, including a 7% improvement at OMG to 5.57 million tonnes. This should be facilitated by the introduction of new processes and the implementation of modern methods for enhanced oil recovery, as well as overall operating optimisation.

PRODUCTION AT OMG

Thousands of barrels per day

1Q12	**100** kbopd
2Q12	**100** kbopd
3Q12	**99** kbopd
4Q12	**100** kbopd
1Q13	**101** kbopd
2Q13	**105** kbopd
3Q13	**107** kbopd
4Q13	**107** kbopd

In 2013, KMG EP's share of production in CCEL, KGM, and PKI stood at 4,339 thousand tonnes (89 thousand barrels per day), a 2% drop on 2012, largely due to a 5% drop in output by PKI as a result of a natural decline.

In 2014, KMG EP's share of the projected oil production by CCEL, KGM, and PKI will total 4.1 million tonnes (84 thousand barrels per day), gradually falling to 3.4 million tonnes (68 thousand barrels per day) by 2018, as KGM and PKI are undergoing natural declines in their production profiles.

In the medium term, the Liman field (EMG), Rozhkovskoye field (UOG) and Aksay field (KGM) will be put on stream.

UZEN FIELD DEVELOPMENT

KMG EP has been developing Uzen, Kazakhstan's largest onshore field. Following several years of research studies, experts have concluded that efficient development of the Uzen resources will require intensification of development and the implementation of new process solutions.

In 2012-13, the first application of horizontal drilling techniques took place at the Uzen field. Design engineering, borehole path calculations, and reservoir simulation modelling services were provided by the Engineering Centre of KazMunaiGas Exploration Production JSC in joint cooperation with geology and reservoir management specialists from JSC Ozenmunaigas (OMG).

The complex technique of horizontal drilling is largely used for cost cutting purposes. According to geologists and reservoir management specialists, two or three regular development wells could be replaced with a single horizontal well. This method also has a positive environmental impact. Horizontal wells offer a fairly high performance, since oil normally lies in horizontal reservoir pools. So, using this technique, oil recovery can be improved. Horizontal wells are also drilled if impassable terrain blocks access to the oil reservoir.

In 2013, JSC Ozenmunaigas developed an engineering design template to build roughly 30 standard production wells in the Uzen field. Twenty development producers of 1,800 metres in depth are to be drilled to the Khumurun dome. Ten injectors, 1,800 metres deep, will also be drilled there. Meanwhile, the Parsumurun dome will be targeted by drilling 18 commercial production wells to a design depth of 1,800 metres, plus 9 commercial injectors to the same depth.

A geological cross-section of the Uzen field features 26 sand levels of Cretaceous and Jurassic sediments. The Cretaceous levels 1 through 12 contain gas, while the mid-Jurassic levels 13 through 18 contain the field's primary pools of oil and gas. Selected domes in levels 19 and 24 contain oil and gas.

OPERATING HIGHLIGHTS OF JSC OZENMUNAIGAS AND JSC EMBAMUNAIGAS AS OF END 2013

	OMG	EMG	KMG EP
Number of fields	2	41	43
Number of production wells	3,755	2,305	6060
Number of injection wells	1,241	450	1,691
Average daily oil rate per well (tonnes/day)	4.5	3.5	–
2P oil reserves, million barrels	734	297	1,031
Lifting costs, $/bbl	16.8	12.0	15.1
2013 oil production, thousand tonnes per day	14.3	7.8	22.1
2013 oil production, thousand barrels per day	105	57	162


Tank oil transfer point.

OMG and EMG export their oil production via two primary routes: Caspian Pipeline Consortium (CPC) and Uzen-Atyrau-Samara (UAS). OMG also sells oil to the domestic market. EMG plans to start domestic deliveries in 2015.

In 2013, the crude oil export volumes of OMG and EMG stood at 6,017 thousand tonnes (119 thousand barrels per day) or 75% of total oil sales. Domestic sales of crude oil amounted to 1,900 thousand tonnes. Meanwhile, 67 thousand tonnes of oil products were sold on the domestic market.

The combined sales from KMG EP's stakes in CCEL, KGM and PKI amounted to 4,319 thousand tonnes of crude oil (88 thousand barrels per day), of which exports accounted for 3,829 thousand tonnes (78 thousand barrels per day), making up 89% of the aggregate sales volumes from these ventures.

The Company projects that its crude oil deliveries to the domestic market will total 1.9 million tonnes (38 thousand barrels per day) in 2014, all of which will be shipped to the Atyrau Refinery. Meanwhile, the Atyrau Refinery will refine a further 100 thousand tonnes for the Company's own needs. The Company projects an oil sale price of 48,000 tenge per ton (US$ 35.9 per barrel), which is 20% above its 2013 oil sale price.

Between 2015 and 2018, deliveries of domestic crude oil are expected to grow, and reach up to 50% of OMG and EMG's sale volumes. Further pricing and volumes will be determined through negotiations with the relevant regulators.

2013 oil production

105kbopd

JSC Ozenmunaigas production

57kbopd

JSC Embamunaigas production

OPERATIONAL ACTIVITY

Starting from April 1, 2014 the rate of export customs duty of crude oil was raised from US$ 60 to US$ 80 per tonne. The amendment will have a significant impact on the Company's financial results. Previously, export duty increased from US$ 20 to US$ 40 per tonne in January 2011, and to US$ 60 per tonne starting from April 2013.

DEVALUATION

The tenge devaluation in February 2014 may have a significant impact on the Company's operations. Most of the Company's revenues are denominated in US dollars. As for operating costs, roughly half of these expenses were exposed to foreign currency in 2013. These included taxes linked to oil prices, as well as transportation costs, which were partially denominated in US dollars and roubles. The remainder were made up of goods and services. The bulk of these are in tenge.

KazMunayGas Group, including KMG EP, has revised its remuneration pool upwards. On April 1, 2014 the salary fund at KMG EP was increased by 21 bn Tenge (US$ 115 million) in 2014 budget, including an increase of 10% of the salary fund due to the devaluation of tenge.

As regards to capital expenditure, the lion's share is locally produced, including the procurement of funds and pipes. It is not expected that capital expenditure will increase as a result of tenge depreciation.

OPERATING HIGHLIGHTS OF JV KAZGERMUNAI (100%), 2013

Number of fields	5
Number of production wells	154
Number of injection wells	31
Lifting cost, $/bbl	2.8
2P oil reserves, million barrels	199
2013 oil production, thousand barrels per day	66

OPERATING HIGHLIGHTS OF CCEL (100%), 2013

Number of fields	1
Number of production wells	2,550
Number of injection wells	713
Lifting cost, $/bbl	17.8
2P oil reserves, million barrels	374
2013 oil production, thousand barrels per day	38

OPERATING HIGHLIGHTS OF PETROKAZAKHSTAN INC. (100%), 2013

Number of fields	15
Number of production wells	1,239
Number of injection wells	380
Lifting cost, $/bbl	6.3
2P oil reserves, million barrels	238
2013 oil production, thousand barrels per day	113

48,000 Tenge per tonne

Projected oil sale price in 2014

US$ 35.9 / bbl

1.9 Mt

2014 domestic market oil deliveries by KMG EP[1]

38 kbopd

Processing station at Embamunaigas.

[1]Excl. stakes in KGM, CCEL and PKI

RESERVES

According to the results of the reserves audit as at December 31, 2013 performed by independent consultant Miller and Lents, Ltd. (MLL) at Ozenmunaigas JSC (OMG), Embamunaigas JSC (EMG) and Ural Oil and Gas LLP (UOG, where KMG EP holds 50% stake) fields, there were no significant changes in liquid hydrocarbon reserves as at the end of 2013 compared to the reserves as at the end of 2012. Proved oil reserves (1P) increased by 4.6% or 5.4 million tonnes to 122.1 million tonnes (902 million barrels). Proved plus probable (2P) reserves increased by 0.6% or 0.9 million tonnes to 148.8 million tonnes (1,101 million barrels). Proved, probable plus possible (3P) reserves declined by 0.4% or 0.7 million tonnes to 182.7 million tonnes (1,349 million barrels).

The increase in 1P and 2P reserves is mainly due to: consideration of long-term plans for drilling of new wells and geological and technical measures on producing assets; revision of estimated annual production decline rate; and positive test results from exploration wells at Rozhkovskoye field (Fyodorovskiy block).

RESULTS OF THE ASSESSMENT OF LIQUID HYDROCARBONS AS AT DECEMBER 31, 2013[1]

	Million tonnes			Million barrels		
	1P	2P	3P	1P	2P	3P
Reserves as at 31/12/2012	116.8	147.9	183.4	863	1,092	1,351
Production	8.0	8.0	8.0	59	59	59
Reserves replacement	13.4	8.9	7.3	98	68	56
Reserves as at 31/12/2013	122.1	148.8	182.7	902	1,101	1,349

Assessment of 2P reserves of joint ventures was made separately by independent auditors[2]. KMG EP's share in overall 2P reserves of Kazgermunai (KGM) (50% stake), CCEL (50% stake) and Petrokazakhstan Inc. (PKI) (33% stake) as at the end of 2013 amounted to 51 million tonnes (365 million barrels). Therefore, consolidated 2P reserves of KMG EP including its stakes in KGM, CCEL, and PKI as at the end of 2013 amounted to 200 million tonnes (1,466 million barrels).

CONSOLIDATED RESERVES

	Million tonnes		Million barrels	
	1P	2P	1P	2P
KMG EP	122	149	902	1,101
KGM 50%, CCEL 50%, PKI 33%	39	51	283	365
Consolidated reserves	161	200	1,185	1,466

Well servicing at Ozenmunaigas.

1,466Mb

Proven and probable (2P) consolidated reserves as of 2013 end

[1]The assessment was made based on the data available as at December 31, 2013. Any further changes of economic parameters and assumptions will be included in the 2014 reserves report.

[2]Assessments of KGM and CCEL reserves were made by Miller and Lents, Ltd. as at 31.12.2013 and 31.10.2013 respective. PKI – McDaniel & Associates Consultants Ltd as at 31.12.2013.

OPERATIONAL ACTIVITY

EXPLORATION

Since the formation of KMG EP, development and exploration services have been a key component of the Company's operations. SapaBarlau Service, a company acquired by KMG EP in September 2010, has served as the base for setting up KMG EP Exploration Assets LLP, an exploration service provider tasked with acting as the exploration contract operator. Exploration expenditure continues to change on an annual basis depending on seismic survey findings, drilling success within the Company and market prices. Funding of exploration is carried out with the Company's operating cash flows. Part of the proceeds from the sale of oil producing assets is used, no borrowings are made. Under its existing strategy, KMG EP intends to expand its operating footprint and replace its reserves; as a result, specialists within the Company are considering all promising petroleum provinces in the Republic of Kazakhstan and pursuing relevant research in this area.

In 2013, the Company drilled 23 wells at its key exploration assets. Of these, 15 wells proved successful, five wells were abandoned, while three were in the process of testing.

During 2013, exploration work covered eight prospects. Within the Taisoigan block, two successful wells were drilled at the Bazhir and Uaz structures. In tests, the wells produced oil flows ranging from 10 to 21 tonnes per day. The 2014 plans call for the drilling of yet another well to the Uaz structure for provisional reserve estimation. Within the Uzen-Karamandybas block, SZT-1 well was drilled to the Severo-Zapadnoe Tenge structure in 2013. The well is to be tested in 2014. Following the appraisal operations of 2013, three wells were drilled in the S. Nurzhanov field in order to appraise Valanginian levels, which produced oil rates from 1.8 to 34.2 tonnes per day. In the Makat Vostochniy field, flow tests from two wells drilled in 2013 produced oil rates of 12.4 to 20.9 tonnes per day. In Zapadnaya Prorva and Zhanatalap, one and two wells were drilled, respectively. All wells proved a success in testing. In the Kamyshitoviy Yugo-Zapadniy and S. Balgimbaev fields, the Company drilled one well each, which turned out to be dry.

All in all, the 2013 appraisal operations involved the drilling and testing of ten wells, eight of which yielded positive results. Therefore, the appraisal drilling success rate in 2013 stood at 80%.

Following the results of exploration activities in 2011-13, the Company revised the potential value of its existing exploration assets. The approved business plan for 2014-18 calls for a focus on the most prospective blocks of the existing portfolio of exploration assets. However, the Company confirmed its willingness to invest up to US$ 300 million a year in exploration operations, provided any promising projects are identified.

FYODOROVSKIY BLOCK: EXPLORATION RESULTS

2013 saw the completion of three subsalt wells (U-11, U-26 and U-24) in the Rozhkovskoe field in the Fyodorovskiy block. Flow tests from the U-11 well yielded a gas rate of 156 mcm/day and a condensate rate of 152 m^3/day. As already declared, flow tests from well U-26 yielded a gas rate of 239 mcm/day and a condensate rate of 247 m^3/day. The third well is to be tested in the first half of 2014.

Since 2003, ten exploration wells have been drilled in the Fyodorovskiy block, eight of which were successful, one awaits testing, and one was dry.

COMMENCEMENT OF PILOT OPERATIONS IN THE LIMAN BLOCK

In December 2013, an addendum to the Liman block exploration and production contract was executed to transfer the block to JSC Embamunaigas. In 2014, the Company plans to start pilot operations at Novobogat Yugo-Vostochniy Nadkarnizniy in the Liman block, which will last for two years. A decision on commercial production will hinge on the outcome of the pilot operations results.

Conventional pumping unit at Uzen oil field.

CAPITAL EXPENDITURE AND MODERNISATION OF PRODUCTION

In 2013, KMG EP's capital expenditure reached 144 billion tenge (US$ 947 million), an increase of 8% on 2012. This growth in capital expenditure has largely been driven by an increase in number of wells drilled from 256 to 311, the construction of production facilities and equipment purchases, as well as the implementation of the modernisation programme. The Company's Board of Directors approved 2014 capital expenditure at 133 billion tenge (US$ 719 million[1]). Between 2014 and 2018, capital expenditure is expected to total roughly 620 bn Tenge (US$ 3.4 bn), of which about 37–56 billion Tenge (US$ 200-300 million) will go to the modernisation programme. Therefore, between 2012 and 2018, the total expenditure on the modernisation programme will be close to 60–80 bn Tenge (US$ 350-450 million).

In 2012, the technology modernisation programme devised by JSC Ozenmunaigas (OMG) and JSC Embamunaigas (EMG) implemented. The programme includes the replacement of obsolete equipment, the construction of new facilities, and the introduction of innovative techniques for enhanced oil recovery and well maintenance.

In June 2013, JSC Ozenmunaigas opened a new station for diagnosis and repair of underground equipment. The workshop has the capacity to repair 400 thousand tubing sections, 300 thousand pump rods, and ten thousand sucker rod pumps per year. It is expected that the station will improve the quality of underground equipment repairs and, therefore, extend the service life of equipment. In turn, this will reduce the need to procure new underground equipment, extend well maintenance intervals, and reduce well downtime as a result of frequent repairs. In addition, the Company will improve its standard of safety and environmental protection.

+8% YoY

KMG EP's capital expenditure in 2013

[1] Converted at the exchange rate of 185 KZT / USD

In July 2013, Ozenmunaigas commissioned a well killing liquids preparation unit; this project will reduce productive formation fouling, prevent barium salt precipitation, and reduce the failure rate of sucker rod pumps post repairs.

In October 2013, JSC Embamunaigas commissioned an associated gas utilisation plant in the S. Balgimbaev field with an annual capacity of 20 mmcm. In December 2013, an associated gas utilisation plant of 40 mmcm capacity was put on stream in the Makat Vostochniy field.

Thanks to these plants, the flaring of untreated gas can be stopped, as required by environmental legislation. Some of the treated gas will be used for in-house purposes. The remaining gas will be sold domestically at a price set by the government. All in all, 2.6 billion tenge (US$ 17 million) has been spent to build these gas utilisation plants.

Two new service centres at the Karazhanbas and Kalamkas fields were commissioned in December 2013. These centres will facilitate the servicing of up to 250 and 100 units of motor vehicles and specialist equipment, respectively. These are serviced by LLP Support Service Vehicles and Well Servicing Division (UTTiOS), which was established in January 2012.

The service centres will provide centralised servicing and maintenance for vehicles and specialist equipment using modern technology. In addition, they will significantly improve working conditions. Vehicle maintenance standards at the service centres are in line with those of Europe. The service centres are expected to reduce quarterly and annual diagnostic costs for vehicles used in KMG EP group oil and gas fields. They will provide motor vehicle and specialist equipment maintenance and repair services to enterprises throughout the Mangistau Region.

These are just a handful of a lengthy list of projects covered by the modernisation programme. On the whole, 2013 marked an important watershed for KMG EP, which transitioned to more sophisticated processes and stepped up to a new level of operations, a sine qua non for a modern oil and gas enterprise.

In 2014, the Company intends to continue its modernisation programme. This will include the reconstruction of the system for water injection into the strata, completion of a water treatment facility for reinjection purposes, and implementation of the flare gas utilisation programme in the Prorva field.

The results of 2013 already indicate positive improvements, as the first facilities under the modernisation programme came on stream. The procurement of core underground equipment (tubing elements and pump rods) has been reduced for 2014. Now, with the commissioning of the well killing liquids preparation unit, the post-maintenance stabilisation period for development wells has been reduced.

Central Production Facility at Ozenmunaigas.

SOCIAL RESPONSIBILITY

SOCIAL PROJECT FUNDING

We aim to maintain a sustainable balance between the Company's economic interests and commitments in the areas of social welfare and environmental protection.

6.2 BN TENGE
2011

3.7 BN TENGE
2010

*Average KZT/USD rates in 2010 – 147.4; 2011 – 146.6; 2012 – 149.1; 2013 – 152.1

7.8 BN TENGE
2012

3.4 BN TENGE
2013

SOCIAL RESPONSIBILITY

SOCIAL AND CHARITABLE PROGRAMMES IN REGIONS OF OPERATIONS

Social commitment is a key component of KMG EP's business approach. The Company invests a lot of attention to regional development, which not only means comfortable living conditions for oilmen and their families, but also represents an express commitment to the government and the people in the regions where KMG EP operates.

In the ten years since its formation, KMG EP has provided 45 billion tenge (US$ 323 million) in funding to social projects, some of which was part of contractual commitments. The money was used to build kindergartens, healthcare facilities, playgrounds, sports clubs and fitness centres, a youth camp in Kendirly on the Caspian Sea and other socially important facilities.

In addition, the Company does its utmost to ensure stable operations, a comfortable working environment, and maintain social infrastructure in the areas in which it operates.

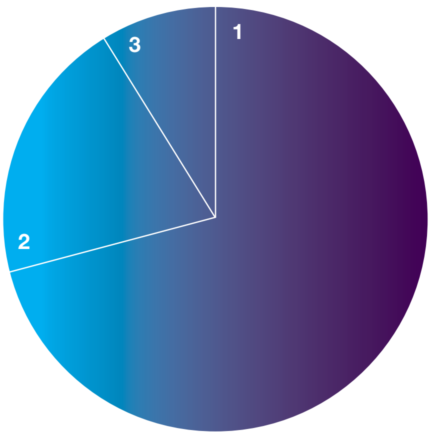
Following the expiration of the 2011-13 Collective Agreement in December 2013, almost all of the Company's subsidiaries and controlled companies have signed new three-year agreements with their employees. All suggestions and comments by employees on social issues have been discussed and taken into consideration in the new Collective Agreement. The Agreement maintains all of the former social benefits plus some new additions.

