

**JSC “National Company  
“KazMunayGas”**

**Consolidated Financial Statements**

*Year ended December 31, 2011  
with Independent Auditors’ Report*

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of joint stock company "National Company "KazMunayGas" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011 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 about whether the consolidated financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of joint stock company "National Company "KazMunayGas" as of 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*

*Gulmira Turmagambetova*



Gulmira Turmagambetova  
Auditor

Auditor Qualification Certificate  
No. 0000374 dated 21 February 1998

*Evgeny Zhemaletdinov*



Evgeny Zhemaletdinov  
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

· 26 March 2012

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>In thousands of Tenge</i>		<b>As at December 31,</b>	
	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	2,833,619,231	2,548,764,464
Exploration and evaluation assets	7	160,312,469	150,799,153
Intangible assets	8	197,952,790	184,721,292
Long-term bank deposits	9	9,908,968	4,521,195
Investments in joint ventures and associates	10	919,155,435	696,881,032
Deferred tax asset	29	10,605,619	10,605,467
VAT recoverable		49,328,641	34,806,222
Advances for non-current assets		76,785,170	68,442,089
Bonds receivable from related party	30	36,551,537	36,397,864
Note receivable from a shareholder of a joint venture	11	18,138,239	19,153,089
Note receivable from associate		19,220,620	17,987,259
Loans due from related parties	30	67,121,199	115,043,574
Other non-current assets		11,738,636	10,071,096
		<b>4,410,438,554</b>	<b>3,898,193,796</b>
<b>Current assets</b>			
Inventories	12	202,833,712	185,104,413
VAT recoverable		39,821,912	34,731,601
Income taxes prepaid	29	30,735,062	21,498,642
Trade accounts receivable	13	185,599,946	164,733,410
Short-term financial assets	14	503,556,091	626,365,151
Note receivable from a shareholder of a joint venture	11	1,361,055	1,203,834
Dividends receivable from associate	10	29,383,200	19,456,800
Other current assets	13	188,394,899	161,827,377
Cash and cash equivalents	15	581,912,135	637,917,383
		<b>1,763,598,012</b>	<b>1,852,838,611</b>
Assets classified as held for sale		138,459	1,366,686
		<b>1,763,736,471</b>	<b>1,854,205,297</b>
<b>TOTAL ASSETS</b>		<b>6,174,175,025</b>	<b>5,752,399,093</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (continued)

<i>In thousands of Tenge</i>		<b>As at December 31,</b>	
	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	16	341,393,764	326,435,861
Additional paid-in capital	16	13,237,994	2,266,580
Other equity		1,966,059	5,176,205
Currency translation reserve	16	188,573,100	173,330,751
Retained earnings		2,033,329,755	1,664,778,234
<b>Attributable to equity shareholder of the parent</b>		<b>2,578,500,672</b>	<b>2,171,987,631</b>
<b>Non-controlling interest</b>	16	<b>581,657,604</b>	<b>559,364,977</b>
<b>Total equity</b>		<b>3,160,158,276</b>	<b>2,731,352,608</b>
<b>Non-current liabilities</b>			
Borrowings	17	1,634,843,487	1,478,428,399
Payable for the acquisition of additional interest in North Caspian Project	18	320,926,724	314,566,180
Payable for acquisition of subsidiary		6,383,473	9,136,704
Provisions	19	70,309,372	66,321,563
Deferred tax liability	29	149,590,052	144,909,656
Other non-current liabilities		12,672,087	13,756,075
		<b>2,194,725,195</b>	<b>2,027,118,577</b>
<b>Current liabilities</b>			
Current portion of borrowings	17	282,941,427	479,138,938
Provisions	19	52,606,910	56,590,062
Income taxes payable	29	2,246,665	2,402,176
Trade accounts payable	20	242,635,897	255,592,177
Other taxes payable	21	98,897,684	87,642,996
Derivatives		179,000	764,054
Other current liabilities	20	139,783,971	111,797,505
		<b>819,291,554</b>	<b>993,927,908</b>
<b>Total liabilities</b>		<b>3,014,016,749</b>	<b>3,021,046,485</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>6,174,175,025</b>	<b>5,752,399,093</b>

*The accounting policies and explanatory notes on pages 8 through 68 form an integral part of these consolidated financial statements.*

Finance Director

Chief Accountant



Syrgabekova A.N.