Mangistau Region
KMG EP's contractual obligations for the development of social infrastructure within the Mangistau Region amounted to 903.8 million tenge (US$ 5 million). On the Company's own initiative, an extra 1.6 billion tenge (US$ 10.5 million) was allocated to various projects. These include development of the region's social infrastructure, support for disadvantaged groups (pensioners, veterans, disabled, orphans, and the poor), and public programmes in culture, sports and law enforcement.

In 2014, the Company will fund a vegetable storage project in Zhanaozen and construction work is about to start on a healthcare centre. At the request of local authorities, a road between Zhanaozen and Kyzylsai has been repaired. This 18-km stretch of road not only links the outlying town and the city, but also serves as a key oilfield route.

Atyrau Region
KMG EP's contractual commitments to the Atyrau Region for the development of social infrastructure amounted to 274 million tenge (US$ 1.8 million). Here too, the Company did not limit payments to the mandatory terms. In 2013, an additional 369.7 million tenge (US$ 2.4 million) was allocated for social projects. In 2012-13, at the request of the Regional Akimat (the Governor's Office), 5.4 billion tenge (US$ 35.5 million) was provided to relocate residents from the towns of Baishonas and Yeskene to the region's capital city.

SOCIAL PROJECT FUNDING IN 2013
BN TENGE



1	MANGYSTAU	**2.2**
2	ATYRAU	**0.6**
3	OTHER REGIONS	**0.3**
TOTAL		**3.2**

Average KZT/USD rate in 2013 – 152.1

Cultural landmark Kanga-baba (Mangistau Region).

PERSONNEL POLICY

Human resource development is a strategic priority for KMG EP.

Since its formation, KMG EP has provided training and skills development for its employees on an annual basis. The key focus is to improve the skills of its personnel. In addition, KMG EP holds extensive corporate training courses, workshops, and modular training programmes for employees to promote uniform corporate policies and strategic priorities. Corporate training courses are also held annually for top managers, as well as legal staff, human resource officers and the financial departments.

In 2013, more than 22,000 employees[1] of the KMG EP Group completed training courses. Some 1.6 billion tenge (US$ 10.5 million) was allocated to staff development.

On August 26-27, 2013, the annual professional mastery competition was held for the title "Uzdik Maman". It is open to all employees of KMG EP, as well as its subsidiaries and joint ventures. The 38 finalists qualified through internal competitions held by subsidiaries and joint ventures of KMG EP, including: JSC Ozenmunaigas, JSC Embamunaigas, JSC Karazhanbasmunai, and JV Kazgermunai.

The competition encompassed ten occupations and included a theory test and practical section. Participants were assessed based on their application of advanced operational techniques and compliance with health and safety rules in tandem with a practical assignment to test their theoretical knowledge.

22,000

Employees completed training courses in 2013

Winners in each category were awarded "Uzdik Maman" medals, cash prizes, and gift vouchers for household goods and office appliances. Contestants placed first, second, and third in their categories received 30%, 20%, and 10%, respectively, on top of their basic salary for 12 months.

KMG EP also provides training for new employees and interns. More than 1,100 vocational college and university students complete internships with various units of KMG EP and its subsidiaries each year. In addition, in 2013, the Company and its subsidiaries covered vocational college and university tuition fees for 782 Kazakh students.

The Company has been working diligently to ensure a steady succession pool. Young Professionals' Counsels operating in KMG EP subsidiaries, joint ventures, and its head office are tasked with staff development and finding new talent. It is expected the programme will post graduates to major oil fields in the Republic of Kazakhstan and other CIS countries, where they will participate in training programmes and gain valuable experience.

On June 13-15, 2013, the KMG EP group held its first Young Professionals' Day. The event was aimed at bringing together young employees from its subsidiaries and joint ventures to familiarise them with the main projects and inspire them to common success.

A key precondition for attending the Young Professionals' Day is that the contestant must prepare an assignment to improve the Company's operations. The key selection criteria include the practical applicability and economic viability of any project submitted. In 2013, the Young Professionals' Day was attended by 53 graduates representing JSC Embamunaigas, JSC Ozenmunaigas, JSC Karazhanbasmunai, LLP Kruz, LLP Zhondeu, LLP KMG EP Exploration Assets, LLP JV Kazgermunai, and LLP TulparMunaiService.

The innovative projects submitted covered the following areas: Geology and Reservoir Management, Operations, Environment, Automation, as well as Finance and Economics.

Diplomas and prizes were awarded for the five best projects. All other contestants were honoured with participation certificates and gift vouchers for electrical appliances. The top management of participating companies in cooperation with the Head Office will oversee implementation of the best projects and provide support to the young employees.

In 2014, KazMunayGas group of companies, including KMG EP, revised its salary fund upward due to the recent devaluation. The Board of Directors agreed to implement a Unified System of Wages of employees working in the upstream oil and gas division (USoW) from April 1, 2014 onwards. This ruling includes an employee benefits increase of 21 billion tenge ($115 million) in the 2014 budget including an increase of 10% of payroll in connection to the devaluation of the tenge. Management believes that this measure will become another step aimed at creating a stable work environment for all regions of KMG EP's activity.

The USoW will be implemented throughout the NC KazMunayGas Group. It establishes unified tariff rates for workers within their monthly payroll. The USoW system is based on a unified rate matrix, which considers the difference in complexity of work within the same occupation.

[1] Including joint ventures and associates

HEALTH, SAFETY AND ENVIRONMENT

OCCUPATIONAL HEALTH AND SAFETY

Work safety and employee health are a top priority for all KMG EP enterprises. Within this sphere, the Company strives to improve its performance. Throughout its ten years of existence, the Company has readily complied with Kazakh health and safety legislation and maintains its internal standards in line with the best international practices.

With all of the Company's facilities falling within the hazardous category, KMG EP works hard to minimise the risk of accidents, particularly those that pose a threat to life or health. Nevertheless, work-related injuries remain a problem. In 2013, 15 work-related accidents occurred at JSC Ozenmunaigas and JSC Embamunaigas facilities. Twenty employees suffered injuries as a result, leading to an accident rate of 0.98 per thousand employees. Of the 20 accident victims, the injuries of three proved fatal; one victim was disabled (group II); two are undergoing treatment; while 14 have since returned to work. More than half of the accidents occurred at oil and gas facilities. Most accidents involved employees who had worked ten years or more for the Company. To investigate the causes of accidents, a special committee with representatives from the Ministry of Labour and Social Protection was created. Strict disciplinary measures, including dismissals, have been taken against those responsible for accidents.

Safety issues are reviewed by the Company's Management Board on a regular basis, with a heavy focus on accident prevention. To that end, continuous safety training has been provided for employees, serving as a cornerstone of the Company's existing system of personnel training. All employees are issued with protective clothing, footwear, and other protective equipment. The quality of protective clothing and footwear is improving every year.

Introduction of a GPS-based monitoring system for motor vehicles and special machinery has been completed. With this project implemented, motor vehicle locations can now be monitored and any irregularities (such as speeding or failure to follow a prescribed route) can be recorded.

To prevent and reduce occupational hazards, employees working on KMG EP's fields, as well as its head office, undergo annual medical checks, while drivers and other employees must undertake pre-work medical examinations.

The Company's subsidiaries have declared 2014 a year of safety. In this regard, comprehensive measures will be set in place to prevent work-related accidents. These include, first and foremost, improvements to the existing organisational structure; stricter monitoring of health and safety compliance; plus a raft of measures aimed at preventing accidents in the workplace. Its core action will involve an assessment of existing health, safety, and environment management within subsidiaries and owned companies, as well as the formulation of a strategy and action plan to improve the situation. In addition, videos showcasing safe work practices will be produced and used for training purposes, with the aim of boosting the health and safety outreach campaign.

Oilmen of Ozenmunaigas.

0.98 per thousand

employee accident rate

In order to improve the health, safety, and environmental programme, an IT platform will be introduced for the integrated management of all health, safety, and environmental issues in line with the best international practices. The project's key objective is to establish an integrated management system for health, safety, and environment that will cover all units of the Company's subsidiaries.

ACTUAL SPENDING ON HEALTH AND SAFETY

	BN TENGE
2004	2.1
2005	1.4
2006	1.6
2007	3.6
2008	4.3
2009	8.5
2010	10.1
2011	2.3
2012	1.2
2013	3.6
TOTAL	**38.8**

Environmental Protection
Recognising that its business operations are directly involved in the use of natural resources, KMG EP acknowledges its responsibilities to society for sustainable and environmentally responsible use of these resources.

Every year, the Company allocates substantial funds towards environmental protection. In 2013, 3.6 billion tenge (US$ 23.7 million) was spent on environmental protection programmes.

Environmental control is a key consideration for JSC Ozenmunaigas (OMG) and JSC Embamunaigas (EMG) in their endeavours to prevent environmental damage from their operations. At OMG and EMG facilities, environmental control is organised under the Environmental Monitoring Programme and adheres to environmental laws and regulations. The programme defines the procedures and methods for monitoring air quality, effluent run-off, ground water, soil, vegetation, and fauna. It also lays down the framework for monitoring the environment for radiation levels, testing air, water, and soil. Following this, lab tests are conducted before the results are sent for internal assessment and compiled into reports that include maps, text, and worksheets on the completed work.

Production at OMG and EMG oilfields dates back to the last century, when little attention was paid to environmental issues. As a result, vast swathes of land were contaminated with oil. In addition to this, contaminated soil was disposed of at 11 unauthorised dumps.

Between 2001 and 2012, an inventory was prepared of all legacy waste and oil-contaminated lands, including the volume, area, and depth of contamination, plus the hydrocarbon concentration in the soil. OMG and EMG then had the JSC Kazakh Research and Project Institute for Oil and Gas produce a project plan and a cost estimate for the remediation of contaminated land, which was approved by the authorised agencies in 2013.

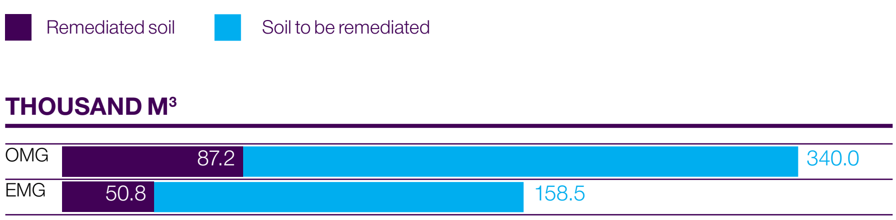
The project plan identified 135.8 hectares of oil-contaminated land within OMG's licensed areas, containing 340 thousand m^3 of contaminated soil, while EMG was found to have 119.1 hectares of oil-contaminated land, with 158.5 thousand m^3 of contaminated soil.

During the reporting year, the following environmental protection measures were taken at licensed areas using the biological remediation method:

– 38.4 hectares of oil-contaminated land, i.e. 119.4 thousand tonnes (87.179 thousand m^3) of polluted soil, was treated at OMG's oilfields;

– 38.4 hectares of oil-contaminated land, i.e. 69.6 thousand tonnes (50.8 thousand m^3) of polluted soil, was treated at EMG's oilfields.

BIOREMEDIATION OF CONTAMINATED SOIL IN 2013



HEALTH, SAFETY AND ENVIRONMENT continued

Work is ongoing to dispose of more than 50 thousand tonnes of oil-contaminated soil at OMG's temporary landfill of toxic waste, using an energy accumulating additive based on humate composites. In 2014, 2.9 billion tenge (US$ 15.7 million) will be spent on the treatment and disposal of contaminated soil and on the bioremediation of contaminated land belonging to OMG, adding up to 439.4 thousand tonnes. In addition, a total of 925 million tenge (US$ 5 million) will be spent on the bioremediation of land and on the treatment of contaminated soil at EMG oilfields, totalling 180.45 thousand tonnes of soil.

Once the above work is completed, OMG's and EMG's oilfield areas will be fully cleared of oil contamination, save for waste held at 11 sludge pits and five landfills belonging to OMG.

Meanwhile, a programme is currently underway to select an efficient and clean method to recycle contaminated soil. Once such a process is identified, work will commence on the treatment of oil-contaminated soil stored at OMG's 16 sludge pits.

Central Production Facility at Embamunaigas.

GAS UTILISATION

Associated gas produced by JSC Ozenmunaigas is fully utilised by KazGPZ LLP.

JSC Embamunaigas has developed and approved a number of associated gas utilisation programmes intended to reduce associated gas flaring in the field and, eventually, to fully rule out such flaring. Once implemented, the proposed programmes would address numerous environmental issues.

Between 2011 and 2013, two projects were implemented: Expansion of Associated Petroleum Gas Treatment and Transportation System in Oilfields Operated by NGDU Zhaikmunaigas in the Isataiskiy District, and Expansion of Associated Petroleum Gas Treatment and Transportation System in the Makat Vostochniy Oilfield Operated by NGDU Dossormunaigas in the Makatskiy District, at a total cost of 3.2 billion tenge (US$ 21 million). These projects include the construction of treatment plants to upgrade associated gas to a marketable standard for use in in-house operations and for sale to Isataiskiy and Makatskiy districts via JSC KazTranGazAimak. The NGDU Zhaikmunaigas gas treatment plant has an annual capacity of 20.0 mmcm and the NGDU Dossormunaigas treatment plant has an annual capacity of 40.0 mmcm in terms of market-grade gas.

Currently, an associated gas treatment plant has been put online at the Makat Vostochniy field of the Makatskiy District. In addition, a memorandum of cooperation has been signed between JSC Embamunaigas and the Atyrau Region's Akimat (Governor's Office) to implement the above projects and provide market-grade gas at the government-set price to the Atyrau Region.

619.9K

tonnes of soil bioremediated and treated in 2014

Gas flaring at the Prorva fields remains a problem for JSC Embamunaigas. In 2011-2012, a comprehensive plan was devised for gas utilisation; it called for an associated gas desulphurisation plant with an annual capacity of 120 mmcm. The project includes the desulphurisation plant construction, associated gas treatment, and its transportation to the Central Asia–Centre gas pipeline.

CASPIAN SEA PROTECTION

In order to prevent pollution of the Caspian Sea, protective dams are to be built this year. In addition, waterlogged wells of NGDU Zhylyoimunaigas in the Tazhigali field belonging to JSC Embamunaigas are being continuously monitored.

In recent years, the Company has piloted a modern technology by installing a stepped metal structure with specialty filler, the so-called Reno Mattress, to prevent shoreline landslides. Between 2007 and 2010, 5.44 km of protective dams were reinforced using this technique in the Teren-Uzek and Zapadnaya Prorva fields operated by NGDU Zhylyoimunaigas.

ENVIRONMENTAL AUDITS

In 2013-2014, the Company was served five notices of environmental non-compliance. KMG EP has been successful with four out of five claims, although three of them may still be appealed in higher courts. The appeal timeframes for each penalty vary, but, on average, an appeal process takes six to eighteen months.

KMG EP has not weakened its environmental compliance monitoring efforts; moreover, work is ongoing to enhance it each year. However, the Company has to conclude that Kazakh law in this respect is subject to broad interpretation.

Station for oil treatment at Ozenmunaigas.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

KMG EP became a pioneer among Kazakh companies to apply corporate governance practices in line with international standards. Investor confidence in the Company and its management hinges on its corporate transparency.

KMG EP has put in place an effective system to manage relations between the Board of Directors, the Management Board and the shareholders. The mechanism ensures that the Company continuously looks for the best investment opportunities while at the same time considering the interests of all shareholders.

Regulation of its relationship with the principal shareholder is a vital component of the Company's corporate governance. An agreement is in place between KMG EP and its parent company NC KazMunayGas (NC KMG) that provides for business independence while at the same time requiring it to act in the best interests of all its shareholders. The Company's Board includes three independent directors. They play a major role in ensuring that the Company complies with its corporate governance commitments. The independent directors at KMG EP use their experience to balance the influence of the principal shareholders and to closely supervise management decisions. The influence of the independent directors on the Board's decision-making is bolstered by a provision requiring a majority vote by independent directors on certain business decisions, and is also enhanced by a significant number of independent directors on Board committees.

With the participation of its independent directors, the Board has established an Audit Committee, a Remuneration Committee, and a Nominations Committee. This allocation of functions provides a more balanced and effective decision-making process.

BOARD OF DIRECTORS

THE GOVERNING BODY OF THE COMPANY IS THE BOARD OF DIRECTORS AND THE EXECUTIVE BODY IS THE MANAGEMENT BOARD. THE CHIEF EXECUTIVE OFFICER CHAIRS THE MANAGEMENT BOARD AND ALSO SITS ON THE BOARD OF DIRECTORS AND IS THE SOLE REPRESENTATIVE OF THE EXECUTIVE BODY ON THE BOARD OF DIRECTORS. FOUR MORE DIRECTORS, INCLUDING BOARD CHAIRMAN DANIYAR BERLIBAYEV, ARE REPRESENTATIVES OF NC KMG. THE BOARD OF DIRECTORS ALSO INCLUDES THREE INDEPENDENT DIRECTORS.

DANIYAR BERLIBAYEV
CHAIRMAN OF THE BOARD OF DIRECTORS OF KMG EP, DEPUTY CHAIRMAN OF THE MANAGEMENT BOARD OF NC KMG IN CHARGE OF CORPORATE HEADQUARTERS

Daniyar Berlibayev was appointed to the Company's Board of Directors on July 9, 2013, and elected Chairman of the KMG EP Board of Directors on July 10, 2013. He graduated from Al-Farabi Kazakh State University. In 2005-07, he worked as CEO of JSC Intergas Central Asia and at the same time as First Deputy General Director of JSC KazTransGaz. In 2007-09, he served as Managing Director (Gas Projects) at NC KMG. In 2009-11, he worked as General Director of KMG RM, then as General Director of JSC KazTransGaz. Daniyar Berlibayev is a Board member at KazTransGas JSC, Supervisory Board Chairman at JSC AstanaGas-KMG, and Supervisory Board Member at JSC KazRosGas.

ABAT NURSEITOV
CHIEF EXECUTIVE OFFICER OF KMG EP

Abat Nurseitov joined the Company in 2006 and was appointed Deputy General Director for Operations in January 2012. Mr. Nurseitov graduated from the Lenin Kazakh Polytechnic Institute. He has been working in the oil and gas industry since 1986, having progressed from being a field operator for oil and gas production to head of Zhetybaineft. He has held various management positions at KazNIPIneft, CJSC Turgai-Petroleum and the Kazakhstan affiliate of Lukoil Overseas Service. He has been awarded medals commemorating 100 and 110 years of Kazakhstan oil production.

YERZHAN ZHANGAULOV
MANAGING DIRECTOR (LEGAL), NC KAZMUNAYGAS JSC

In February 2012, Mr Zhangaulov was appointed Head of Legal Services at NC KMG JSC. Prior to that, he worked as Managing Director (Legal), Executive Director (Legal), and as an adviser to the Vice President of JSC NC KMG. He led the Legal Department of JSC NC Oil and Gas Transportation, headed the legal section within the General Services Department of Kazakhstan's Presidential Administration, served as a consultant with the Legislation, Defence and Law Enforcement Department at the Front Office of Prime Minister of the Republic of Kazakhstan, and as assistant to Kazakhstan's Justice Minister. He graduated from the Karaganda State Institute in 1992.

ASIYA SYRGABEKOVA
MANAGING DIRECTOR (INVESTMENT AND RISK MANAGEMENT), NC KAZMUNAYGAS JSC

Asiya Syrgabekova was appointed Financial Director at NC KMG in July 2006 and elected to the Board of Directors at KMG EP on 26 March, 2010. Prior to that, since 2003, she has been Deputy Chairman of the Management Board, and between 2004–2005 Chairman of the Management Board of Halyk Bank. Between 1998 and 2003, Ms. Syrgabekova worked in the national oil and gas companies, where she held various executive positions in KazakhOil and KaztransGas. She graduated from the Kazakhstan State University's Faculty of Economics in 1982.