Valentinova N.S.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of Tenge</i>	Note	For the years ended December 31,	
		2011	2010
Revenue	22	2,627,061,697	2,098,942,624
Cost of sales	23	(1,837,718,674)	(1,409,001,419)
<b>Gross profit</b>		<b>789,343,023</b>	<b>689,941,205</b>
General and administrative expenses	24	(165,038,304)	(139,146,723)
Transportation and selling expenses	25	(350,700,436)	(238,738,340)
Impairment of goodwill	8	(2,371,431)	-
Impairment of property, plant and equipment and other non-current assets	6, 7, 9, 10	(45,456,359)	(10,823,657)
Gain / (loss) on disposal of property, plant and equipment, net		3,276,958	(3,272,491)
Other operating income		15,381,340	4,209,941
Other operating expenses		(11,437,512)	(15,989,074)
<b>Operating profit</b>		<b>232,997,279</b>	<b>286,180,861</b>
Net foreign exchange loss		(9,985,952)	(5,740,393)
Finance income	26	45,599,493	58,671,374
Finance costs	27	(171,313,150)	(152,577,480)
Share of profit of joint ventures and associates, net	28	534,622,865	343,175,752
<b>Profit before income tax</b>		<b>631,920,535</b>	<b>529,710,114</b>
Income tax expenses	29	(153,130,208)	(132,675,259)
<b>Profit for the year</b>		<b>478,790,327</b>	<b>397,034,855</b>
Attributable to:			
Equity shareholder of the parent		422,497,983	305,309,217
Non-controlling interest		56,292,344	91,725,638
		<b>478,790,327</b>	<b>397,034,855</b>
<b>Other comprehensive income / (loss)</b>			
Exchange differences on translation of foreign operations		16,410,130	(10,512,953)
Other comprehensive income / (loss) for the period, net of tax		16,410,130	(10,512,953)
<b>Total comprehensive income for the period, net of tax</b>		<b>495,200,457</b>	<b>386,521,902</b>
Attributable to:			
Equity holder of the parent		437,740,331	295,277,534
Non-controlling interest		57,460,126	91,244,368
		<b>495,200,457</b>	<b>386,521,902</b>

The accounting policies and explanatory notes on pages 8 through 68 form an integral part of these consolidated financial statements.

Finance Director

Chief Accountant



Syrgabekova A.N.

Valentinova N.S.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>In thousands of Tenge</i>	For the years ended December 31,		
	Note	2011	2010
<b>Cash flows from operating activities:</b>			
Profit before income tax		631,920,535	529,710,114
Adjustments for:			
Depreciation, depletion and amortization	23, 24, 25	146,317,428	131,521,998
Share of profit of joint ventures and associates	28	(534,622,865)	(343,175,752)
Finance costs	27	171,313,150	152,577,480
Finance income	26	(45,599,493)	(58,671,374)
Impairment of property, plant and equipment and other non-current assets	6, 7, 9, 10	45,456,359	10,823,657
Impairment of goodwill	8	2,371,431	–
Unrealized loss on crude oil derivative instrument		9,349,769	664,547
(Gain) / loss on disposal of property, plant and equipment, net		(3,276,958)	3,272,491
Provisions	19	9,946,022	8,623,031
Allowance for doubtful debts	24	3,650,396	13,135,998
Provision for obsolete inventory	24	4,729,414	(801,961)
Recognition of share based payments		541,100	376,245
Forfeiture of share based payments		(23,794)	(49,809)
Unrealized foreign exchange (gain) / loss		(5,096,270)	493,276
<b>Operating profit before working capital changes</b>		<b>436,976,224</b>	<b>448,499,941</b>
Change in inventory		(12,792,296)	(22,408,215)
Change in VAT recoverable		(19,612,730)	(24,227,828)
Change in trade accounts receivable		(19,905,373)	(25,615,945)
Change in other current assets		(21,866,605)	(95,186,773)
Change in other taxes payable		5,139,280	(1,394,939)
Change in trade accounts payable		(20,760,491)	93,644,332
Change in other liabilities		(8,493,848)	(2,814,877)
Cash generated from operations		338,684,161	370,495,696
Income taxes paid		(164,692,655)	(163,043,395)
Interest received		31,634,651	48,827,538
Interest paid		(121,523,451)	(124,952,358)
Cash payments for derivatives, net		(10,439,549)	(783,033)
<b>Net cash flow from operating activities</b>		<b>73,663,157</b>	<b>130,544,448</b>
<b>Cash flows from investing activities:</b>			
Placement of bank deposits, net		145,811,373	129,308,418
Acquisition of subsidiaries, net of cash acquired	5	(55,006,373)	(8,614,935)
Purchase of property, plant and equipment and intangible assets		(458,763,308)	(474,987,934)
Proceeds from sale of property, plant and equipment and intangible assets		30,328,039	11,599,300
Distributions received from joint ventures and associates	10, 11	405,604,974	289,585,072
Acquisition of and contribution to joint ventures	5, 10	(98,473,907)	(3,750,000)
Repayment of loan given to Shareholder		41,381,049	–
Proceeds from sales of assets classified as held for sale		–	378,378
Repayment of loans given to related party		309,554	–
Payment of debt on acquisition of KPV		(3,532,756)	–
Loan given to related party	30	(4,641,899)	(69,571,436)
<b>Net cash flow from / (used in) investing activities</b>		<b>3,016,746</b>	<b>(126,053,137)</b>



**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

<i>In thousands of Tenge</i>	Note	For the years ended December 31,	
		2011	2010
<b>Cash flows from financing activities:</b>			
Proceeds from borrowings		284,669,372	1,291,592,905
Repayment of borrowings		(341,456,691)	(1,290,534,781)
Acquisition of non-controlling interest		(185,247)	(18,032,903)
Dividends paid to non-controlling interest		(22,167,123)	(20,589,632)
Dividends paid to shareholder	16	(45,796,384)	(18,565,388)
Issuance of shares	16	12,135,394	160,500,000
Purchase of subsidiary's treasury shares		(15,762,657)	(24,531,975)
Repayment of convertible debt instrument	17	-	(10,463,778)
Other distributions to Shareholder		(8,863,662)	-
Net cash flow (used in) / from financing activities		(137,426,998)	69,374,448
Effects of exchange rate changes on cash and cash equivalents		4,741,847	(189,561)
<b>Net change in cash and cash equivalents</b>		<b>(56,005,248)</b>	<b>73,676,198</b>
<b>Cash and cash equivalents at the beginning of the year</b>	15	<b>637,917,383</b>	<b>564,241,185</b>
<b>Cash and cash equivalents at the end of the year</b>	15	<b>581,912,135</b>	<b>637,917,383</b>

Non-cash transactions, including the following, were excluded from the consolidated statement of cash flows:

- In 2011, the Group derecognized the loan with the carrying value of 7,812,499 thousand Tenge relating to the financing of the exploration and evaluation activities at one of its fields (Note 4). Income from loan derecognition was offset against impairment losses (2010: nil).
- During 2011, disposals of property, plant and equipment included 1,900,537 thousand Tenge relating to changes in the provisions (Note 19) (2010: additions of 2,289,823 thousand Tenge).
- During 2011, the Group capitalized finance costs in the amount of 5,796,730 thousand Tenge (2010: 2,719,046 thousand Tenge) as part of the property, plant and equipment (Note 6).
- During 2010 and 2011, the Parent Company contributed pipelines as a consideration for the Company's shares (Note 16).
- As of December 31, 2011, the payables for purchases of property, plant and equipment increased by 6,492,797 thousand Tenge (2010: 14,970,451 thousand Tenge).

*The accounting policies and explanatory notes on pages 8 through 68 form an integral part of these consolidated financial statements.*

Finance Director

Chief Accountant



Syrgabekova A.N.