TIMUR BIMAGAMBETOV
MANAGING DIRECTOR (PRODUCTION ASSETS), NC KAZMUNAYGAS JSC

Timur Bimagambetov was appointed Vice Chairman of the Management Board for Production and Technical Development on February 20, 2012 and elected to the Board of Directors of KMG EP on May 29, 2012. In recent years, he has served as General Director of N Operating Company LLP and as Executive Director of NC KMG. He graduated from the Kazakh Polytechnic Institute in 1978.

PHILIP DAYER
INDEPENDENT NON-EXECUTIVE DIRECTOR OF KMG EP

Philip Dayer LLB FCA, qualified as a chartered accountant with KPMG and then pursued a 25-year career in investment banking, specialising in consulting for LSE listed companies. He gained extensive experience working for companies such as Barclays de Zoete Wedd and Citicorp. He retired from ABN AMRO Hoare Govett in 2005. Since then he has advised Rosneft on its successful flotation in 2006. Currently, he holds independent directorships with a number of companies, including VTB Capital and AVEVA Group. Mr. Dayer joined the KMG EP Board of Directors in May 2010. He is chairman of the Audit Committee and a member of the Remuneration, Nominations and Strategy Committees.

EDWARD WALSHE
INDEPENDENT NON-EXECUTIVE DIRECTOR OF KMG EP

Edward Walshe has over 35 years of experience in the oil and gas sector. Mr. Walshe has worked in various roles with British Petroleum and British Gas, where he ran overseas exploration and productions operations in Nigeria, Abu-Dhabi, Central Asia, and South-East Asia. He has a Ph.D. in Solid State Chemistry from the University of Dublin. He was elected to the BoD of the Company on August 28, 2006. He chairs the Strategic Planning and Nominations Committees and is a member of the Audit and Remuneration Committees.

ALASTAIR FERGUSON
INDEPENDENT NON-EXECUTIVE DIRECTOR OF KMG EP

Alastair Ferguson is currently developing his own energy consultancy to advise clients on the Russian and Ukrainian energy sectors, with a focus on strategy and new business development. His clients include Statoil, Xenon Capital Partners, and JKX Oil and Gas. Formerly, he was a Principal and CEO of Russia Energy Advisory; he has also served as an independent director at JKX Oil and Gas and Xenon Capital Partners. He was a senior advisor in an investment consultancy firm targeting the Russian energy sector.

CORPORATE GOVERNANCE INFORMATION

CORPORATE GOVERNANCE CODE COMPLIANCE

This section of the Annual Report has been prepared in compliance with the requirements of the FCA's (Financial Conduct Authority) Disclosure and Transparency Rules (DTR 7.2) (Corporate Governance Statements).

As an overseas company with GDRs admitted to the Official List of the United Kingdom Listing Authority, the Company is not obliged to comply with the UK Corporate Governance Code. However, in accordance with DTR 7.2, the Company is required to disclose in its Annual Report whether or not it complies with the Corporate Governance Code of the Republic of Kazakhstan, as well as disclose actual principles of corporate governance, which are being applied in addition to the practices to be observed in accordance with applicable laws of the Republic of Kazakhstan.

Following the adoption of the UK Corporate Governance Code in May 2010 by the Financial Reporting Council, the UK independent corporate governance improvement organisation, in 2012 the Company updated its Corporate Governance Code to comply with the UK Corporate Governance Code, except for separate provisions. Specific information on where the Company's current governance practices differ from those set out in the UK Code is given herein.

The directors recognise the importance of corporate governance and support the development of corporate standards in the Company. The Company intends to develop and implement corporate governance practices which impose additional obligations on the Company than those required under legislation of Kazakhstan.

KAZAKHSTAN CORPORATE GOVERNANCE CODE AND COMPANY`S CORPORATE GOVERNANCE CODE

Corporate governance best practice in Kazakhstan is set out in the Kazakhstan Corporate Governance Code. This Code is based on the best international practices in the area of corporate governance and Recommendations on Application of Corporate Governance by Kazakhstan Joint Stock Companies, approved by the Securities Market Expert Council of the National Bank of the Republic of Kazakhstan in September 2002. The Code was approved by the Financial Institutions' Association of Kazakhstan in March 2005 and by the Board of Issuers in February 2005.

The Company has adopted the Kazakhstan Corporate Governance Code as its own Code. In 2012, the Corporate Governance Code was amended in order to comply with the UK Corporate Governance Code adopted in 2010 (except for some provisions as set out herein). The amendments adopted by the Company impose additional obligations on KMG EP in respect of corporate governance in addition to those provided by the Kazakhstan Corporate Governance Code. The Company believes that these additional amendments will significantly improve the corporate governance practices applied by the Company. KMG EP also takes into consideration other provisions of the UK Corporate Governance Code and will seek to improve its corporate governance standards in the future.

Additional provisions of the Company's Corporate Governance Code in addition to the requirements of the legislation of the Republic of Kazakhstan (namely, the Kazakhstan Corporate Governance Code) are as follows:

- Additional principles of corporate governance were introduced:
  - — The principle of independent activities of the Company
  - — The principle of responsibility

- Some of the corporate governance principles were supplemented by various provisions, such as:
  - — Social policy principles
  - — Provisions regarding relationship with the shareholders of the Company
  - — Division of responsibilities between the Chairman of the Board of Directors and the CEO
  - — Provisions describing the responsibilities of the Chairman of the Board of Directors
  - — Requirement of a minimum number of independent directors
  - — Additional provisions governing the criteria for establishing the independence of independent directors
  - — Provisions on access to information, and professional development for directors of the Company
  - — Provisions governing the principles of directors' remuneration
  - — Provisions concerning treatment of inside information
  - — Provisions for responsibilities of the Board of Directors to ensure an effective risk management system
  - — Provisions for evaluation of performance of the Chairman and members of the Board of Directors
  - — Provisions for appointment/re- appointment of the Board of Directors members

The current version of the Corporate Governance Code of the Company is available on KMG EP's website.

During 2013, the Company complied with the provisions of the Kazakhstan Corporate Governance Code in all significant aspects.

During 2013, the Company complied with the provisions of its Corporate Governance Code in all significant aspects, except the following:

- The Corporate Governance Code of the Company provides that at least one third of the Board of Directors must be independent directors.

Until April 16, 2013 the Board of Directors comprised seven members, including the Chairman and two independent non-executive Directors: Philip Dayer and Edward Walshe. On April 16, 2013 six directors were re-appointed, including the Chairman and two independent non-executive Directors. Therefore, up until April 16, 2013 the requirement of the Company's Corporate Code with respect to the number of directors on the Board was not complied with.

The Corporate Governance Code of the Company provides that the Nominations Committee formed by the Board of Directors makes recommendations to the Board of Directors on nominees to the Board of Directors for approval of a resolution for the General Meeting of Shareholders when the decision on the appointment of a director is made.

The Nominations Committee developed requirements for the position of independent director and, on the basis of surveys made by external consultants, made recommendations to the Board of Directors about the candidate to be elected.

CORPORATE GOVERNANCE INFORMATION

The Board of Directors called an extraordinary general meeting of shareholders on September 3, 2013 which was postponed until October 22, 2013 upon request from NC KMG until they had formed their own opinion on the matter.

This represents a breach of the Relationship Agreement entered into between KMG EP and NC KMG in September 2006 at the time of the Company's IPO, whereby NC KMG undertook, inter alia, that "NC KMG shall not vote on any resolution of the shareholders (or any resolution of the Board of Directors) to appoint or remove any independent director of the Company" except in certain circumstances that are not relevant in this instance.

The Company's Charter states that the Board of Directors should comprise eight directors and at least one third of the Board members should be independent directors. On October 22, 2013 two directors were appointed, including one independent director, and starting from that date the Board had eight directors including the Chairman and three independent directors: Philip Dayer, Edward Walshe, and Alastair Ferguson.

- According to the Corporate Governance Code of the Company, directors should meet without the participation of the Chairman of the Board of the Directors at least once a year to evaluate the performance of the Chairman of the Board of the Directors, and in other cases, if required.

The evaluation of performance of the Chairman of the Board of Directors was not formally carried out by directors. However, the performance of the Board of Directors is annually evaluated by an independent consultant.

- The Corporate Governance Code of the Company provides an obligation for the Board of Directors (together with the Audit Committee) at least once a year to carry out an evaluation of the effectiveness of the risk management system.

The Board of Directors does not have a separate risk committee, and the role described above has been allocated to the Audit Committee of the Board of Directors according to the provisions of the committee. More detailed information about the Audit Committee is provided on pages 50 to 51 of this report. In 2013, the evaluation of the effectiveness of the risk management system was not carried out by the Board of Directors. However the information on risk factors is provided in the Annual Report.

DIFFERENCES BETWEEN THE CORPORATE GOVERNANCE CODE OF THE COMPANY AND THE PROVISIONS OF THE UK CORPORATE GOVERNANCE CODE

Below are the main differences between the Corporate Governance Code of the Company and the provisions of the UK Code:

- According to the provisions of the UK Corporate Governance Code, the Chairman should, on appointment, meet the independence criteria set out therein.

The Corporate Governance Code of the Company does not contain the provisions on independence of the Chairman of the Board of Directors, and according to the opinion of the directors, the Chairman of the Board of Directors would not meet the criteria of independence stated in the respective provisions of the UK Corporate Governance Code or the respective provision of the Corporate Governance Code of the Company. The Chairman of the Board of Directors is representing the majority shareholder.

- According to the UK Corporate Governance Code, at least half of the members of the Board of Directors, excluding the Chairman, should be independent non-executive directors.

By contrast, the Corporate Governance Code and the Charter of the Company provide that at least one third of the Board of Directors' members shall be independent non-executive directors. According to the Charter of the Company, a number of key issues including related party transactions, major transactions, approval of social expenses and subsoil use contracts, require the approval of a majority of the independent non-executive directors. The Charter of the Company can be found on the Company's website.

- The UK Corporate Governance Code also states that the Board of Directors shall appoint one of the independent non-executive directors to be a senior independent non-executive director.

The Corporate Governance Code of the Company does not provide for the appointment of a senior independent director by the Board of Directors, taking into account the current shareholders' structure. The requirement for a senior independent director will be taken into consideration from time to time.

- The UK Corporate Governance Code states that non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

The Corporate Governance Code of the Company imposes such requirements on all members of the Board of Directors.

- The UK Corporate Governance Code provides that the non-executive directors are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

The Corporate Governance Code of the Company places responsibility for determining appropriate levels of remuneration of executive directors on the Remuneration Committee of the Board of Directors, and provides for involvement of the Remuneration Committee of the Board of Directors in appointment and removal of executive directors. In practice, determining the level of remuneration of the Board of Directors' members and their appointment is under the influence of the majority shareholder.

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the Corporate Governance Code of the Company, the Board of Directors and the Management Board shall be responsible for the fair presentation of the Company`s Annual Report and financial statements.

In compliance with the UKLA Disclosure and Transparency Rules, each of the directors (as stated on pages 42–43 hereof), confirms that to the best of his or her knowledge:

- The financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) give a true and fair account of the assets, liabilities, financial position, the results of the financial and economic activities of the Company, consolidated balance sheets of the Company and its subsidiaries;

- The management report includes a fair review of the results of the financial and economic activities, and financial position of the Company, its joint obligations with its subsidiaries, as well as a description of the principal risks and uncertainties they face.

CORPORATE GOVERNANCE INFORMATION

STRUCTURE OF THE BOARD OF DIRECTORS

As of December 31, 2013 the Board of Directors consisted of eight members, including:

Name	Position
Daniyar Berlibayev	Chairman of the Board of Directors
Abat Nurseitov	Member of the Board of Directors (General Director)
Yerzhan Zhangaulov	Member of the Board of Directors
Assiya Syrgabekova	Member of the Board of Directors
Timur Bimagambetov	Member of the Board of Directors
Philip Dayer	Independent Director
Edward Walshe	Independent Director
Alastair Ferguson	Independent Director

On July 9, 2013, by the decision of the general meeting of shareholders, Daniyar Berlibayev was appointed to the Board of Directors of the Company for the term of the Board of Directors.

On October 22, 2013, by the decision of the general meeting of shareholders, Yerzhan Zhangaulov and Alastair Ferguson were appointed to the Board of Directors of the Company for the term of the Board of Directors.

In accordance with the Corporate Governance Code of the Company, the Company's Board of Directors has established the fact of the independence of the directors and believes that Philip Dayer, Edward Walshe, and Alastair Ferguson are independent in character and in decision-making. The Board of Directors has found no relations or circumstances which had or could have a significant impact on making independent decisions by these directors.

STRUCTURE OF THE MANAGEMENT BOARD

In 2013, the Management Board of the Company consisted of senior executives, including the General Director and his deputies.

The members of the Management Board as of December 31, 2013 are listed below:

Name	Position
Abat Nurseitov	General Director and Chairman of the Management Board
Kairbek Yeleusinov	Deputy General Director for Operations
Malik Saulebay	Managing Director for Legal Matters
Benjamin Fraser	Financial Director – Financial Controller
Botagoz Ashirbekova	HR Managing Director

During the year, the Board of Directors adopted the following decisions on the composition of the Management Board:

1. On January 18, 2013 the employment contract with Alik Aidarbayev, General Director and Chairman of the Management Board, was terminated due to his transfer to public service.

2. On January 22, 2013 Abat Nurseitov was appointed as General Director and Chairman of the Management Board.

3. On February 13, 2013 Bakyt Imanbayev, Deputy General Director for Operations, was appointed as a member of the Management Board of the Company.

4. On October 4, 2013, the powers of the member of the Management Board Bakyt Imanbayev were terminated, and Kairbek Yeleusinov was appointed as a member of the Management Board.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

The responsibilities between the Board of Directors, the Management Board and General Director of the Company are allocated in accordance with the Charter of the Company, Sections 12 and 13. Also, the authorities and responsibilities of the Board of Directors and the Management Board are regulated by the Board of Directors' Regulation and the Management Board Regulation.

The Board of Directors is responsible to shareholders for effective management and proper control over the activities of the Company, and acts in accordance with the approved decision-making system. The most important functions of the Board of Directors are to identify areas of strategic development and policy of the Company, making decisions on potential acquisitions of oil and gas assets, and other significant issues.

The Management Board, in its turn, is responsible for developing an action plan to implement these functions and for daily operational activities of the Company. The Management Board reports to the Board of Directors on the progress towards achieving the objectives of the Company.

The Board of Directors meets on a regular basis and as necessary.

During 2013, the Board of Directors held 41 meetings, including six meetings in person, 28 in the form of written consent, and seven meetings via telephone conference call.

During the year, the Board of Directors reviewed among others the following issues:

- Issues related to implementation of the Company's Strategy
- Approval of the Company's budgets and business plans
- Risk Insurance Programme
- Health, safety and environment issues
- Issues related to amendments to subsoil use contracts
- Relationship with affiliates, including subsidiaries of NC KMG
- Approval of Company's related party transactions (transaction in respect of oil supplies to the domestic market in the second half of the year has not been approved by the Board of Directors. More detailed information is given in the consolidated financial statements and the Operating and Financial Review)
- Election of new Chairman of the Board of Directors
- Formation of committees of the Board of Directors
- Election of members of the Management Board
- Determining the amount of salaries and conditions of remuneration and bonuses of the members of the Management Board
- Preliminary approval of the Company's consolidated financial statements for 2012
- Introducing proposals on the amount of dividends by the results of 2012
- Report of the Board of Directors and Management Board for 2012
- Report on assessment of the Board of Directors' performance in 2012
- Review of plans and reports of the internal audit department, the status of implementation of the recommendations of the internal audit department
- The key performance indicators (KPIs) of the internal audit department and internal audit department's staff issues

CORPORATE GOVERNANCE INFORMATION

In 2013, the Board of Directors approved the following documents:

- Anti-Bribery Policy of KazMunaiGas Exploration Production JSC
- Whistle-blowing Policy of KazMunaiGas Exploration Production JSC
- Compliance Manual
- Charters and internal documents of subsidiaries

The Board of Directors also reviewed and recommended to the General Meeting of Shareholders to make amendments to the Charter of the Company.

PRESENCE OF MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE COMMITTEES AT MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES IN 2013

	Board of Directors	Audit Committee	Nominations Committee	Remuneration Committee	Strategic Planning Committee
Number of meetings held in 2013	**41**	**9**	**3**	**7**	**3**
Lyazzat Kiinov	19	–	1	–	1
Daniyar Berlibayev	22	–	–	–	–
Alik Aidarbayev	1	–	–	–	–
Abat Nurseitov	39	–	–	–	2
Yerzhan Zhangaulov	19	–	–	–	–
Assiya Syrgabekova	41	–	–	–	–
Timur Bimagambetov	41	–	–	–	3
Alastair Ferguson	8	2	1	2	1
Philip Dayer	41	9	3	7	3
Edward Walshe	41	9	3	7	3

The Management Board is an executive authority and regulates the Company's current activities. In 2013, 26 meetings of the Management Board were held on a regular basis and as necessary.

In 2013, the Management Board approved a number of related party transactions in connection with construction of exploration wells and appraisal wells, and subsurface work on contract areas of the Company. A number of actions have been approved to implement projects on acquisition of oil and gas assets.

The Management Board makes decisions on other issues of the Company's operations, not pertaining to the exclusive competence of the General Meeting of Shareholders, the Board of Directors and officials of the Company.

AUDIT COMMITTEE

Members of the Audit Committee

In 2013, this committee was composed of only independent directors, namely, Philip Dayer (Chairman of the committee), Edward Walshe, and Alastair Ferguson (from October 2013). Appointments to the Audit Committee are made for a period of up to three years, and can be extended by the Board of Directors for not more than two additional three-year periods, provided that the members of the Audit Committee are independent.

Responsibilities and duties of the Audit Committee

The Audit Committee is responsible, among other things, for any reports containing financial information of the Company, monitoring risk management and internal controls, and for involvement of the auditors of the Company in this process. It also receives information from the internal audit department of the Company, which monitors compliance with internal control procedures of the Company. In particular, the committee deals with issues of compliance with legal requirements, accounting standards, applicable rules of the UK Listing Authority (UKLA) and the Kazakhstan Stock Exchange (KASE), ensuring effective system of internal control. The Board of Directors is also responsible for preliminary approval of the annual financial reports.

The Audit Committee periodically reviews major transactions on acquisitions and disposals, and considers any issues that the Board of Directors may refer to the Audit Committee's review.

Every year at the General Meeting of Shareholders, the Chairman of the Audit Committee through the Chairman of the Board of Directors shall report the results of and answer questions related to the activities of the Audit Committee.

Activities of the Audit Committee in 2013
During 2013, the Audit Committee held nine meetings. The Chairman of the Audit Committee makes decisions about the frequency and timing of the meetings. The number of meetings is determined in accordance with the duties of the committee. At the same time, at least four meetings per year must be held, which should coincide with key dates of the cycle for preparation of financial reporting and audit of the Company (when audit plans of internal and external auditors are prepared, and when the interim financial statements, preliminary announcements and the annual report near completion). In 2013, the Audit Committee reviewed the following issues:

- Financial statements
  - — Review of the issues on preparation of financial statements in compliance with IFRS
  - — Approval of quarterly and annual financial statements to be disclosed to the KASE and London Stock Exchange
  - — Approval of press releases in relation to financial statements and operating and financial reviews
- Internal audit
  - — Review and approval of internal audit department operational plan
  - — Internal audit team's staff issues
  - — Assessment of the effectiveness of internal audit
- The Company's social expenses
- Forecasts of cash flows of the Company
- Treasury Policy compliance
- Compliance

REMUNERATION COMMITTEE

Members of the Remuneration Committee
In 2013, this committee was composed of only independent directors: Alastair Ferguson (Chairman of the committee from October 2013), Philip Dayer, and Edward Walshe. Terms of office of the members of the committee coincide with their terms of office as members of the Board of Directors.

Responsibilities and duties of the Remuneration Committee
The Remuneration Committee is responsible for monitoring the Company's current system of remuneration of the members of the Board of Directors, General Director, members of the Management Board and other employees of the Company, including analysis of the remuneration policy in comparison with other companies.

The Remuneration Committee is also responsible for developing and providing recommendations to the Board of Directors on the principles and criteria for determining the amount and terms of remuneration and compensation to the members of the Board of Directors, General Director and members of the Management Board of the Company, and for approving the terms of share option plans of the Company and other long-term incentive programmes for managers and employees of the Company.

The Remuneration Committee oversees coordination of the Company's policy of remuneration and current remuneration system of the Company with the Strategy of the Company, its financial situation and the situation on the labour market.

The Remuneration Committee oversees provision of adequate information disclosure in respect of remuneration and compensation of members of the Management Board and the Board of Directors of the Company in accordance with the laws of the Republic of Kazakhstan, the Listing Rules and the Company's internal documents.

In addition, the Remuneration Committee monitors implementation of decisions of the General Meeting of Shareholders with respect to determining the amounts and the procedure by which remuneration is paid to the Board of Directors of the Company.

The Remuneration Committee shall report regularly to the Board of Directors on its work, and also annually review compliance by the committee with the provisions on the Remuneration Committee providing information to the Board of Directors.

Activities of the Remuneration Committee in 2013

In 2013, the Remuneration Committee held seven meetings. The committee shall hold meetings as required, but not less than once every six months. Meetings may be convened at the initiative of the Chairman of the committee, any member of the committee or by the decision of the Board of Directors.

In 2013, the Remuneration Committee reviewed the following issues:

- Determining the amount of salaries and conditions of remuneration and bonuses of the members of the Management Board
- Issues related to the Option plan

Total remuneration of independent directors for the year as of December 31, 2013, is listed in the table below:

Name	Annual remuneration, 000 USD	Physical attendance, 000 USD	Phone-video conference participation, 000 USD	Meetings of independent directors, 000 USD	Committee chairmanship, 000 USD	Total for 2013 (excluding taxes), 000 USD	Total for 2013 (including taxes), 000 KZT
Alastair Ferguson	29	20		5	2	56	9,570
Edward Walshe	150	60	35	20	15	280	47,418
Philip Dayer	150	60	35	20	44	309	52,366
Total	329	140	70	45	61	645	109,354

Other members of the Board of Directors do not receive remuneration as members of the Board of Directors, but shall be entitled to reimbursement for costs associated with such appointment.

NOMINATIONS COMMITTEE

In 2013, the members of the Nominations Committee were: Lyazzat Kiinov, Edward Walshe (acting Chairman of the committee), Philip Dayer and Alastair Ferguson (from October 2013).

The main purpose of the committee is to increase efficiency and quality of work of the Board of Directors in selection of professionals to fill positions in the Company, as well as to ensure succession in changing officers of the Company, to define criteria for selection of candidates for the Board of Directors, General Director, members of the Management Board, and the company secretary.

The Nominations Committee considers matters related to changing the membership of the Board of Directors and Management Board, with termination of office and appointment of the Company Secretary, retirement, and appointment of additional and alternate directors.

Activities of the Nominations Committee in 2013
During 2013, the Nominations Committee held three meetings, where the following issues were discussed:

- Recommendation to the Board of Directors on the membership of the committees of the Board of Directors
- Recommendation on election of a member of the Management Board

STRATEGIC PLANNING COMMITTEE
In 2013, the members of the Strategic Planning Committee were: Edward Walshe (Chairman of the committee), Timur Bimagambetov, Abat Nurseitov, Philip Dayer, and Alastair Ferguson.

The main purpose of the committee is to develop and provide recommendations to the Board of Directors on setting the priorities of the Company and its development strategy.

Activities of the Strategic Planning Committee in 2013
In 2013, the Strategic Planning Committee held three meetings, where the following issues were discussed:

- Prospects of KMG EP development under new Strategy of NC KMG for the period 2012–2022
- Progress with and prospects of KMG EP exploration activity
- Company's Strategy for 2010-2020
- Corporate KPIs for 2014

MAJOR SHAREHOLDERS AND/OR GDR HOLDERS
In accordance with the laws of the Republic of Kazakhstan, below is the list of holders of securities of the Company, who own shares as of December 31, 2013, the number of which must be reported. This requirement does not apply to holders of GDR, however, the Company considers it necessary to specify the information that, on September 30, 2009, the State Investment Fund of the People's Republic of China Investment Corporation (CIC) announced the acquisition of GDR amounting to about 11% of the shares of the Company in the form of GDRs.

Shareholder	**Ordinary shares**	**Preferred shares**	**Total numbers of shares placed**
Amount of shares issued	70,220,935	4,136,107	74,357,042
In possession of JSC NC KazMunaiGas	43,087,006	–	43,087,006
Percentage of issued share capital	61.36%	0.00%	57.95%

CONTRACTS OF DIRECTORS, LETTERS OF APPOINTMENT OF DIRECTORS AND EMPLOYMENT CONTRACTS OF MEMBERS OF THE MANAGEMENT BOARD
EMPLOYMENT CONTRACTS OF MEMBERS OF THE MANAGEMENT BOARD
All the members of the Management Board have signed employment contracts with the Company under which they are entitled to insurance covering accidents during travel and to reimbursement for costs incurred during business travel in accordance with internal regulations of the Company.

Except for the foregoing, it is not expected that any other employment agreements will be entered into with members of the Company's Board of Directors or Management Board members.

CORPORATE GOVERNANCE INFORMATION

INTERNAL CONTROL AND RISK MANAGEMENT

The Company operates an internal controls and risk management system. The system is designed to identify, evaluate and manage significant risks to achieve its business goals while maintaining and increasing its shareholder value.

The system is based on firmly established international practices as well as on the requirements of the Listing Rules of the London Stock Exchange and the UK Combined Code of Corporate Governance.

The existing chain of authority and interaction between elements of the internal control system provide a level of independence necessary for it to be functioning effectively, and in line with international best practice in this area.

- The Company's internal documents such as financial, operational, administrative policies, treasury policy, and many others
- continuous monitoring of the operating and financial performance and activities aimed at compliance with safety requirements by the Company

The internal audit team of the Company provides the Board of Directors with unbiased information about how effectively the internal controls of the Company operate. In their work, the internal audit team prefers taking a risk-oriented approach which allows identification and focusing maximum attention on critical areas of the Company, thereby helping to improve the Company's overall performance and the quality of its corporate governance. The internal audit team monitors the implementation of recommendations given by management, and reports on their progress to the Audit Committee and the Board of Directors.

As regards risk management, the Management Board established a Risk Management Committee. For more details on its activities, please see below.

Risk Management Committee

The Risk Management Committee was set up under the Management Board.

The main purposes of the committee are a prompt consideration of risk management issues within the Company; to give recommendations to the Management Board on risk management; to monitor the effectiveness of risk management systems; and to give recommendations to business units of the Company on how to improve the risk management system to make business processes more efficient and achieve the strategic goals of the Company.

General information about the Company's risk profile is in the Risk Factors section on page 76. Apart from that, information about financial risks can be found in the Notes to the Consolidated Financial Statements, starting from page 86.

INFORMATION ON TAXATION IN THE UK

The overview given below is based on UK law and HM Revenue & Customs practices in force as at the date of this document, both of which are subject to change, possibly with retrospective effect. Except where otherwise stated, the overview discusses only certain UK tax consequences for absolute beneficial owners of shares or GDRs who are (1) considered to be UK residents for tax purposes; (2) considered to be residents for tax purposes in no other jurisdiction; and (3) not in possession of a permanent establishment in the Republic of Kazakhstan to which the holding of shares or GDRs is related ("the UK Holders").

In addition, this overview (1) addresses only the tax consequences for the UK Holders who own shares and GDRs as capital assets and it does not address the tax consequences that may apply to certain other categories of the UK Holders, e.g. dealers; (2) assumes that the UK Holders do not, directly or indirectly, control 10% or more of the voting shares of the Company; (3) assumes that a holder of the GDRs is beneficially entitled to the underlying shares and to the dividends on those shares; and (4) does not address the tax consequences for the UK Holders that are insurance companies, investment companies or pension funds.

The following is intended only as a general guide and is not intended to be, nor should be considered to be, legal or tax advice to any particular UK Holder. Accordingly, investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and HM Revenue & Customs practice, of the acquisition, ownership and disposal of shares or GDRs in their own particular circumstances.

Withholding tax
On the assumptions that income received from GDRs is from a non-UK source for tax purposes, it should not be subject to withholding tax in the UK. Dividend payments on shares will not be subject to UK withholding tax.

Taxation of dividends
A UK Holder receiving a dividend on shares or GDRs may be subject to UK income tax or corporation tax, as the case may be, on the gross amount of any dividend paid before the deduction of any Kazakhstan withholding taxes, subject to the availability of any credit for Kazakhstan tax withheld. A UK Holder who is an individual resident and domiciled in the UK will be subject to UK income tax on the dividend paid on shares or GDRs and is entitled to a non-refundable tax credit equal to one ninth of the amount of the dividend received. A UK Holder who is an individual resident but not domiciled in the UK and who is entitled and prefers to be taxed in the UK on the remittance basis will be subject to UK income tax on the dividend paid on shares or GDRs to the extent that the dividend is remitted or treated as remitted to the UK, and will also be entitled to a non-refundable tax credit equal to one ninth of the amount of dividend received.

A UK Holder which is a company residing in the UK for tax purposes is not subject to UK corporate tax on the dividend paid on shares or GDRs, unless certain anti-avoidance rules in the tax law apply.

Taxation of disposals or deemed disposals
The disposal by a UK Holder of interests in the shares or GDRs may result in a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK Holder's circumstances and subject to any available exemption or relief. A UK Holder who is an individual resident and domiciled in the UK will generally be liable to UK capital gains tax on chargeable gains made on the disposal of an interest in the shares or GDRs. A UK Holder who is an individual resident but not domiciled in the UK and who is entitled and prefers to be taxed in the UK on the remittance basis will generally be liable to UK capital gains tax to the extent that the chargeable gains made on the disposal of an interest in the shares or GDRs are remitted or treated as remitted in the UK. In particular, dealings in the GDRs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to UK capital gains tax liability.

An individual holder of shares or GDRs who ceases to be a resident or ordinarily resident in the UK for tax purposes for a period of less than five full tax years and who disposes of such shares or GDRs during that period may also be liable on returning to the UK to UK tax on capital gains, even though the individual may not be a resident or ordinarily resident in the UK at the time of the disposal.

A corporate UK Holder will generally be subject to UK corporation tax on any chargeable gains arising from a disposal of shares or GDRs.

Effect of Kazakhstan withholding taxes
Dividend payments in respect of shares and GDRs are subject to Kazakhstan withholding tax. A UK Holder, who is an individual resident, should generally be entitled to a credit for Kazakhstan tax properly withheld from such payments against the UK income tax liability on such amounts, subject to UK tax rules for calculation of such a credit. A UK Holder which is a company is not generally subject to UK corporation tax on the dividend payment and so is usually not able to claim credit for any such Kazakhstan withholding taxes.

Stamp duty and stamp duty reserve tax ("SDRT")
Assuming that any document effecting the transfer of, or containing an agreement to transfer, one or more shares or GDRs is neither (i) executed in the UK nor (ii) relates to any property located in the UK, or to any matter or thing done or to be done in the UK (which may include involvement of UK bank accounts in the payment mechanism), then no UK ad valorem stamp duty should be payable on such a document.

Even if the document effecting the transfer of, or containing an agreement to transfer, one or more shares or GDRs is (i) executed in the UK and/or (ii) relates to any property located in the UK, or to any matter or thing done or to be done in the UK, in practice it should not be necessary to pay any UK ad valorem stamp duty on this document unless the document is required for any purposes in the UK. If it is necessary to pay the UK ad valorem stamp duty, it may also be necessary to pay interest and penalties associated therewith.

As the GDRs relate to the securities expressed in a currency other than sterling, no "bearer instrument" stamp duty should be payable on either the issue of the GDRs or any transfer of the securities transferable by means of the GDRs.

Assuming that the shares are neither (i) registered in the UK register nor (ii) paired with shares issued by a company incorporated in the UK, no SDRT should be paid in respect of any agreement to transfer shares or GDRs.

OPERATING AND FINANCIAL REVIEW

OPERATING AND FINANCIAL REVIEW

The following document is intended to assist the understanding and assessment of trends and significant changes in the Company's results and financial condition. This review is based on the audited consolidated financial statements of the Company and should be read in conjunction with those statements and the accompanying notes. All financial data and discussions thereof are based on the audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). According to the Company's accounting policy, interests in joint ventures and associates are accounted for using equity methods, and thus are not consolidated line by line ("equity-accounted entities").

OVERVIEW

KazMunaiGas Exploration Production ("the Company" or "KMG EP") is engaged in the exploration, development, production, processing, and export of hydrocarbons, and the acquisition of oil and gas assets. The Company has publicly listed Global Depositary Receipts (GDR) and shares traded on London Stock Exchange (LSE) and Kazakhstan Stock Exchange (KASE), and its majority shareholder is JSC National Company KazMunaiGas ("NC KMG"), the wholly state-owned joint stock company, which represents the state's interests in the Kazakh oil and gas industry. The Company's core oil and gas assets are located in the Pre-Caspian, Mangistau and Southern Turgai basins. The following table represents the Company's principal oil and gas interests as of December 31, 2013:

Name	Ownership interest	Principal operations	Financial statement reflection
Ozenmunaigas JSC ("OMG")	100%	Crude oil upstream	Consolidated entity
Embamunaigas JSC ("EMG")	100%	Crude oil upstream	Consolidated entity
KMG EP Exploration Assets ("KMGEP EA")	100%	Oil and gas exploration	Consolidated entity
Kazakh Gas Processing Plant ("KazGPZ")	100%	Natural gas upstream and refining	Consolidated entity
JV Kazgermunai LLP ("KGM")	50%	Crude oil upstream	Equity-accounted entity
Petrokazakhstan Inc. ("PKI")	33%	Crude oil upstream	Equity-accounted entity
CITIC Canada Energy Limited ("CCEL")	50%	Crude oil upstream	Financial asset
Ural Oil and Gas LLP ("UOG")	50%	Oil and gas exploration	Equity-accounted entity
KS EP Investments BV ("KS")	51%	Oil and gas exploration	Equity-accounted entity

KEY PERFORMANCE INDICATORS

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
3,161	3,134	3,083	3%	Total production (ktonnes)*	12,388	12,191	2%
48,668	54,358	(12,013)	100%	Net income/(loss) (KZT million)	141,829	160,823	-12%
0.71	0.80	(0.16)	100%	Basic and diluted EPS (KZT thousand)	2.08	2.32	-10%
82,484	80,442	96,747	-15%	EBITDA (KZT million)**	308,947	385,415	-20%
27%	23%	35%	-23%	Operating margin (%)***	23%	29%	-21%
69,925	65,399	59,622	17%	Operating cash flow before working capital adjustments (KZT million)	184,520	194,718	-5%
4%	4%	-1%	100%	ROE (%)	11%	12%	-8%

* Including proportionate share of equity-accounted entities.

** EBITDA is calculated by adding back the share of income in equity-accounted entities, finance income and non-cash expenses such as depreciation and amortisation to the Company's operating profit.

*** Operating profit does not include share in results of equity-accounted entities, CIT expenses, finance charges, impairment charges and other non-operating charges.

OPERATING AND FINANCIAL REVIEW

BUSINESS ENVIRONMENT

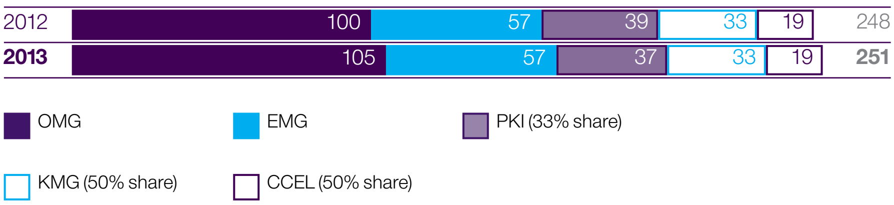
Macroeconomic factors affecting the Company's financial performance for the period under review include movements in crude oil prices, domestic inflation and foreign exchange rates, in particular the Tenge – US dollar exchange rate.

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
109.27	110.29	110.10	-1%	Average Brent (DTD) (US$ / bbl)	108.66	111.70	-3%
1.5%	0.6%	2.1%	-29%	Kazakhstan inflation (%)	4.8%	6.0%	-20%
153.80	152.91	150.45	2%	Average Tenge – US$ exchange rate	152.14	149.11	2%
153.61	153.62	150.74	2%	Tenge – US$ exchange rate at the reporting date	153.61	150.74	2%

PRODUCTION ACTIVITY

CRUDE OIL PRODUCTION FOR THE PERIOD KTONNES

AVERAGE DAILY PRODUCTION KBOPD



The Company's total crude oil production in 2013, including share of production from its joint ventures and associated entity, amounted to 12,388 ktonnes or 251 kbopd. OMG and EMG produced 162 kbopd with a further 37 kbopd from PKI, 33 kbopd from KGM and 19 kbopd from CCEL.

Compared to 2012, OMG and EMG production increased by 258 ktonnes and 25 ktonnes, respectively.

Wells as of reporting date*	Drilled in 2013*	Drilled in 2012*		Well workovers 2013	Well workovers 2012	Change	Well servicing 2013	Well servicing 2012	Change
	Number of wells				*Number of well workovers*			*Number of well servicing*	
4,996	226	181	OMG	853	675	26%	14,962	13,360	12%
2,755	85	75	EMG	298	282	6%	3,663	3,634	1%
1,283	95	98	PKI (100%)	350	326	7%	1,025	878	17%
189	28	24	KGM (100%)	45	42	7%	63	42	50%
3,339	154	160	CCEL (100%)	243	176	38%	3,150	2,785	13%

* Development wells, including injection wells.

Oil production for the reporting period from the new wells at OMG amounted to 272 ktonnes compared to 151 ktonnes in 2012. OMG workovers of 853 wells provided an incremental production of 400 ktonnes, while 675 well workovers in 2012 provided incremental production of 248 ktonnes. At OMG there were 91 hydrofracturing operations, which is 20 fewer than in 2012. Additional production from hydrofracturing in 2013 amounted to 157 ktonnes, which is 37 ktonnes more than in 2012.

Oil production generated by new wells drilled at EMG increased to 116 ktonnes, 30 ktonnes more than in 2012. EMG performed 298 well workovers which provided an incremental production of 99 ktonnes, 9 ktonnes more than in 2012.

PKI's production declined in 2013 compared to 2012, as a result of reserve depletion of some of the PKI mature fields. KGM and CCEL production in 2013 is comparable to 2012 production.