Valentinova N.S.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Attributable to equity holder of the Company							
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	
Note	16	16	16	16	16	16	16	
As at December 31, 2009	159,647,488	2,248,079	4,910,393	183,362,434	1,530,243,896	1,880,412,290	476,802,220	2,357,214,510
Profit for the year	-	-	-	-	305,309,217	305,309,217	91,725,638	397,034,855
Other comprehensive income	-	-	-	(10,031,683)	-	(10,031,683)	(481,270)	(10,512,953)
Total comprehensive income for the year	-	-	-	(10,031,683)	305,309,217	295,277,534	91,244,368	386,521,902
Charter contribution (Note 16)	166,788,373	18,501	-	-	-	166,806,874	-	166,806,874
Dividends (Note 16)	-	-	-	-	(16,940,104)	(16,940,104)	(20,589,632)	(37,529,736)
Distributions to the Parent Company (Note 16)	-	-	-	-	(85,241,402)	(85,241,402)	-	(85,241,402)
Recognition of share based payments at subsidiaries	-	-	309,987	-	54,899	364,886	11,359	376,245
Forfeiture of share based payments at subsidiaries	-	-	(49,809)	-	-	(49,809)	-	(49,809)
Share options exercised at subsidiaries	-	-	5,634	-	-	5,634	-	5,634
Acquisition of treasury shares by subsidiary (Note 16)	-	-	-	-	(3,997,157)	(3,997,157)	(20,534,819)	(24,531,975)
Change in ownership of subsidiaries – acquisition of non-controlling interest	-	-	-	-	1,513,990	1,513,990	(5,236,944)	(3,722,954)
Conversion of convertible debt instrument of Rompetrol Rafinare SA into share capital and shares (Note 17)	-	-	-	-	(113,467,108)	(113,467,108)	103,003,330	(10,463,778)
Change in ownership of subsidiaries – acquisition of non-controlling interest in subsidiaries of Rompetrol Group N.Y. (Note 5)	-	-	-	-	47,302,003	47,302,003	(65,334,906)	(18,032,903)
As at December 31, 2010	326,435,861	2,266,580	5,176,205	173,330,751	1,664,778,234	2,171,987,631	559,364,977	2,731,352,608



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. GENERAL**

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

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

In 2011, the Company has an interest in 35 operating companies (2010: 35) (jointly – the «Group»).

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

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

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

The consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries (Note 32).

These consolidated financial statements of the Group were approved for issue by Finance Director and the Chief Accountant on March 26, 2012.

### **2. BASIS OF PREPARATION**

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

#### **Statement of compliance**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 2. BASIS OF PREPARATION (continued)

#### Statement of compliance (continued)

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

#### Foreign currency translation

##### *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT"), which is Group's presentation currency.

##### *Transactions and balances*

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

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

##### *Group Companies*

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

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

##### *Exchange rates*

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

The currency exchange rate of KASE as at December 31, 2011 was 148.40 Tenge to US\$ 1. This rate was used to translate monetary assets and liabilities denominated in United States Dollars ("US Dollar" and "US\$") as at December 31, 2011 (2010: 147.40 Tenge to US\$ 1). The currency exchange rate of KASE as at March 26, 2012 was 147.75 Tenge to US\$ 1.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of January 1, 2011:

- IAS 24 *Related Party Disclosures* (amendment) effective January 1, 2011
- IAS 32 *Financial Instruments: Presentation* (amendment) effective February 1, 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (amendment) effective January 1, 2011
- Improvements to IFRSs (May 2010).

The adoption of the standards or interpretations is described below:

#### IAS 24 *Related Party Transactions* (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

#### IAS 32 *Financial Instruments: Presentation* (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have such instruments.

#### IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. There are no minimum funding requirements in Republic of Kazakhstan, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- IFRS 7 *Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New and amended standards and interpretations (continued)

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008)).
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards).
- IAS 27 *Consolidated and Separate Financial Statements*.
- IAS 34 *Interim Financial Statements*.

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits).
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2011. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

#### Business combinations and goodwill

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Business combinations and goodwill (continued)

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

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

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

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

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

#### *Acquisition of subsidiaries from parties under common control*

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

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

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

The Group didn't have acquisition of subsidiaries from parties under common control in 2011 and 2010.

#### Joint ventures

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interests in the joint ventures using the equity method of accounting. Under the equity method, the investment in joint ventures is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of investments and is neither amortized nor individually tested for impairment. Where there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and joint ventures are eliminated to the extent of the interest in the joint venture.

The share of profit of joint ventures is shown on the face of the consolidated statement of comprehensive income. This is the profit attributable to equity holders of joint ventures and therefore is profit after tax.

The financial statements of joint ventures are prepared for the same reporting period as the Group.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Joint ventures (continued)

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit of an associate' in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes 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 retained investment and proceeds from disposal is recognized in profit or loss.

#### Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method as discussed in accounting policy for joint ventures.

#### Oil and natural gas exploration and development expenditure

##### *Pre-license costs*

Pre-license costs are expensed in the period in which they are incurred.

##### *License and property acquisition costs*

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

##### *Exploration and evaluation costs*

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

##### *Development costs*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Oil and gas properties and other property, plant and equipment

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

The initial cost of an asset comprises its purchase price or construction cost, borrowing cost for long-term construction project, if recognition criteria is met, any costs directly attributable to bringing the asset into operation and the initial estimate of any 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, whereas tangible assets are depreciated over proved developed reserves and intangible assets – over proved reserves. Certain oil and gas properties 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.

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

Refinery assets	4-100 years
Pipelines	10-30 years
Buildings and improvements	8-100 years
Machinery and equipment	3-30 years
Vehicles	5-10 years
Other	4-20 years

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

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

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

#### Intangible assets

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Intangible assets (continued)

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

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

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

#### Impairment of non-financial assets

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

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

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

#### Impairment of exploration and evaluation assets

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

- the period for which the Group entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on the further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercial viable quantities of mineral resources and the Group entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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

#### **Asset retirement obligation (decommissioning)**

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

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

- (a) changes in the provision are added to, or deducted from, the cost of the related asset in the current period;
- (b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of comprehensive income; and
- (c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

#### **Financial assets**

##### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and term deposits, trade and other receivables, loans, quoted and unquoted financial instruments, and derivative financial instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### *Subsequent measurement*

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

##### *Financial assets at fair value through profit or loss*

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

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 is satisfied.

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

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

##### *Loans and receivables*

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

##### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income. The losses arising from impairment are recognized in finance costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### *Subsequent measurement (continued)*

##### *Available-for-sale financial investments*

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

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

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to profit or loss.

##### *Derecognition*

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### *Impairment of financial assets*

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

##### *Financial assets carried at amortized cost*

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

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

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

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

##### *Available-for-sale financial investments*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### *Impairment of financial assets (continued)*

##### *Available-for-sale financial investments (continued)*

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

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

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

#### Inventories

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

#### Value added tax (VAT)

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

#### Cash and cash equivalents

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

#### Put-options arising on business combination

If as a part of a business combination the Group becomes a party to a put-option on the remaining non-controlling share in the acquired business, the Group assesses whether being a party to such option gives it access to benefits and risks associated with ownership of such non-controlling share.

When it is determined that the put-option on the remaining shares gives access to benefits and risks of ownership, the business combination is accounted for on the basis that the underlying shares subject to the put option have been acquired. Fair value of the liability to the non-controlling shareholders under the put option is recognized as a part of the cost of the business combination. Any difference between that cost, and the share of the net assets that would otherwise have been regarded as being attributable to the non-controlling interest, is reflected within goodwill. Any dividends subsequently declared and paid to such non-controlling shareholders prior to the exercise of the option are charged directly to the consolidated statement of comprehensive income.

The financial liability is subsequently measured in accordance with the requirements of IAS 39. Changes in the fair value of a financial liability as well as any finance charges are recorded directly in consolidated statement of comprehensive income.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial liabilities

##### *Initial recognition and measurement*

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

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

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings and derivative financial instruments.

##### *Subsequent measurement*

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

##### *Financial liabilities at fair value through profit or loss*

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

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

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

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

##### *Trade and other payables*

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

##### *Loans and borrowings*

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

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

Borrowings are classified as current liabilities unless the Group 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 capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

##### *Derecognition*

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

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

##### *Offsetting of financial instruments*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial liabilities (continued)

##### *Fair value of financial instruments*

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 31.