CAPITAL EXPENDITURE OVERVIEW

Capital expenditure amounts presented in this section represent actual additions to the property, plant and equipment (PPE) and intangible asset accounts during the reporting period. Amounts indicated in the consolidated cash flow statement of the Company as purchases of PPE and intangible assets reflect additions presented herein adjusted for changes in related working capital accounts, such as advances prepaid and accounts payable for PPE and intangible assets.

Capital expenditure of OMG, EMG, Head office and other KMG EP subsidiaries

In 2013, the Company's capital expenditure totalled KZT143.9 billion, KZT22.3 billion more than in 2012. Capital expenditure includes cost of drilling of new wells, construction and modernisation of production facilities, purchase of fixed and intangible assets and non-production capital expenditure.

OMG capital expenditure for the reporting period amounted to KZT92.8 billion, which is KZT19.8 billion more than in 2012, mainly due to an increase in the number of wells drilled from 181 to 226, construction of production facilities and equipment procurement for the new UBR production division, construction of the station for diagnostics and repair of underground equipment, construction of the site for preparing liquids for well dumping and construction of worker facilities.

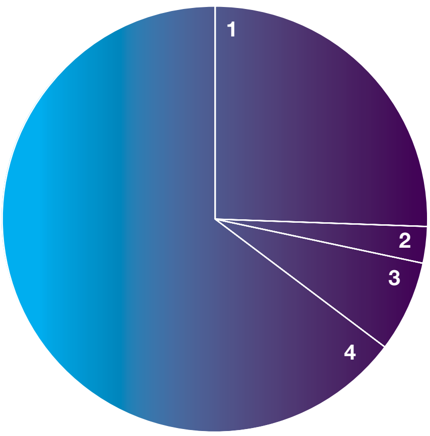
EMG capital expenditure in 2013 amounted to KZT36.8 billion, which is KZT10.9 billion more than in 2012. The increase in capital expenditure is mainly due to construction of roads, administrative facilities, pipeline reconstruction and construction of two gas utilisation units at EMG fields.

Other subsidiaries' capital expenditure in 2013 amounted to KZT10.2 billion, which is KZT10.7 billion less than in 2012 due to the large amount of equipment purchases and construction works in UTTiOS in the prior year.

Head office capital expenditure in 2013 amounted to KZT4 billion, which is KZT2.3 billion more than in 2012 mainly due to the increase in exploration drilling works performed in 2013.

CAPITAL EXPENDITURE FOR OMG, EMG, HEAD OFFICE AND OTHER SUBSIDIARIES
KZT MILLION

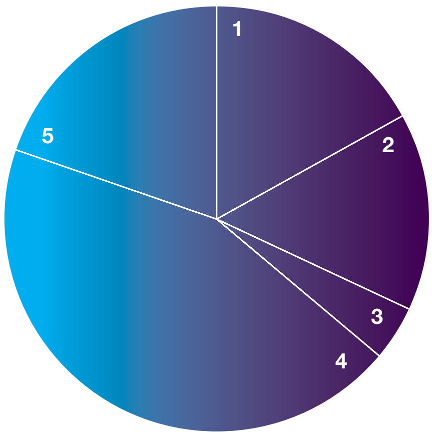
TOTAL 143,905



1	EMG	**36,837**
2	Head office	**4,007**
3	Other subsidiaries	**10,216**
4	OMG	**92,845**

CAPITAL EXPENDITURE OF EQUITY-ACCOUNTED ENTITIES
KZT MILLION

TOTAL 44,349



1	KGM (50%)	**7,523**
2	UOG (50%)	**6,658**
3	KS (51%)	**1,925**
4	PKI (33%)	**19,599**
5	CCEL (50%)	**8,644**

Capital expenditure of equity-accounted entities

PKI capital expenditure in 2013 amounted to KZT59.4 billion (KMG EP 33% share: KZT19.6 billion), which is comparable to 2012 figures.

KGM capital expenditure for the period was KZT15 billion (KMG EP 50% share: KZT7.5 billion), which is KZT6.5 billion more than in 2012. The increase in capital expenditure is related to the start of construction works on the Nuraly-Akshabulak pipeline, Aksai field development works, increase in the number of drilled wells, flow line construction, increase in capital construction works (modernisation of oil preparation unit, enlargement of water preparation unit, etc.) and increase of fixed asset purchases (casing, oil-well tubing etc.).

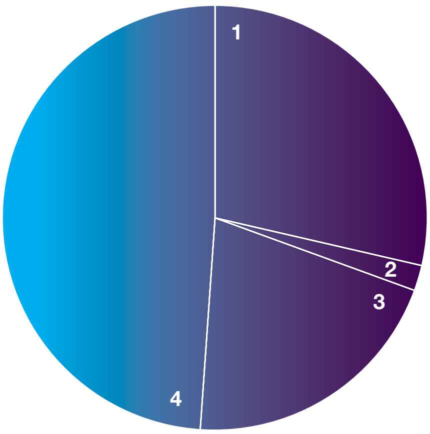
CCEL capital expenditure in 2013 was KZT17.3 billion (KMG EP 50% share: KZT8.6 billion), which is 18% more than in 2012, primarily due to an increase in the number of capitalised well workovers from 176 to 243 and the purchase of fixed assets.

Below is the expected 2014 capital expenditure and structure for consolidated and equity-accounted entities:

2014 CAPITAL EXPENDITURE EXPECTATIONS FOR OMG, EMG AND OTHER SUBSIDIARIES

KZT MILLION

TOTAL 133,164

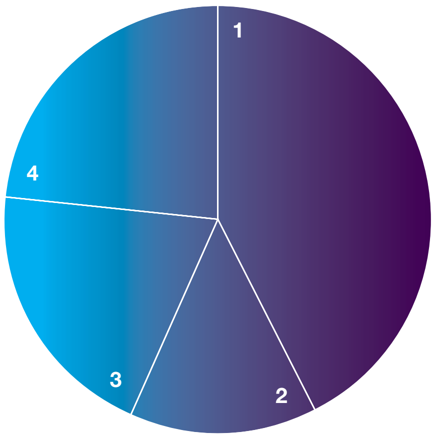


1	Construction works	38,335
2	Exploration	2,400
3	Other capex	27,547
4	Production drilling	64,882

2014 CAPITAL EXPENDITURE FOR EQUITY-ACCOUNTED ENTITIES

KZT MILLION (PROPORTIONAL SHARE)

TOTAL 45,604

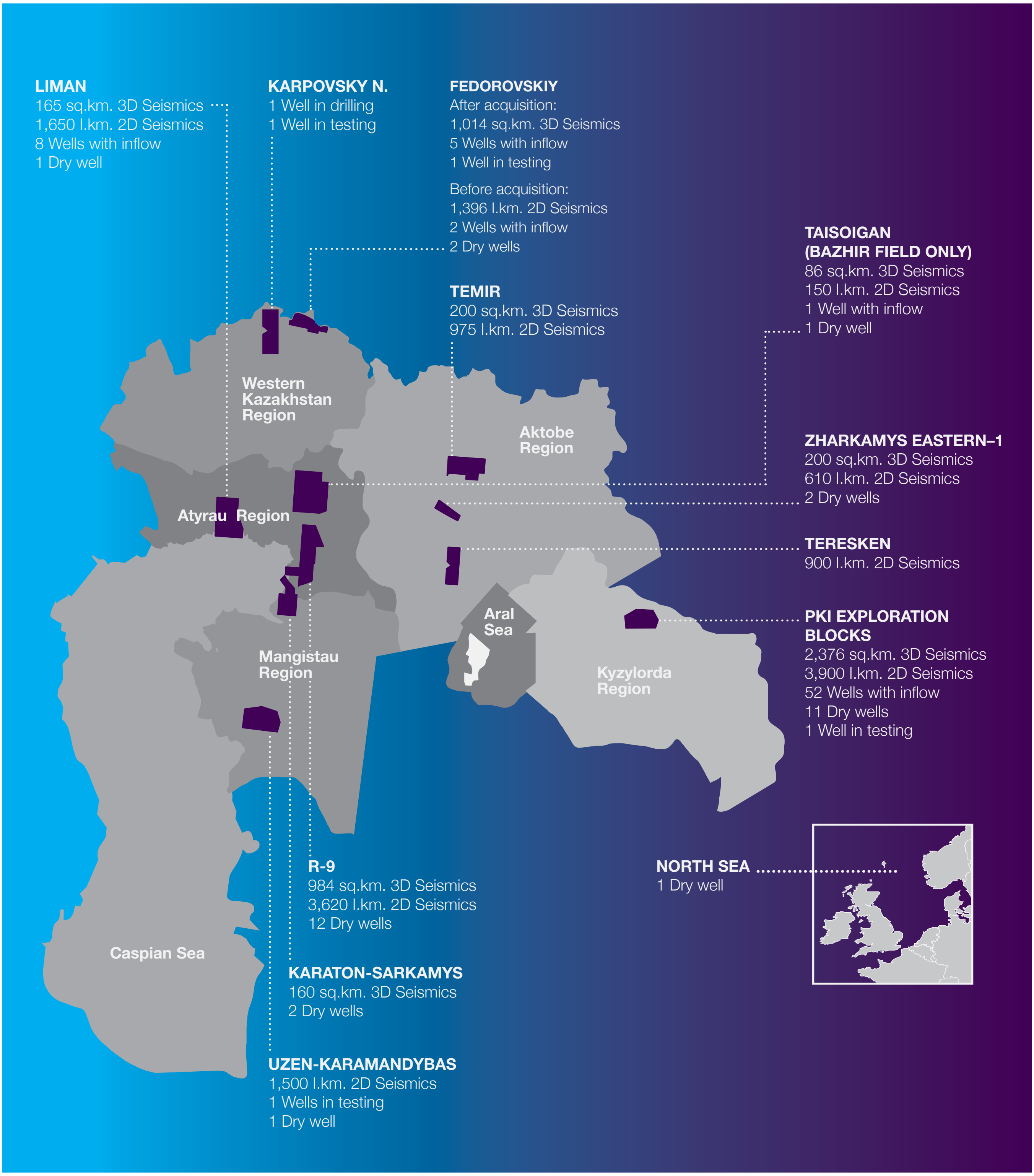


1	Construction works	19,386
2	Exploration	6,459
3	Other capex	9,152
4	Production drilling	10,607

EXPLORATION ACTIVITY

The following map depicts the Company's major exploration projects with the cumulative number and effectiveness of the exploration wells that have been drilled as of December 31, 2013.

Exploration projects



The following table shows exploration activity of the Company and its equity accounted entities during the reporting period:

Block (interest)	Prospect	Well	Status as of reporting date
Liman (100%)	Novobogat SE	PR-1 PR-2 UVN-6 UVN-7	Testing completed – with inflow Testing completed – with inflow Testing completed – with inflow Testing completed – with inflow
Temir (100%)	Prospect I		Work Programme for further exploration is awaiting approval from regulatory bodies. As of the reporting date, interpretation of results of 3D seismic works for 200 sq. km is in process.
Zharkamys Eastern (100%)	Tuskum	RA-2-T	Dry well, written off as exploration expense for KZT2.9 billion due to low geological prospects. The Company is currently assessing the future prospects of this project.
Uzen-Karamandybas (100%)	NW Tenge	NW-1	In testing Based on geological analysis of 2D seismic of 800 sq. km, conduction of additional 3D seismic works is recommended
Taisoigan (100%)	Bazhir East	G-2	Testing completed – with inflow
Teresken (100%)			The Company is concluding the process of returning the contract area to the state due to low prospects.
R-9 (100%)			The Company is concluding the process of returning the contract area to the state due to low prospects.
Karaton Sarkamys (100%)	Kenaral	K-2	Dry well, written off as exploration expense for KZT719 million due to low geological prospects.
	Severnoye	S-1	Dry well, written off as exploration expense for KZT625 million due to low geological prospects.
Karpovskiy Severniy (KS-51%)	Melovoya	SK-1	In testing
	Orlovskaya Central	SK-2	In drilling – 4383m. Projected depth 5250m.
Fedorovsky block (UOG-50%)	Rozhkovskoye	U-26 U-24 U-23 U-22 U-21 U-11	Testing completed – with inflow In testing Testing completed – with inflow Testing completed – with inflow Testing completed – with inflow Testing completed – with inflow
White Bear block (35%)		22/04b-6	Written off following post-well evaluation. Recognised as exploration expense for KZT6.2 billion. Currently the Company is assessing the plans to exit from the White Bear project.
Doszhan-Zhamansu (24.75% through PKI)	South Doszhan, South-eastern Doszhan		During the reporting period 6 wells were drilled: 4 with inflow, 1 dry well and 1 in testing.
Karaganda (PKI-33%)	Karabulak, Buharsai		During the reporting period 10 wells were drilled. Obtained an inflow from 8 wells, 2 dry wells.

RESULTS OF OPERATIONS

The following section is based on the audited consolidated financial statements of the Company. The amounts shown in US dollars are included solely for the convenience of the user at the average exchange rate over the respective period for the consolidated statement of comprehensive income and the consolidated cash flow statement and at the closing rate for the consolidated statement of financial position.

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
210,406	**222,469**	**192,528**	**9%**	Revenue	**816,712**	**797,170**	**2%**
(35,869)	(43,838)	(35,635)	1%	Production expenses	(162,035)	(140,362)	15%
(22,484)	(23,749)	(19,365)	16%	SG&A	(92,360)	(93,088)	-1%
(83,174)	(85,370)	(55,329)	50%	Taxes other than on income	(311,688)	(274,171)	14%
(2,655)	(3,558)	(1,047)	154%	Exploration expenses	(13,125)	(6,104)	115%
(10,178)	(14,969)	(13,977)	-27%	DD&A	(47,144)	(53,747)	-12%
56,046	**50,985**	**67,175**	**-17%**	Operating profit	**190,360**	**229,698**	**-17%**
11,542	10,176	4,412	162%	Share of results of associate and JV's	50,866	67,442	-25%
(1,635)	(924)	(1,381)	18%	Loss on disposal of fixed assets	(4,475)	(3,189)	40%
(1,537)	(70)	(76,480)	-98%	Impairment of PP&E	(60,099)	(77,012)	-22%
2,114	10,019	12,575	-83%	Finance income / costs and foreign exchange charges, net	23,708	36,810	-36%
(17,862)	(15,828)	(18,314)	-2%	Income tax expense	(58,531)	(92,926)	-37%
48,668	**54,358**	**(12,013)**	**100%**	Net income / (loss)	**141,829**	**160,823**	**-12%**
25.6	22.4	33.3	-23%	Profit from operations (US$ per bbl sold*)	21.7	27.6	-21%
22.3	23.8	(6.0)	100%	Net income / (loss) (US$ per bbl sold*)	16.1	19.3	-17%

* Converted at 7.23 barrels per tonne of crude

Revenue

The following table shows sales volumes and realised prices resulting from OMG and EMG operations:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
				Export sales of crude oil			
				UAS pipeline			
118,104	126,218	105,460	12%	Net sales (KZT million)	476,606	417,831	14%
985	1,044	898	10%	Volume (ktonnes)	4,061	3,555	14%
119,903	120,898	117,439	2%	Average price (KZT/tonne)	117,362	117,533	0%
107.83	109.36	107.96	0%	Average price (US$/bbl*)	106.70	109.02	-2%
				CPC pipeline			
67,828	71,945	66,850	1%	Net sales (KZT million)	235,737	302,431	-22%
550	580	556	-1%	Volume (ktonnes)	1,956	2,523	-22%
123,324	124,043	120,234	3%	Average price (KZT/tonne)	120,520	119,870	1%
110.91	112.20	110.53	0%	Average price (US$/bbl*)	109.57	111.19	-1%
185,932	198,163	172,310	8%	Total sales of crude oil – exported (KZT million)	712,343	720,262	-1%
1,535	1,624	1,454	6%	Total crude oil – exported (ktonnes)	6,017	6,078	-1%
				Domestic sales of crude oil and oil products			
17,420	17,851	16,078	8%	Net domestic sales (KZT million)	79,563	62,668	27%
432	439	401	8%	Volume (ktonnes)	1,967	1,637	20%
40,324	40,663	40,095	1%	Average price (KZT/tonne)	40,449	38,282	6%
36.26	36.78	36.86	-2%	Average price (US$/bbl*)	36.77	35.51	4%
				Total sales			
203,352	216,014	188,388	8%	Total net sales of crude oil (KZT million)	791,906	782,930	1%
1,967	2,063	1,855	6%	Total volume (ktonnes)	7,984	7,715	3%
103,382	104,709	101,557	2%	Average price (KZT/tonne)	99,187	101,482	-2%
92.97	94.71	93.36	0%	Average price (US$/bbl*)	90.17	94.13	-4%
7,054	6,455	4,140	70%	Other sales (KZT million)	24,806	14,240	74%
210,406	**222,469**	**192,528**	**9%**	Total revenue (KZT million)	**816,712**	**797,170**	**2%**

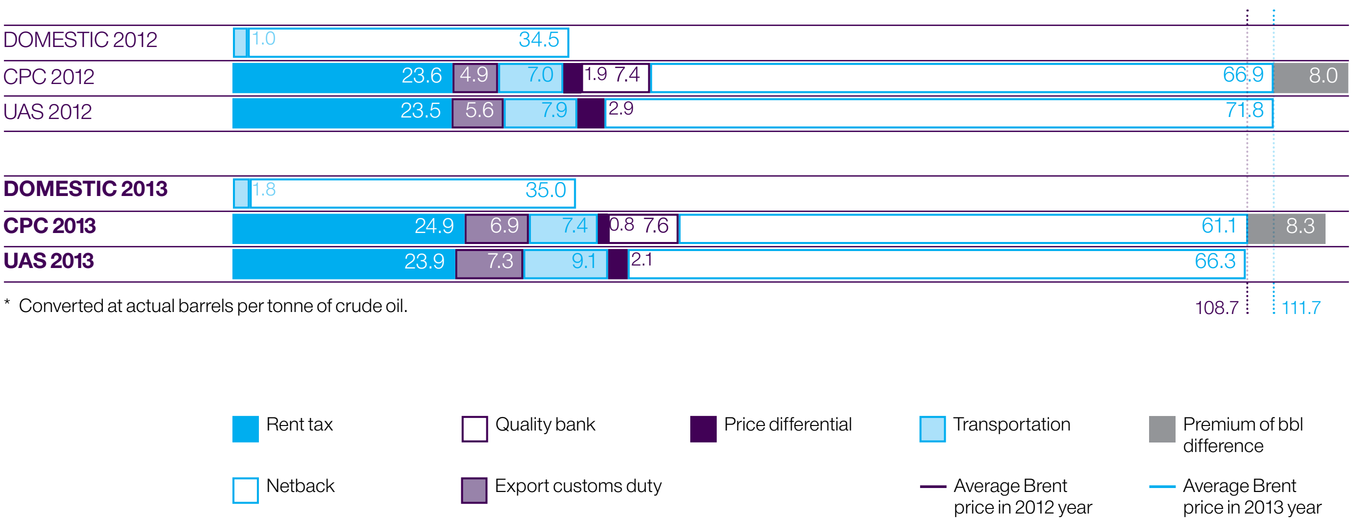
OMG and EMG export crude oil using two principal routes: via the pipeline owned by Caspian Pipeline Consortium (CPC) and via the Uzen-Atyrau-Samara pipeline (UAS) owned by KazTransOil JSC (in Kazakhstan). OMG also delivers its crude oil to the domestic market.