#### Provisions

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

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

#### Employee benefits

##### *Pension Scheme*

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

#### Revenue recognition

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

##### *Sale of goods*

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

##### *Rendering of services*

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

#### Expense recognition

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income taxes

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

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

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

Excess profit tax ("EPT") is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation enacted as of January, 1 2009, the Group accrues and pays EPT in respect of each 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.

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

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

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

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Equity

##### *Non-controlling interest*

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

##### *Share based payments*

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

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

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

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

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

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

##### *Dividends*

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

##### **Subsequent events**

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

##### **Standards issued but not yet effective**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards issued but not yet effective (continued)

##### *IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

##### *IAS 19 Employee Benefits (Amendment)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

##### *IAS 12 Income Taxes – Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

##### *IAS 27 Separate Financial Statements (as revised in 2011)*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

##### *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

##### *IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

##### *IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards issued but not yet effective (continued)

##### IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

##### IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

##### IFRS 12 *Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

##### IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

#### Oil and gas reserves

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortization ("DD&A"). The Group 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 Group uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### Oil and gas reserves (continued)

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 Group 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 Group'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.

#### Provision for construction

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

As of December 31, 2011, other provisions include provisions for distributions to the Shareholder on construction of the Kazakhstan History Museum in Astana (the "History Museum"), the Republic of Kazakhstan, and reconstruction the World Expo-Center in Moscow, Russian Federation (the "Expo-Center"). At the origination in 2010, the estimate of the provision on the History Museum amounted to 25,560,141 thousand Tenge. Subsequently in 2011, the estimate of the costs was increased by 1,070,562 thousand Tenge. At the origination in 2011, the estimate of the provision on the Expo-Center amounted to 3,959,439 thousand Tenge.

In 2011, payments to the suppliers of construction services relating to the History Museum amounted to 4,963,662 thousand Tenge (2010: 1,880,192 thousand Tenge).

Movements in this provision are disclosed in Note 19.

#### Assets retirement obligations

Under the terms of certain contracts, legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories, and also obligations to dismantle and remove tangible assets and restore territory at each production site. Since the license terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each 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 Group's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### Assets retirement obligations (continued)

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 Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Group 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 many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice.

Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in statement of financial position across the Group companies at December 31, 2011 were in the ranges from 1.96% to 5.0% and from 6.6% to 7.9% respectively (2010: from 1.9% to 5.0% and from 7% to 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 19.

#### Environmental remediation

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

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan and Europe. The Group has classified this obligation as non-current except for the portion of costs, included in the annual budget for 2012. 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 33. Movements in the provision for environmental remediation obligations are disclosed in Note 19.

#### Taxation

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil agreements, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for tax risks disclosed under other provision in Note 19 relates mainly to the Group's application of Kazakhstan transfer pricing legislation to export sales of crude oil and value-added tax. Further uncertainties related to taxation are detailed in Note 33.

Taxable income is computed in accordance with the tax legislation enacted as of January 1, 2011. Deferred tax is calculated with respect to both CIT and EPT. Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates that were enacted by the tax authorities as of December 31, 2011.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### Taxation (continued)

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets as at December 31, 2011 was 10,605,619 thousand Tenge (2010: 10,605,467 thousand Tenge). Further details are contained in Note 29.

#### Impairment of non-financial assets

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

In 2011 the Group recognized an impairment of property, plant and equipment for 31,715,436 thousand Tenge (2010: 9,892,340 thousand Tenge). In 2011 the Group recognized an impairment of goodwill for 2,371,431 thousand Tenge (2010:nil) in the consolidation statement of comprehensive income (Notes 6 and 8).

#### Impairment of exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate impairment.

Due to the suspension of exploration and evaluation activities the Group recognized impairment of some of its exploration and evaluation assets in the amount of 20,858,549 thousand Tenge as of December 31, 2011 (2010: 931,317 thousand Tenge) (Note 7).

The Group also derecognized the loan of 7,812,499 thousand Tenge relating to the financing of the exploration and evaluation activities at one of its fields. In accordance with the financing arrangement, in the event of no commercial discovery the Group is released from its obligation to reimburse its share in the project financing.