The relative profitability of the two export routes depends on the quality of oil in the pipeline, the prevailing international market prices and the relevant pipeline tariffs. Specifically, CPC tends to be the more advantageous route, owing to the higher quality of crude oil in the CPC pipeline, even after taking into account quality bank payments (which is shown as “premium of bbl difference” in the netback graph below). It should be noted that the volume of crude oil that can be shipped through the pipelines has to be agreed with the Ministry of Oil and Gas of the Republic of Kazakhstan (MOG). Thus, crude oil volume allocations between different routes change from period to period primarily due to greater or lower MOG quotas for certain routes.

As noted in the table above, both export routes were negatively affected by the decrease in realised prices from lower Brent prices in 2013. Moreover, due to the change in MOG quotas, CPC route shipments decreased while UAS and domestic market shipments increased.

The following chart shows the OMG and EMG realised prices adjusted for crude oil transportation, rent tax, export customs duty and other expenses based on the shipment route (netback analysis):

NETBACK ANALYSIS (US$/BBL*)



* Converted at actual barrels per tonne of crude oil.

The average Brent price in 2013 was US$108.7 per barrel, versus US$111.7 per barrel in 2012.

Netback for export destinations in 2013 decreased compared to 2012 primarily due to a fall in Brent prices, the increase in transportation tariffs for the UAS route and the increase in export customs duty from US$40 to US$60 per tonne in April 2013. Despite the increase in transportation tariffs, domestic market netback increased in 2013 due to the growth of average sales prices.

Production expenses

The following table shows a breakdown of the Company's production expenses, resulting mainly from OMG and EMG operations:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
21,150	24,319	22,687	-7%	Employee benefits	92,318	82,959	11%
7,097	6,711	7,360	-4%	Repairs and maintenance	22,619	18,162	25%
4,795	4,652	4,102	17%	Materials and supplies	16,920	14,176	19%
4,023	3,872	3,589	12%	Energy	15,908	12,884	23%
1,458	1,482	1,581	-8%	Transportation service	5,633	5,758	-2%
272	236	143	90%	Processing expenses	1,099	393	180%
(3,917)	419	(4,738)	-17%	Change in crude oil balance	727	(984)	100%
991	2,147	911	9%	Other	6,811	7,014	-3%
35,869	**43,838**	**35,635**	**1%**	Total production expenses	**162,035**	**140,362**	**15%**
16.4	**19.2**	**17.7**	**-7%**	Total production expenses (US$ per bbl sold*)	**18.5**	**16.9**	**9%**

* Converted at 7.23 barrels per tonne of crude oil.

Production expenses in 2013 increased by KZT21.7 billion or 15% compared to 2012 primarily due to increased employee benefit, repair and maintenance, materials and supplies and energy expenses.

Employee benefit expenses increased by 11% compared to 2012, mainly due to a 7% indexation increase in basic salaries for production personnel from January 2013, according to the collective agreement, as well as the start of production activity at two new service units, UBR and UTTiOS. During 2012 most of the employees' benefit expenses from these new service units were classified as administrative expenses due to the idle work time.

Repair and maintenance expenses increased by 25% compared to 2012, mainly due to the increased number of well workover, well servicing and other types of well operations to increase oil recovery.

A 19% increase in expenses for materials and supplies is mainly related to the increase in repair works performed by the Company in 2013 compared to 2012.

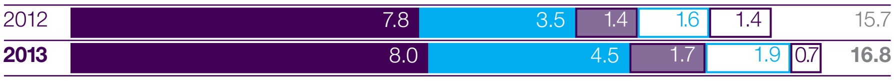
In the reporting period, energy expenses increased by 23%, mainly due to an increase in average tariffs by 25% in OMG and 17% in EMG.

Lifting costs

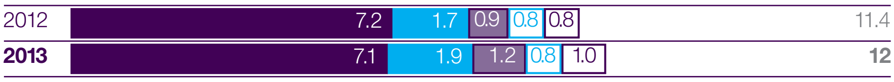
As per the Company's internal methodology, lifting cost per barrel is calculated as production costs of OMG and EMG subsidiaries, including materials and supplies, production payroll, repairs and maintenance, and other production expenses except for the DD&A, taxes and contractual social obligations, divided by total crude oil produced.

The following chart depicts production lifting costs of OMG and EMG in US$/bbl*:

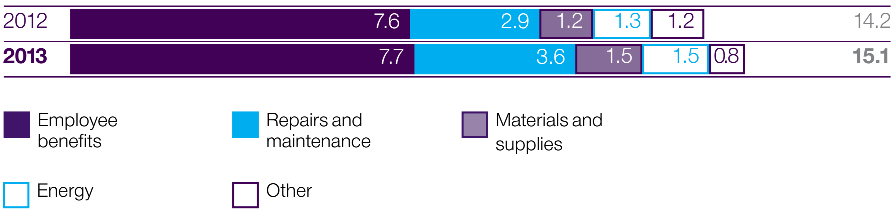
LIFTING COSTS OF OMG (US$ PER BBL)



LIFTING COSTS OF EMG (US$ PER BBL*)



TOTAL LIFTING COSTS (US$ PER BBL*)



* Converted at 7.36 barrels per tonne of crude oil

Selling, general and administrative expenses

The following table presents a breakdown of the Company's selling, general and administrative expenses resulting mainly from OMG, EMG and KMG EP Head office operations:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
15,917	16,613	13,443	18%	Transportation expenses	61,810	53,122	16%
3,784	3,586	1,481	156%	Employee benefits	12,986	13,936	-7%
(307)	276	92	-434%	Fines and penalties	5,191	8,302	-37%
737	1,004	1,005	-27%	Management fees and commissions	3,750	4,169	-10%
389	377	671	-42%	Social costs	1,681	6,778	-75%
369	585	714	-48%	Consulting and audit services	1,354	1,382	-2%
442	248	585	-24%	Repairs and maintenance	1,093	1,339	-18%
1,153	1,060	1,374	-16%	Other	4,495	4,060	11%
22,484	**23,749**	**19,365**	**16%**	Total SG&A expenses	**92,360**	**93,088**	**-1%**
10.3	**10.4**	**9.6**	**7%**	Total SG&A expenses (US$ per bbl sold*)	**10.5**	**11.2**	**-6%**

* Converted at 7.23 barrels per tonne of crude oil.

Selling, general and administrative expenses for 2013 decreased by KZT0.7 billion or 1% compared to 2012. The increase in transportation expenses was offset by a decrease in social costs, fines and penalties and employee benefit expenses.

The growth in transportation expenses is mainly a result of higher transportation tariffs of the UAS route, and was further intensified with a greater proportion of sales in 2013 via the UAS route in accordance with MOG quota allocations.

Employee benefit expenses in 2013 decreased by 7% compared to 2012, mainly due to the fact that during 2012 most of the employee benefit expenses of UBR and UTTiOS were classified as administrative expenses due to idle work time, as noted previously.

During 2013, the Company has recognised a fines and penalties expense as a result of an ecological audit in the amount of KZT4 billion. Further to this, in 2013, fines and penalties for the existing tax provisions were accrued in the amount of KZT1.2 billion. 2012 fines and penalties are related to provision accrual after tax audit for KZT1.3 billion and EPT related fines for KZT6.3 billion.

Social costs dropped due to large expenditures in 2012 related to the relocation of Baichunas and Iskene villages in the amount of KZT5.4billion.

Taxes other than on income
The following table presents a breakdown of the Company's taxes other than on income as represented mainly by OMG and EMG operations:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
44,224	45,469	36,734	20%	Rent tax	165,307	159,822	3%
22,417	23,317	7,240	210%	MET	84,433	70,792	19%
14,177	14,860	9,382	51%	Export customs duty	48,981	36,429	34%
1,557	1,325	1,210	29%	Property tax	5,473	4,373	25%
103	121	498	-79%	Environmental tax	4,893	1,096	346%
696	278	265	163%	Other taxes	2,601	1,659	57%
83,174	**85,370**	**55,329**	**50%**	Total taxes other than on income	**311,688**	**274,171**	**14%**
38.0	**37.4**	**27.4**	**39%**	Total taxes other than on income (US$ per bbl sold*)	**35.5**	**33.0**	**8%**

* Converted at 7.23 barrels per tonne of crude.

Taxes other than on income in 2013 increased by KZT37.5 billion or 14% compared to 2012.

The main reason for the increase of rent tax expense in 2013 compared to 2012 is the change of rent tax calculation approach based on the recommendations and explanations of the tax authorities. As a result, additional rent tax of KZT5 billion was accrued in 2013.

The increase in MET in 2013 compared to 2012 is due to the usage of a reduced MET rate after Company reorganisation and separation of OMG and EMG.

Export customs duties increased due to a rise in the export custom tariff from US$ 40 to US$ 60 per tonne in April 2013. The effect of this increase was around KZT12.4 billion.

Environmental taxes in 2013 include an accrual of KZT4.4 billion arising from the ecological audit at OMG.

Impairment of property, plant and equipment
Previously, in 4Q 2012, the Company recognised an impairment charge of KZT75 billion and a corresponding deferred tax benefit of KZT18 billion related to the OMG assets. During 1Q 2013 the Company's management accepted an additional OMG impairment charge of KZT56 billion and a deferred tax benefit of KZT11 billion, primarily due to the increase in export customs duty from US$ 40 to US$ 60 per tonne that occurred in April 2013.

Income tax expense

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
66,530	70,186	6,301	956%	Profit before tax	200,360	253,749	-21%
56,525	60,080	78,369	-28%	Profit before tax (with adjustments**)	209,593	263,319	-20%
17,862	15,828	18,314	-2%	Income tax	58,531	92,926	-37%
8.2	6.9	9.1	-10%	Income tax, US$ per bbl* sold	6.7	11.2	-40%
27%	23%	291%	-91%	Effective tax rate	29%	37%	-22%
32%	26%	23%	39%	Effective tax rate (with adjustments**)	28%	35%	-20%

* Converted at 7.23 barrels per tonne of crude oil.
** Profit before tax without share in results of JV's and associated company and impairment charges.

The main reason for income tax expense being significantly lower in 2013 compared to 2012 is a lower taxable profit and an extra income tax charge in 2012 relating to the Company restructuring.

OVERVIEW OF JV'S AND ASSOCIATE'S OPERATIONS

Below is the Company's share in income of associate and joint ventures as reflected in the audited consolidated financial statements of the Company:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
(KZT million, unless otherwise stated)					*(KZT million, unless otherwise stated)*		
6,580	7,408	2,721	142%	Share in income from KGM	28,399	33,333	-15%
4,754	3,330	929	412%	Share in income from PKI	22,126	33,724	-34%
1,078	244	1,449	-26%	Share in income from UOG	3,167	1,072	195%
(870)	(806)	(687)	27%	Share in loss from KS	(2,826)	(687)	311%
11,542	**10,176**	**4,412**	**162%**	Share in income in associate and JV's	**50,866**	**67,442**	**-25%**

KGM

KGM's core operating activity is production and sale of hydrocarbons in the Akshabulak, Nuraly and Aksai oilfields in the South Turgai basin, Kyzylorda Region. The Company acquired a 50% stake in JV Kazgermunai LLP in April 2007.

KGM key financial and operational indicators (100%) are shown below:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
634,403	604,877	640,181	-1%	Revenue	2,447,741	2,310,222	6%
(376,777)	(354,544)	(368,911)	2%	Operating expenses	(1,486,909)	(1,225,485)	21%
778	(227)	(414)	-288%	Finance cost, net	(99)	(2,207)	-96%
(76,861)	(109,482)	(157,188)	-51%	Income tax expense	(355,438)	(469,832)	-24%
181,543	140,624	113,668	60%	Net income	605,295	612,698	-1%
799	765	820	-3%	Crude oil production, ktonnes	3,107	3,124	-1%

KGM oil production in 2013 was 3,107 ktonnes (50% share is 1,554 ktonnes), which is comparable to 2012 production.

Growth of revenue in 2013 resulted due to the absence of domestic sales and corresponding higher export volumes.

KGM's crude oil sales split by route are as follows:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
	(ktonnes)					*(ktonnes)*	
95	91	116	-18%	Export via Aktau	412	532	-23%
701	664	681	3%	Export via KCP	2,684	2,025	33%
–	–	–	0%	Domestic market	-	518	-100%
796	**755**	**797**	**0%**	Crude oil sales, ktonnes	**3,096**	**3,075**	**1%**

An increase in export sales volumes from reallocated domestic sales has also resulted in an increase in operating expenses, particularly rent tax (by US$ 108.5 million), MET (by US$ 39.2 million), export customs duty (by US$ 62.7 million) and transportation expenses (by US$ 40.4 million). An increase in export customs duty is due to the rise in tariff from US$ 40 to US$ 60 per tonne in April 2013 as well as export sales volumes in 2013.

During 2013, additional fines and penalties were accrued related to the complex tax audits of 2007-2012 for the amount of US$ 19.4 million, ecological audit for the amount of US$ 28.7 million and other fines and penalties for the amount of US$ 4.5 million.

Operating expenses on a per barrel sold basis are as follows:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
	(US$ per bbl sold)*					*(US$ per bbl sold*)*	
22.9	23.3	23.9	-4%	Rent tax	24.1	19.7	22%
12.3	12.5	12.6	-2%	MET	12.2	10.7	14%
10.1	10.2	9.2	10%	Transportation expenses	10.5	8.8	19%
7.8	7.8	5.2	50%	Export customs duty	6.9	4.3	60%
2.1	2.5	2.4	-13%	DD&A	2.3	3.3	-30%
2.2	0.7	2.0	10%	Fines and penalties	2.2	1.5	47%
1.6	1.3	1.1	45%	Employee benefits	1.3	1.0	30%
1.5	1.1	2.0	-25%	Repair and maintenance	1.0	1.0	0%
0.5	0.5	1.0	-50%	Materials and supplies	0.6	0.6	0%
0.5	1.1	0.7	-29%	Other	1.1	0.9	22%
61.5	**61.0**	**60.1**	**2%**	Total operating expenses	**62.2**	**51.8**	**20%**

* Converted at 7.7 barrels per tonne of crude oil.

Share in KGM income, reflected in the audited consolidated financial statements of the Company, represents a proportionate share of the results of KGM for 2013 adjusted for the impact of amortisation of the fair valuation of the licences, partially offset by related deferred tax benefit, of KZT17.6 billion (2012: KZT12.3 billion).

For the capital expenditure analysis of JV's and associate, please refer to the "Capital Expenditure Overview" section.

PKI

For the purposes of this report, joint operations of PKI have been proportionally consolidated.

PKI is an oil and gas group, which is among the top five oil companies in Kazakhstan. PKI is involved in field exploration and development, oil and gas production and the sale of crude oil and oil products. The Company acquired a 33% stake in PKI in December 2009.

In 2013, PKI produced 5,330 ktonnes (33% share: 1,759 ktonnes), 5% less than in 2012. The decline in production was due to reserve depletion of some of PKI's mature fields.

PKI's key financial and operational indicators (100%) are shown below:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
	(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*	
955,384	927,335	947,013	1%	Revenue	3,724,706	3,992,017	-7%
(695,277)	(640,313)	(635,222)	9%	Operating expenses	(2,590,525)	(2,309,104)	12%
(7,841)	(6,480)	(5,388)	46%	Finance cost, net	(25,121)	(24,587)	2%
(133,539)	(192,701)	(265,326)	-50%	Income tax expense	(573,461)	(766,836)	-25%
118,727	87,841	41,077	189%	Net income	535,599	891,490	-40%
1,354	1,326	1,352	0%	Crude oil production, ktonnes	5,330	5,589	-5%

Decrease in revenue in 2013 took place mainly due to a drop in production.

PKI's crude oil sales split by route are as follows:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
	(ktonnes)					*(ktonnes)*	
505	467	466	8%	Export via KCP (PKKR 100%)	1,867	1,663	12%
350	332	340	3%	Export via KCP (KGM 50%)	1,342	1,012	33%
119	102	134	-11%	Export via KCP (TP 50%)	453	502	-10%
48	45	58	-17%	Export via Aktau (KGM 50%)	206	266	-23%
44	46	40	10%	Export via KCP (Kolzhan 100%)	170	141	21%
30	33	45	-33%	Export to Uzbekistan (TP 50%)	143	182	-21%
–	–	–	0%	Export via KCP (PKVI 100%)	1	–	100%
232	263	209	11%	Domestic sales	1,070	1,833	-42%
1,328	**1,288**	**1,292**	**3%**	Crude oil sales	**5,252**	**5,599**	**-6%**

Operating expenses increased mainly due to higher export sales that resulted in higher rent tax (by US$ 75.8 million), MET (by US$ 12.2 million) and transportation expenses (by US$ 13.7 million). Export customs duty expenses increased (by US$ 57.7 million) due to the increase in the rate from US$ 40 to US$ 60 per tonne starting from April 2013 and an increase in export sales.

Accruals of fines and penalties in 2013 also affected the increase of operating expenses, which are related to the environmental audits for the amount of US$ 191 million, tax audits of 2006-2012 for the amount of US$ 75 million and other fines and penalties for the amount of US$ 12 million.

Operating expenses on a per barrel sold basis are as follows:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
	(US$ per bbl sold)*					*(US$ per bbl sold*)*	
18.9	18.9	19.9	-5%	Rent tax	18.7	15.8	18%
2.5	11.2	9.5	-74%	DD&A	8.3	8.1	2%
8.0	8.7	9.5	-16%	MET	8.3	7.5	11%
5.6	7.9	7.2	-22%	Transportation expenses	7.3	6.6	11%
19.1	2.5	1.2	100%	Fines and penalties to budget	6.8	0.5	100%
6.2	6.0	4.1	51%	Export customs duty	5.3	3.6	47%
0.9	3.2	3.1	-71%	Repairs and maintenance	2.6	2.4	8%
2.2	2.2	2.2	0%	Employee benefits	2.2	2.0	10%
1.4	1.1	1.1	27%	Materials and supplies	1.2	0.8	50%
(0.7)	–	0.2	-450%	Crude and refined product purchases	–	3.0	-100%
3.5	2.5	5.5	-36%	Other	2.8	2.8	0%
67.6	**64.2**	**63.5**	**6%**	Total operating expenses	**63.5**	**53.1**	**20%**

* Converted at 7.75 barrels per tonne of crude oil.

Income tax expense decreased in 2013 mainly due to the decrease in profit before tax. The increase of the effective tax rate is related to the increase of non-deductible for CIT purposes expenses.

Share in PKI income reflected in the audited consolidated financial statements of the Company represents a proportionate share of the results of PKI for 2013 adjusted for the impact of amortisation of the fair valuation of the licences for the amount of KZT4.8 billion (2012: KZT10.1 billion).

For the capital expenditure analysis of JV's and associate, please refer to the "Capital Expenditure Overview" section.

CCEL

As per the purchase agreement arrangements, interest in CCEL is reflected as a financial asset in the audited consolidated financial statements of the Company in accordance with IFRS. CCEL results included herein are presented for information purposes only and are not consolidated or equity accounted in the audited consolidated financial statements of the Company.

In December 2007 the Company acquired a 50% stake in CCEL Karazhanbasmunai ("CCEL"). CCEL explores heavy oil in the Karazhanbas field, which is situated on the Buzachi peninsula, 230 km from Aktau. The field was discovered in 1974, is the largest shallow field of high-viscosity oil in the CIS and its exploitation is carried out by applying thermal methods.

As of December 31, 2013 the Company has KZT17.2 billion (US$ 111 million) as a receivable from CCEL. The Company has accrued KZT2.8 billion (US$ 18.1 million) of interest income in 2013 relating to the US$ 26.87 million annual priority return from CCEL.

In 2013 CCEL produced around 2,052 ktonnes (50% share: 1,026k tonnes) of crude oil, which is comparable to 2012 production.

CCEL's key financial and operational indicators (100%) are as follows:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
(US$ thousand, unless otherwise stated)					*(US$ thousand, unless otherwise stated)*		
369,369	371,495	341,320	8%	Revenue	1,440,449	1,466,282	-2%
(303,810)	(303,470)	(247,744)	23%	Operating expenses	(1,170,366)	(1,104,090)	6%
(6,082)	(5,560)	(4,579)	33%	Finance cost, net	(22,845)	(19,396)	18%
(19,036)	(18,204)	(18,070)	5%	Income tax expense	(56,634)	(87,029)	-35%
40,441	44,261	70,927	-43%	Net income	190,604	255,767	-25%
524	517	511	3%	Crude oil production, ktonnes	2,052	2,037	1%

The decrease in revenue in 2013 is mainly a result of a fall in prices as well as an increase in domestic volumes sold.

CCEL crude oil sales split by route are as follows:

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
	(ktonnes)					*(ktonnes)*	
175	253	207	-15%	Export via Novorossiysk	1,008	1,168	-14%
147	203	215	-32%	Export via Primorsk	658	649	1%
135	–	–	100%	Export via Batumi	135	–	100%
75	70	58	29%	Domestic market	274	237	16%
532	**526**	**480**	**11%**	Crude oil sales	**2,075**	**2,054**	**1%**

Operating expenses in 2013 increased by 6% compared to 2012 mainly due to the increase in transportation expenses, employee benefits and export customs duty.

The growth in transportation expenses (by US$ 16.9 million) in 2013 is mainly a result of higher transportation tariffs of KTO. Employee benefit expenses increased (by US$ 20.9 million) due to the adjustment of salaries to a unified payroll schedule.

Export customs duty expenses increased (by US$ 20.3 million) due to the increase in rate from US$ 40 to US$ 60 per tonne starting from April 2013.

4Q 2013	3Q 2013	4Q 2012	Change		2013	2012	Change
	(US$ per bbl sold)*					*(US$ per bbl sold*)*	
21.7	22.5	21.9	-1%	Rent tax	22.2	22.9	-3%
2.1	15.0	2.4	-13%	DD&A	11.4	11.0	4%
12.8	11.4	11.6	10%	Employee benefits	10.2	8.8	16%
12.5	8.9	10.7	17%	MET	9.8	10.2	-4%
9.3	8.0	8.2	13%	Transportation expenses	8.4	7.3	15%
7.4	7.5	5.7	30%	Export customs duty	6.8	5.4	26%
5.3	4.5	5.2	2%	Energy	5.0	4.6	9%
3.4	3.4	3.4	0%	Repairs and maintenance	3.3	2.9	14%
1.3	1.1	1.4	-7%	Materials and supplies	1.2	1.2	0%
9.6	4.0	6.7	43%	Other	6.1	6.1	0%
85.4	**86.3**	**77.2**	**11%**	Total operating expenses	**84.4**	**80.4**	**5%**

* Converted at 6.68 barrels per tonne of crude oil.

The decrease in income tax expense mainly relates to a decrease in taxable profit.

For the capital expenditure analysis of JV's and associate, please refer to the "Capital Expenditure Overview" section.

Lifting cost and netback analysis of JV's and associated company
Lifting costs of producing JV's and associate are represented as follows:

	KGM	PKI	CCEL
		(US$ thousand, unless otherwise stated)	
Employee benefits	20,649	48,468	113,380
Materials	13,452	46,296	16,366
Repair and maintenance	13,879	72,542	45,521
Energy	11,141	33,554	68,868
Other	8,434	58,009	298
Total lifting expenses (US$ thousand)	**67,555**	**258,869**	**244,433**
Production (ktonnes)	**3,107**	**5,330**	**2,052**
Lifting cost US$ per bbl*	**2.8**	**6.3**	**17.8**

* The following average tonne / bbl conversion factors were used: KGM 7.7, PKI 7.75, CCEL 6.68.

Netback of export sales at major producing JV's and associate is represented as follows:

	KGM	PKI	CCEL
		(US$ per bbl sold, unless otherwise stated)*	
Benchmark end-market quote	108.7	108.7	108.7
Price differential and premium of bbl difference, net	(6.0)	(9.1)	(4.6)
Average realised price	**102.7**	**99.6**	**104.1**
Rent tax	(24.1)	(23.5)	(23.7)
Export customs duty	(6.9)	(6.7)	(7.3)
Transportation expenses	(10.5)	(7.5)	(8.7)
Netback price	**61.2**	**61.9**	**64.4**

* The following average tonne / bbl conversion factors were used: KGM 7.7, PKI 7.75, CCEL 6.68.

Netback of domestic sales at major producing JV's and associate is represented as follows:

	KGM	PKI	CCEL
	(US$ per bbl sold, unless otherwise stated)*		
Realised price	**N/A**	**56.4**	**47.1**
Transportation expenses	N/A	(1.7)	(1.8)
Netback price	**N/A**	**54.7**	**45.3**

* The following average tonne / bbl conversion factors were used: KGM 7.7, PKI 7.75, CCEL 6.68.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility is a key and integral part of the activities of the Company. From inception, the Company has allocated billions of tenge for the construction of residential housing, health and sports centres, kindergartens, health camps, and contributed to the reconstruction of schools and hospitals in the Atyrau and Mangistau Regions, as well as sponsored the relocation of towns from some of the depleted EMG oil fields. The strategy of the Company in the area of CSR policy remains as before – to develop the regions in which it operates.

In 2012 two service units – UBR and UTTiOS – were created to provide employment for around 2,000 people in the Mangistau Region. In 2013 the Company incurred KZT16.5 billion of operating expenses at UBR and UTTiOS, including KZT12.9 billion as an employee benefit expense and KZT3.6 billion for materials, supplies and other expenses.

In addition, the Company has invested around KZT6.7 billion to continue the construction of worker accommodation, production facilities and purchase of special transport and other equipment, to support the operations at UBR and UTTiOS. Expenses for financing UTTiOS were partially offset by income of this company from third parties in 2013 in the amount of KZT3.1 billion (2012: KZT0.6 billion).

In 2013 the Company spent KZT1.7 billion on sponsorship and charity. The majority of this was used to finance social funds, support war veterans and organise sport and local community events. The decrease in 2013 occurred due to large expenditures that took place in 2012 related to the relocation of Baichunas and Iskene villages.

Obligations from exploration and production licences are arising from contracts for subsoil use and include payments to the social programmes fund, ecology fund and the commitment to train personnel. In 2013 social expenses of the Company in the execution of contractual obligations amounted to KZT3.3 billion, including the social programmes and ecology fund in the amount of KZT2.0 billion and training of specialists in the amount of KZT1.3 billion.

During 2013, the Company made an impairment charge on social objects in the amount of KZT1.2 billion (2012: KZT1.6 billion) which is mainly related to the construction of social objects (living houses, sanatoriums, etc.).

SOCIAL EXPENDITURE (MILLION KZT)

LIQUIDITY AND CAPITAL RESOURCES

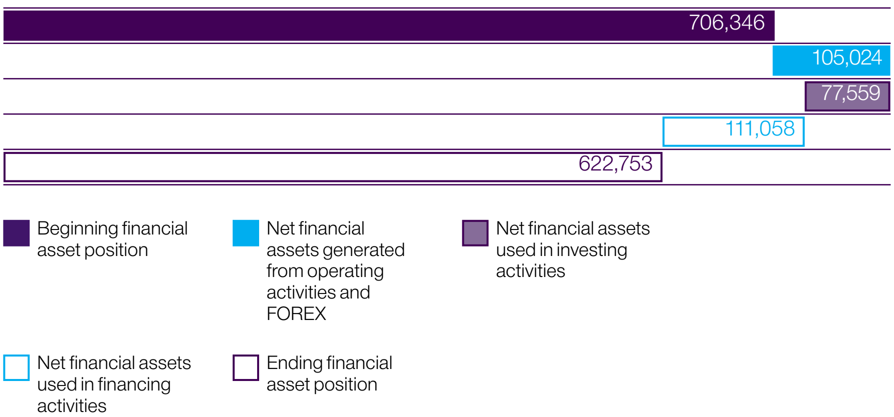
The Company's liquidity requirements arise principally from the need to finance its existing operations (working capital), the need to finance investment (capital expenditure) and to reach its growth targets via acquisitions. The management believes that the Company has an adequate liquidity position to meet its obligations and pursue investment opportunities.

In 2013 net financial assets generated from operating activities amounted to KZT105 billion, or KZT55.9 billion less than in 2012. The change is primarily due to lower operating profitability of the Company from higher operating expenses, particularly employee benefits, repair and maintenance, materials and increase in export customs duty. Increase in working capital accounts, e.g. increase in accounts receivable and decrease in trade and other payables, has also contributed to lower financial assets generated by operating activities in 2013 compared to 2012.

Net financial asset outflow from investing activity in 2013 was KZT77.6 billion versus an inflow of KZT38.7 billion in 2012. The change is a result of lower dividends received from joint ventures and associated company (2013: KZT64.1 billion, 2012: KZT114.2 billion), greater PP&E purchases (2013: KZT149 billion, 2012: KZT108.1 billion), lower interest received on NC KMG bonds (2013: KZT4.5 billion, 2012: KZT11.2 billion), as well as an increase in the number of loans given to the joint ventures on exploration stage (2013: KZT11.3 billion, 2012: KZT5.1 billion).

Net financial asset outflow of financing activities in 2013 was KZT111.1 billion (2012 outflow of KZT210.6 billion). The decrease in outflows is mainly associated with the 2012 repayment of borrowings of KZT81.4 billion and the share repurchase programme, that took place in 2012, of KZT36.2 billion. Dividend payments to the Company's shareholders were KZT110 billion and KZT90 billion during the 2013 and 2012 periods, respectively.

FINANCIAL ASSET MOVEMENT FOR 2013 (MILLION KZT)



Net cash position

The table below shows a breakdown of the Company's net cash position:

	As at December 31, 2013	As at December 31, 2012	Change
		(KZT million, unless otherwise stated)	
Current portion	2,503	2,462	2%
Non-current portion	4,291	4,848	-11%
Total borrowings	**6,794**	**7,310**	**-7%**
Cash and cash equivalents	119,036	154,705	-23%
Other current financial assets	482,006	550,556	-12%
Non-current financial assets	21,711	1,085	100%
Total financial assets	**622,753**	**706,346**	**-12%**
Foreign currency denominated cash and financial assets, %	**82%**	**78%**	
Net cash	**615,959**	**699,036**	**-12%**

Forward-looking statements

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology including, but not limited to, the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "target", "will", or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They include, but are not limited to, statements regarding the Company's intentions, beliefs and statements of current expectations concerning, amongst other things, the Company's results of operations, financial condition, liquidity, prospects, growth, potential acquisitions, strategies and as to the industries in which the Company operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that may or may not occur. Forward-looking statements are not guarantees of future performance and the actual results of the Company's operations, financial condition and liquidity and the development of the country and the industries in which the Company operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. The Company does not intend, and does not assume any obligation, to update or revise any forward-looking statements or industry information set out in this document, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved.

RISK FACTORS

RISK FACTORS

The Company is subject to various risks and uncertainties in terms of economic, political, legislative, social and financial background. When making decisions those concerned should bear in mind those risk factors that may have an impact on financial and operating performance of the Company.

The Risk Management Policy is an integral part of Company's corporate governance, and is a constantly developing process and one which helps the Company identify, assess and manage its risk portfolio by analysing Company historical and present growth as well as future growth prospects.

The Company exercises risk the management in accordance with the Risk Management Policy. The Company's Risk Management Policy aims at increasing shareholder value and improving corporate governance.

Some details on risks can be found in the Company's Prospectus, while an analysis of key risks can be found in the annual audited financial statements see page 111.

Political risks:

- ability to change the external or domestic policy by the leadership of the country, which may significantly affect the investment attractiveness of the country in general and the Company in particular;
- the likelihood of changes to legislation, including tax legislation, aimed at maximising budget revenues from raw materials industries;
- in the process of reforming public authorities, the abolition and the creation of new ministries and agencies regulating the operation of the Company may take place, which may lead to a lack of or delay of approval of regulations affecting the Company;
- The Government of Kazakhstan may cut the export quota significantly or change the scope of domestic supplies which may have a significant impact on Company's financial performance;
- the likelihood of limitation to be put by the Government of Kazakhstan on managing cash deposited with second-tier banks. The state represented by Samruk Kazyna and NC KMG may have an impact on KMG EP for the benefit of the state which may, however, be in conflict with the interests of KMG EP.

Economic risks:

- The Company supplies crude to the domestic market and for export. The key factor that may have a negative impact on both domestic and export supplies is a fall in oil prices, which are volatile due to a number of factors, such as balance between supply and demand; impact caused by key oil-producing countries and their policies; and political environment in key regions of energy resource production. The fall in global oil prices may significantly affect the financial performance of the Company.
- Current legislation in the area of procurement of goods and services does not allow an increase in the efficiency of logistics.
- Lack of a competitive environment among suppliers and contractors reduces the quality of work and services provided by the Company.
- Level of development of financial system of Kazakhstan may worsen the conditions of allocation of free funds (for details see below – in the "Financial Risks" section).

Regional risks:

Regions of the Company's activities are: Mangystau, Atyrau, Aktobe and Kyzylorda provinces.

The main production units of the Company carry out its production activity in regions characterised by severe climatic conditions, and some regions are characterised by shortage of highly skilled professionals in the field of oil production and gas processing. At the same time these regions have high social and economic risks which have a substantial impact on the operations of the Company.

For the assets of Mangystau Province the risk of social conflicts and strikes is relatively high, as is often demonstrated, and has had a significant impact on the Company's operations and performance of its obligations under subsoil use contracts.

The Company has consistently sought to promote and maintain social stability in the regions, and interacts with local governments and communities to find solutions for social issues in the regions.

The Company strives to ensure that its social programmes are most carefully targeted and meet the needs of society. However, the increase in non-commercial costs associated with the minimisation of the risk of strikes and social strain could have a negative impact on the financial performance of the Company.

Climatic conditions in these regions are quite varied. In addition, their geographical distance calls attention to the transport component and supply of electricity for continuous operation of the Company.

In order to minimise the possible consequences of the risks associated with climatic features of the regions where it has a presence, including the threat posed by natural disasters, the Company pays special attention to business continuity and safety.

Partner risks:
The Company cooperates with and engages both foreign and local companies in various areas of its business. The Company may have little or no impact on the way its partners conduct business or operate which may affect operating and financial performance of the Company. Therefore, the Company demands much from its partners and; develops long-term partnerships for mutual benefit.

Financial risks:
The Company is exposed to various financial risks, among which are currency risks, inflation risks, risks of changes in interest rates on the allocated temporarily free funds, credit and tax risks. The probability of their occurrence and degree of impact on the financial results of the Company are continually evaluated and taken into account in drawing up development plans.

Inflation risks
The Company conducts its principal operations in the Republic of Kazakhstan and uses KZT as a basic currency of accounts. The costs associated with the payment of wages, energy costs, and the cost of logistics services are sensitive to the inflation of KZT.

Interest rate exposures
The operation of the Company is exposed to interest rate changes, which may adversely affect the value of temporarily free fund assets and, accordingly, the financial results of operations of the Company.

FINANCIAL RISKS, THEIR PROBABILITY AND NATURE OF CHANGES IN THE STATEMENTS

Risk	Risk probability	Nature of changes in the statements
Falling bank deposit rates	average	Decrease in profit due to falling revenues for the placement of temporarily free funds
Foreign exchange risk (the risk of devaluation of the exchange rate of the KZT against the Euro and USD)	average	Increased cost of purchased equipment – increased depreciation
Inflation risk	average	Increase in accounts receivable, increase in costs of outputs
Credit risk	average	Problem with receivables. Reduction of profit

Currency risks
A considerable part of the Company's revenues is denominated in US dollars (USD) or linked to USD. A part of the Company's expenses is denominated in foreign currency, or otherwise significantly dependent on the fluctuations of foreign currencies (mainly the USD and to a lesser extent the euro and the ruble) for KZT. Currently, the majority of operating costs of the Company are paid at prices fixed in KZT.

A rise in the value of the dollar would make oil exports more profitable.

In the case of a negative impact of changes in interest rates and exchange rates the Company will use trade finance instruments (letters of credit, guarantees) allowing the Company to reduce the dependence of its activities on base interest rates.

The following indicators of the Company's financial statements are most susceptible to changes as a result of the influence of financial risk:

- net income;
- revenues;
- costs;
- receivables.

Credit risks
Operations associated with the movement of material and cash flows for counterparties, beginning with financial institutions serving the financial flows of the Company, and ending with the end buyers of products and contractors providing various services for the Company, are all subject to credit risks.

An efficient centralised cash management system has been implemented by the Treasury of the Company.

RISK FACTORS

Tax risks
The tax system of the Republic of Kazakhstan is characterised by small volumes of law enforcement practice in respect of the recently adopted regulations. It is also characterised by the risk of additional taxation, fines and penalties based on broad interpretation of the legislation. These factors complicate the planning of the tax costs of the Company. The Company's Management develops actions to minimise the risk, based on participation in the work of improving the quality of both the Tax Code, and amendments thereto. In addition, the Company continues to defend its interests in the courts.

Change in customs regulations and duties
Considering that the Company carries out foreign trade activities, changes in customs regulations, volatility of ECD and lack of a transparent formula for calculating the ECD, could adversely affect the Company's financial results.

However, the Company carries out continuous monitoring of changes in the current legislation of the Republic of Kazakhstan and takes them into account in its activities. This allows it to minimise the risks associated with these changes.

Exploration
The key strategic goal of the Company is the increase in reserves to ensure the necessary level of production. The main risk associated with exploration activities is unconfirmed planned resource levels and/or increase of the costs of the current exploration projects. To reduce the risk of exploration, a complex geological and geophysical investigation is carried out. In addition to traditional seismic surveys this includes geochemical studies, high-resolution electrical exploration and special methods for seismic and gravics data processing, as well as for the analysis of geological risks.

Production
One of the most important tasks of the Company is to maintain an optimal level of production in its own fields, most of which are located at the late stage of operation. To this end, the Company uses modern methods and technologies and control for key business processes in production.

The key factors in reducing the efficiency of production activities of the Company are:

- Status of firm wells.
- Technical integrity of equipment.
- Continuity of supply.
- Weather conditions.
- Timeliness of procurement and supply of equipment.
- Quality of the delivered equipment.
- Increased costs of services, materials and fixed assets, outstripping productivity growth.
- Limited control of operating and capital costs.
- Timeliness and quality of service provided by the contractors.
- Safety of operating personnel.
- Environmental security.
- Effectiveness of planning.
- Compliance with state regulators.

Reduced production efficiency and unplanned significant decline rates could have a material impact on results of operations, value of assets and the Company's reserves.

However, the production activity of the Company is subject to the risks of failure and breakdown of primary equipment. To reduce these risks, the Company carries out a set of preventive measures and a programme of modernisation and repair of equipment. The main production equipment is insured against loss from fire, explosion, natural and other hazards, and the Company additionally insures against the risk of a well out-of-control.

Health, safety and environment
Production activities of the Company involve a wide range of risks to workers' health and the environment. These risks include unsafe practices, industrial accidents, environmental damage, environmental pollution and natural disasters.