#### Fair value of financial instruments

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

#### Operating lease commitments – the Group as lessee

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

#### Useful lives of property, plant and equipment

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### Useful lives of property, plant and equipment (continued)

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

#### Fair values of assets and liabilities acquired in business combinations

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

### 5. ACQUISITIONS

#### Acquisition of share in Ural Group Limited BVI (“UGL”)

On April 15, 2011, E&P KMG acquired from Exploration Venture Limited 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 the Western Kazakhstan region. In May 2010, the exploration license was extended until May 2014.

The 50% stake in UGL was acquired for cash consideration of US\$ 164,497 thousand (or 23,906,835 thousand Tenge at the transaction date exchange rate) gross of withholding tax. Of the total consideration US\$ 46,687 thousand (or 6,784,037 thousand Tenge at the transaction date exchange rate) was attributed to the loans receivable from a joint venture, which was initially recognized at fair value and subsequently measured at amortized cost using effective interest method.

Investments in UGL are recognized as an investment in a joint venture in the consolidated financial statements of the Group.

The accounting for acquisition of the 50% interest in UGL in these consolidated financial statements is based on the provisional assessment of the fair values.

#### Acquisition of share in Ural Group Limited BVI (“UGL”) (continued)

The Group’s share of UGL assets and liabilities of the joint venture at the acquisition date was as follows:

<i>In thousands of Tenge</i>	<b>Provisional fair values recognized on acquisition</b>
Cash	231,727
Current assets	103,896
Non-current assets	28,535,909
	<b>28,871,532</b>
Current liabilities	284,658
Non-current liabilities	11,464,076
	<b>11,748,734</b>
<b>Net assets</b>	<b>17,122,798</b>

The fair value of non-current assets includes the exploration license of UOG of 17,459,900 thousand Tenge.

#### Acquisition of Karpovskyi Savernyi JSC (“KS JSC”)

On December 23, 2011, E&P KMG acquired a 100% interest in Karpovskyi Savernyi JSC (“KS JSC”). KS JSC is an oil and gas company, which has a license for the exploration of the Karpovskyi Savernyi gas condensate field located in the Western Kazakhstan region. The interest in KS JSC was acquired for cash consideration of 8,485,846 thousand Tenge. The E&P KMG paid 8,076,432 thousand Tenge and recognized a payable of 409,414 thousand Tenge. The exploration license, upon fulfillment of certain conditions prior to the end of 2011, was extended to December 2014 from December 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. ACQUISITIONS (continued)

#### *Acquisition of Karpovskiy Saverniy JSC ("KS JSC") (continued)*

KS JSC's assets and liabilities, based on the allocation of the consideration over the fair values of the identifiable net assets, as at December 31, 2011, are as follows:

<i>In thousands of Tenge</i>	Fair values recognized on acquisition
Cash	16
Current assets	56,821
Non-current assets	10,049,256
	10,106,093
Current liabilities	240,519
Deferred tax liability	1,321,112
Non-current liabilities	58,616
	1,620,247
<b>Net assets</b>	<b>8,485,846</b>

The fair value of non-current assets includes the exploration license of KS JSC of 6,898,641 thousand Tenge and other exploration and evaluation assets of 3,150,615 thousand Tenge.

The results of operations of KS JSC for the period from the acquisition date were included into the consolidated financial statements of the Group for 2011. If the acquisition has taken place as at January 1, 2011, the net profit of the Group for 2011 would have not changed significantly.

#### *Acquisition of AktauNefteService LLP ("ANS")*

On June 10, 2011, the Group acquired 100% interest in AktauNefteService LLP ("ANS") for cash of US\$ 334 million (or 48,590,320 thousand Tenge at the transaction date exchange rate). Main activities of ANS, which has five subsidiaries, is the provision of services (drilling, repairs, transportation and other) to the crude oil production companies in the Western Kazakhstan region. ANS's major client is MangistauMunaiGas JSC, a 50% joint venture of the Group.