Consequences of these risks can be very severe, including fatal accidents, air pollution, soil and water pollution, fire, suspension or stop of production. Depending on the cause of occurrence of these events, the consequences could adversely affect the reputation, financial and operating performance of the Company. In this regard, the Company performs various measures to prevent the occurrence of such threats, including the control of occupational health and safety, hazard identification and training. The current labour protection systems and health, safety and environment of the Company have been introduced and function in accordance with ISO 14001, OHSAS 18001. Every year the Company insures the risks of occupational safety and the environment associated with its own activities and projects. In addition, there is always the risk of ambiguity surrounding the interpretation of laws and regulations in the field of ecology that may not always work in favour of the Company, and which could lead to potential claims and penalties.

Information technology

The Company is subject to risks in the field of information technology in connection with the use and implementation of a large number of high-tech equipment and software for effective operating activity. It is in connection with these that problems of adapting new equipment and software, as well as secure storage of sensitive business data, may arise. In order to ensure effective work in this direction, the Company annually analyses the technologies used. In its selecting and purchasing policy the Company gives preference to the most adaptable and recommended information technologies, so as to provide reliable control of access to business data.

Strategic and investment risks

The main factors affecting the Company's investment activities are:

- Limitation of new assets on the ground in Kazakhstan available for the purchase.
- Increased competition from large international oil companies for access to oil and gas assets.
- Lack of its own high-performance service expertise, which would enable KMG EP to participate in offshore projects in Kazakhstan, as well as attractive international projects.

Furthermore, KMG EP is the largest oil and gas company controlled by the Government of Kazakhstan. In this regard, the state represented by Samruk Kazyna SWF and NC KMG may have an impact on KMG EP in the interests of the state as a whole, which may be contrary to the interests of the shareholders of KMG EP.

All of these factors, both separately and in combination, can lead to an underestimation or overestimation of the attractiveness of the projects, inefficient investment decisions and, consequently, a reduction in inventory levels and a decrease in the value of the Company.

Risks of corporate governance

Reducing organisational capacity

One of the major factors affecting the efficient operation of the Company is the reduction of its organisational capacity. Highly qualified personnel are the basis of competitive advantage and the basis for achieving the strategic goals of the Company. Each year, the Company faces the challenge of attracting staff with appropriate qualifications. This is primarily due to the impossibility of recruiting staff due to shortage of the necessary category of professionals in the labour market in some regions.

To reduce this risk, the Company has developed a series of measures aimed at increasing loyalty, motivation and the professional level of staff. In addition, considerable attention is paid to improving the leadership skills of management and development of a personnel reserve.

Fraud and corruption

Resource allocation that does not comply with the best interests of the Company, damage to the Company for personal gain, or any other evidence of corruption is totally unacceptable to the Company, regardless of the size of the financial damage.

The Company is taking all possible steps to prevent illegal activities that can cause reputational damage to the Company. The Company is subject to the Law on Combating Corruption which came into force in July 2011 as well as the UK Bribery Act 2010, and builds its own internal policies and procedures in strict accordance with the above laws.

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Ernst & Young LLP
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Building a better working world

TO THE SHAREHOLDERS AND MANAGEMENT OF JOINT STOCK COMPANY KAZMUNAIGAS EXPLORATION PRODUCTION

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

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

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

Ernst + Young LLP

Paul Cohn
Audit Partner

EvgenyZhemaletdinov
Auditor / General Director

Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

18 February 2014

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

The notes on pages 86 to 117 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

The notes on pages 86 to 117 are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

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

The notes on pages 86 to 117 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

The notes on pages 86 to 117 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KZT MILLION UNLESS OTHERWISE STATED

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

KazMunaiGas Exploration Production Joint Stock Company (the "Company") is incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company's direct majority shareholder is Joint Stock Company National Company KazMunaiGas ("NC KMG" or the "Parent Company"), which represents the state's interests in the Kazakh oil and gas industry and which holds 63.22% of the Company's outstanding shares as at December 31, 2013 (2012: 63.22%). The Parent Company is 100% owned by Joint Stock Company Samruk-Kazyna Sovereign Welfare Fund ("Samruk-Kazyna SWF"), which is in turn 100% owned by the government of the Republic of Kazakhstan (the "Government").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Adopted accounting standards and interpretations

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

IAS 28 Investments in associates and joint ventures (2011);

IFRS 10 Consolidated financial statements;

IFRS 11 Joint arrangements.;

IFRS 12 Disclosure of interest in other entities;

IAS 27 Separate financial statements (2011). The Company does not present separate financial statements;

IFRS 13 Fair value measurement;

IAS 19 Employee benefits (Revised);

IAS 1 Clarification of the requirement for comparative information – amendment;

IAS 32 Tax effects of distribution of equity instruments – amendment;

IAS 34 Interim financial reporting and segment information for total assets and liabilities – amendment;

IFRS 7 Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – amendment;

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

IFRS 9 Financial instruments: classification and measurement;

IAS 32 Presentation – Offsetting Financial Assets and Financial Liabilities;

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets;

IFRIC 21 Levies;

IFRS 10, IFRS 12, IAS 27 Investment Entities;

IAS 39 Financial instruments: Novation of Derivatives and Continuation of Hedge Accounting;

Improvements to IFRSs 2011-2013 cycle

2.2 Consolidation

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

Investment in associates and interests in joint arrangements (continued)

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

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

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

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

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

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

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

2.3 Foreign currency translation

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

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

2.4 Oil and natural gas exploration and development expenditure

Exploration license costs

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

Exploration expenditure

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

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

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

Development expenditure

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

2.5 Property, plant and equipment

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Impairment of non-financial assets

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

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

2.7 Intangible assets

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

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

2.8 Financial assets

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

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

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

Held to maturity investments

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

Trade and other receivables

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Inventories

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

2.10 Value added tax (VAT)

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

2.11 Cash and cash equivalents

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

2.12 Share capital

Share Capital

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

Treasury Shares

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

Dividends

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

Share-based payment transactions

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

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

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

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

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

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

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

2.13 Trade payables

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

2.14 Provisions

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

2.15 Borrowings

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

2.16 Deferred income tax

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

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

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

2.17 Employee benefits

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Revenue recognition

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

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

2.19 Income taxes

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

3. SIGNIFICANT NON-CASH TRANSACTIONS

During the year ended December 31, 2013 the Company excluded from the consolidated statement of cash flows a non-cash transaction related to the offset of withholding income tax payable against the interest receivable on financial assets in the amount of 1,365 million Tenge (2012: 856 million Tenge) and against dividends received from the associate in the amount of 1,766 million Tenge (2012: 2,763 million Tenge).

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Oil and gas reserves

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on a discounted basis based on management's expectations with regard to timing of the procedures required. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan. As at the date of these financial statements the scope and timing of the remediation plan has not been formally agreed with the Government, except as agreed in the annual budget.

For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology.

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

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

5. PROPERTY, PLANT AND EQUIPMENT

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

KZT MILLION UNLESS OTHERWISE STATED

6. INTANGIBLE ASSETS

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

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

7. FINANCIAL ASSETS

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

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

Investments in Debt Instrument of NC KMG

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

Trade and other receivables

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

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

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

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

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

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

Cash and cash equivalents

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

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

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

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

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

KZT MILLION UNLESS OTHERWISE STATED

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

Movement in investment in joint ventures during the reporting period:

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

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

Kazgermunai

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

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

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

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

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

UGL

On April 15, 2011 the Company acquired from Exploration Venture Limited (EVL) 50% of the common shares of UGL. UGL holds 100% equity interest in Ural Oil and Gas LLP (UOG), which has an exploration license for the Fedorovskyi hydrocarbons field located in western Kazakhstan.

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

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

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

The operating activities of UGL are dependent upon continued financing in the form of shareholder loans to enable UGL to meet its current obligations and to continue its activities. As a result the Company has provided financing in the form of additional shareholder loans in the amount of 59,450 thousand US dollars (9,045 million Tenge) during the year ended December 31, 2013 (2012: 22,250 thousand US dollars or 3,318 million Tenge). The fair value on initial and additional shareholder loans, which are given on an interest free basis, is determined by discounting future cash flows for the loans using a discount rate of 15%.

KS EP Investments

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

KZT MILLION UNLESS OTHERWISE STATED

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

KS EP Investments (continued)

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

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

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

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

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

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

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

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

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

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

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

9. INVESTMENTS IN ASSOCIATE

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

PKI is non-listed company and there is no quoted market price available for its shares. PKI is involved in field exploration, and development, oil and gas production, acquisition of oil fields and selling of crude oil and oil products. The Company acquired a 33 percent stake in PKI in December 2009.

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

Movement in investment in associate during the reporting period:

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

KZT MILLION UNLESS OTHERWISE STATED

9. INVESTMENTS IN ASSOCIATE (CONTINUED)

PKI (continued)

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

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

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

10. INVENTORIES

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

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

11. SHARE CAPITAL

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

11.1 Share capital

Authorized shares

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

Dividends

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

11.2 Employee share option plans

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

Employee option plans

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

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

Movement in the year

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

	2013		2012	
	No.	**WAEP**	**No.**	**WAEP**
Outstanding at January 1	1,677,948	19.47	2,118,984	18.26
Granted during the year	–	–	–	–
Exercised during the year	(8,867)	13.00	(420,763)	13.12
Forfeited during the year	(314,774)	19.01	(20,273)	26.08
Outstanding at December 31	1,354,307	19.61	1,677,948	19.47
Exercisable at December 31	1,346,462	19.59	636,760	19.77

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

11.3 Kazakhstan Stock Exchange disclosure requirement

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

KZT MILLION UNLESS OTHERWISE STATED

12. EARNINGS PER SHARE

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

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

13. PROVISIONS

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

14. REVENUE

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

15. PRODUCTION EXPENSES

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

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

17. TAXES OTHER THAN ON INCOME

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

18. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

19. FINANCE INCOME / COSTS

19.1 Finance income

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

19.2 Finance costs

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

KZT MILLION UNLESS OTHERWISE STATED

20. INCOME TAXES

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

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

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

	2013	2012
Profit before tax	200,360	253,749
Income tax	58,531	92,926
Effective tax rate	**29%**	**37%**
Statutory income tax	20%	20%
Increase / (decrease) resulting from		
Capital Gain on reorganization of the Company	–	5%
Withholding tax	1%	1%
Excess profit tax	7%	12%
Corporate income tax of prior years	–	3%
Share of result of associate and joint ventures	(5%)	(5%)
Non-taxable income	(1%)	(2%)
Tax provisions	1%	1%
Non-deductible expenses	6%	2%
Effective tax rate	**29%**	**37%**

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

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

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

Deferred tax assets:

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

Deferred tax liabilities:

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

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

21. RELATED PARTY TRANSACTIONS

The category "entities under common control" comprises entities controlled by the Parent Company. The category "other state controlled entities" comprises entities controlled by Samruk-Kazyna SWF, except for banks, controlled by Samruk-Kazyna SWF. BTA Bank and Alliance Bank are related parties since they are controlled by Samruk-Kazyna SWF and Kazkommertsbank is a related party due to Samruk Kazyna SWF holding 21.3% of the bank's ordinary shares. Starting from 2012, Halyk Group is no longer a related party to the Company since the group is no longer controlled by a member of the management board of Samruk-Kazyna SWF.

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

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

KZT MILLION UNLESS OTHERWISE STATED

21. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

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

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

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

Foreign currency risk

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

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

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

Credit risk

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

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

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

KZT MILLION UNLESS OTHERWISE STATED

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

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

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

Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

24. COMMITMENTS AND CONTINGENCIES
Operating environment
Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

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

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

Local market obligation
The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. While the price for such supplies of crude oil is agreed with the Parent Company, this price may be materially below international market prices and may even be set at the cost of production (Note 21). If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Company's business, prospects, financial condition and results of operations.

During the current year, in accordance with their obligations, the Company delivered 1,993,861 tons of oil (2012: 1,645,926 tons) to the domestic market. The joint venture Kazgermunai did not deliver oil to the domestic market in 2013 (2012: 517,991 tons).

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2013.

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

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

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

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

As at December, 31 2013, existing provision for tax contains 14,625 million Tenge, including principal of 6,400 million Tenge, fines of 3,411 million Tenge and late payment interest of 4,814 million Tenge. Management believes that the Company will be successful in appealing the remaining balances of principal, fines, and late payment interest of the assessments.

Mineral extraction tax

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

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

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

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

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

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

PKKR disagreed with the complex tax audit results and is planning to file an appeal with the Tax Committee of the Ministry of Finance. PKI management assessed the risk of unfavourable outcome of this claim as probable and recognized a provision for 19,423 million Tenge in its 2013 consolidated financial statements. PKI Management believes that PKKR has a strong position on any other potential claims as a result of tax audit for 2009-2012.

Environment
Environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Other than those amounts provided for in provisions (Note 13) management believes that there are no probable environmental liabilities, which could have a material adverse effect on the Company's financial position, statement of comprehensive income or cash flows.

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

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

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

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

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Ozenmunaigas environmental audit 2012-2013

On January 24, 2014 JSC "Ozenmunaigas" received a notification from the Department of Ecology of Mangystau Region to pay a fine of 212,625 million Tenge for environmental damage. The total amount was determined as a result of an inspection that covered 2012 and 2013. JSC "Ozenmunaigas" disagreed with the notification and currently takes legal actions to appeal the claim.

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

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

Embamunaigas environmental audit

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

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

Embamunaigas Gas flaring.

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

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

Oilfield licenses

The Company is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation. The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, statement of income or cash flows.

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

The principle licenses of the Company and their expiry dates are:

Field	Contract	Expiry date
Uzen (8 fields)	No. 40	2021
Emba (1 field)	No. 37	2021
Emba (1 field)	No. 61	2017
Emba (23 fields)	No. 211	2018
Emba (15 fields)	No. 413	2020

Commitments arising from oilfield and exploration licenses

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

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

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

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

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

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

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

Year	Capital expenditures	Operational expenditures
2014	4,278	93

25. SUBSEQUENT EVENTS

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

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

Nurseitov A. A.
Chief Executive Officer

B. Fraser, ACA.
Acting Chief Financial Officer

INFORMATION FOR SHAREHOLDERS

SHAREHOLDERS' ANNUAL GENERAL MEETING

The AGM will be held on May 13, 2014 at 10:00 AM at Dhall, Rixos President Hotel Astana, located at 7 Kunayev street, Astana, Kazakhstan.

WEBSITE

A wide range of information on the Company is available at www.kmgep.kz including details of activities, press releases and annual and interim reports.

SHAREHOLDER QUESTIONS

For information about proxy voting, dividends and to report changes in personal details, shareholders should contact the Company's registrar/ depositary:

- *Holders of ordinary and preferred shares:* JSC "The integrated securities registrar", 141, Abylai Khan Street, Almaty, Republic of Kazakhstan, Tel.: +7 (727) 272-47-60 int. 150, Fax: +7 (727) 272-47-66
- *Holders of GDRs:* Deutsche Bank Trust Company Americas, Depositary Receipts Group, 60 Wall Street, New York, NY 10005, U.S.A. Telephone: +1 (121) 250 9100, Fa x: +1 (732) 544 6346, Email: adr@db.com

NUMBER OF SHARES IN ISSUE

	Ordinary shares	Preferred shares	Total issued capital[2]
Number of issued shares[1]	70,220,935	4,136,107	74,357,042

[1]Including GDRs purchased to implement the Company's Option Program and held in trust (as of December 31, 2013 – 9,580,352 GDRs), and the shares and GDRs purchased in accordance with own share buyback programme (as of December 31, 2013 – 14,386,605 GDRs, 130,093 shares and 2,073,147 preferred shares).
[2]The Company's shares are listed on Kazakhstan Stock Exchange and the GDRs are listed on the London Stock Exchange. One GDR corresponds to one sixth of an ordinary share.

CONTACT INFORMATION

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Fax: +7(727) 2585961

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Depositary bank
For GDR Holders
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Depositary Receipts Group,
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Landline: +1 (121) 250 9100,
Fax: +1 (732) 544 6346

REFERENCE INFORMATION

REFERENCE INFORMATION

1P reserves	Proven reserves
2P reserves	Proven and probable reserves
3P reserves	Proven, probable and possible reserves
CCEL	CCEL (CITIC Canada Energy Limited, 100% owner of CCPL, formerly Nations Energy Company Ltd). Holds 100% voting stake in JSC Karazhanbasmunai, which operates the Karazhanbas field.
CIC	State investment fund of the People's Republic of China.
CIS	Commonwealth of Independent States
CIT	Corporate Income Tax
CPC	Caspian Pipeline Consortium pipeline connects Tengiz field in Kazakhstan with Novorossiysk, Russian port on the Black Sea.
ED/CED	Export Duty/Customs Export Duty
EMG	JSC Embamunaigas, one of two major production assets of KMG EP, operating 41 main fields in Atyrau Region in Western Kazakhstan.
EPT	Excess Profit Tax
GC&A	Gaffney, Cline & Associates. Independent international consultancy that specialises on hydrocarbon reserve assessment.
KASE	Kazakhstan Stock Exchange
KBM	JSC Karazhanbasmunai develops Karazhanbas oil and gas field in Mangistau region.
KCP	Kazakhstan-China pipeline
KCGP	Kazakhstan-China gas pipeline
KGM	LLP JV Kazgermunai operates in Kyzylorda region.
KOA	LLP "Kazakhoil Aktobe", the largest company in the oil sector of Aktobe region
KPO	"Karachaganak Petroleum Operating BV" develops Karachaganak gas and condensate field in north-western Kazakhstan.
KTM	LLP "Kazakhturkmunai" is engaged in exploration in western Kazakhstan.
LSE	London Stock Exchange.
M&L	Miller and Lents, Ltd.Independent international consultancy that specialises on hydrocarbon reserve assessment.
MET	Mineral Extraction Tax
Moody's	International rating agencies that award short-term and long-term credit ratings.
NGDU	Oil and Gas Production Department
OTS	Oil transfer station
NC KMG (National Company KazMunayGas JSC)	A state oil and gas company of the Republic of Kazakhstan, in the form of a joint-stock company with 100% of its shares held in Sovereign Wealth Fund Samruk-Kazyna.
OMG	JSC Ozenmunaigas, one of two production assets of KMG EP, operating in 2 main fields in Mangistau Region.

REFERENCE INFORMATION

REFERENCE INFORMATION (CONTINUED)

PKI	PetroKazakhstan Inc. Scope of its business includes exploration, field development, oil and gas production, processing and selling of crude oil and refined products.
PKKR	JSC PetroKazakhstan Kumkol Resources produces oil in Kyzylorda region.
PKOP	PetroKazakhstan Oil Products is engaged in refining.
S&P	Standard & Poor's. International rating agencies that award short-term and long-term credit ratings.
Samruk-Kazyna Holding	Sovereign Wealth Fund managing state assets, shares of national companies and financial institutions for Kazakhstan development.
TCO	Tengizchevroil LLP carries out exploration and development of the Tengiz field in Atyrau region.
TP	JSC Turgai Petroleum. Scope of its business includes exploration, Kumkol field development in Kyzylorda region, oil and gas production, processing and selling of crude oil.
Ton-to-barrel conversion factors	In the case of KMG EP – 7.36 bbl/ton; KGM – 7.70; KBM – 6.68; PKI – 7.75; others – 7.33.
UBR	LLP Drilling Well Servicing Division
UAS	Uzen-Atyrau-Samara. An oil pipeline, a 1,500 lm-long link over the territory of Atyrau and Mangistau Regions to Russia
UOG	"Ural Oil and Gas" LLP is engaged in exploration of Fedorovskiy block in Western Kazakhstan.
UTTiOS	LLP Support Service Vehicles and Well Servicing Division

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