The fair values of identifiable assets, liabilities and contingencies of ANS on June 10, 2011 were as follows:

<i>In thousands of Tenge</i>	Fair values recognized on acquisition
Property, plant and equipment	33,438,833
Intangible assets	16,766
Inventories	9,988,366
Trade accounts receivable	3,648,929
Other current assets	5,198,293
Cash and cash equivalents	1,660,363
<b>Total assets</b>	<b>53,951,550</b>
Borrowings	7,000,061
Deferred tax liability	3,812,710
Other non-current liabilities	1,746
Trade accounts payable	645,931
Other taxes payable	303,035
Other current liabilities	5,519,939
<b>Total liabilities</b>	<b>17,283,422</b>
<b>Net assets</b>	<b>36,668,128</b>
Goodwill arising on acquisition (Note 8)	11,922,192
<b>Cash consideration</b>	<b>48,590,320</b>
Cash paid	(48,590,320)
Net cash acquired with the subsidiary	1,660,363
<b>Net cash outflow</b>	<b>(46,929,957)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. ACQUISITIONS (continued)

#### *Acquisition of AktauNefteService LLP ("ANS") (continued)*

The results of operations of ANS for the period from the acquisition date were included into the consolidated financial statements of the Group for 2011 and comprised a loss of 1,026,005 thousand Tenge. If the acquisition has taken place as at January 1, 2011, the net profit of the Group for 2011 would have not changed significantly.

The goodwill of 11,922,192 thousand Tenge comprises the value of expected synergies arising from the acquisition as ANS provides significant portion of its services to MangistauMunaiGas JSC, a subsidiary of the Group's joint venture – Mangistau Investments B.V. ("MIBV"). Goodwill is included in "Other segment" (Note 8) and tested for impairment jointly with the Group's investment in MIBV.

#### *Acquisition of NBK LLP ("NBK")*

On September 24, 2010, E&P KMG acquired a 100% interest in NBK. NBK is an oil and gas company, which has a license for the exploration and production of the West Novobogatinksoye oil field located in Atyrau oblast of the Republic of Kazakhstan. The acquired company is currently in the exploration stage and has rights to sell test production from four successful exploration wells over the period of exploration. The interest in NBK was acquired for cash consideration of US\$ 35,000 thousand (or 5,162,150 thousands Tenge at the transaction date exchange rate). E&P KMG paid 90% of the consideration and withheld the remaining 10%, subject to the vendor completing their obligations under the sale purchase agreement. Subsequent to the acquisition, NBK's exploration license was extended to September 2012 from September 2010.

The fair values of the identifiable net assets as of September 24, 2010 are as follows:

<i>In thousands of Tenge</i>	<b>Fair values recognized on acquisition</b>
Cash	212
Current assets	11,768
Non-current assets	6,161,767
	<b>6,173,747</b>
Current liabilities	19,494
Non-current liabilities	992,103
	<b>1,011,597</b>
<b>Net assets</b>	<b>5,162,150</b>
<b>Total acquisition cost</b>	<b>5,162,150</b>
Less: deferred payment	(516,215)
<b>Net cash outflow</b>	<b>4,645,935</b>

The results of operations of NBK for the period from the acquisition date were included into the consolidated financial statements of the Group for 2010 and comprised a loss of 544,919 thousand Tenge. If the acquisition has taken place as of January 1, 2010, the net profit from continuing operations of the Group for 2010 would have not changed significantly.

#### *Acquisitions of SapaBarlau Service LLP ("SBS")*

On September 24, 2010, E&P KMG acquired a 100% interest in SBS. SBS is an oil and gas company, which has a license for the exploration of the East Zharkamys I field located in Aktobe oblast of the Republic of Kazakhstan. The interest in SBS was acquired for cash consideration of 4,410,000 thousand Tenge. E&P KMG paid 90% of the consideration and withheld 10%, subject to the vendor completing their obligations under the sale purchase agreement. Subsequent to acquisition, SBS's exploration license was extended to November 2012 from November 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. ACQUISITIONS (continued)

#### *Acquisitions of SapaBarlau Service LLP ("SBS") (continued)*

The fair values of the identifiable net assets as of September 24, 2010 are as follows:

<i>In thousands of Tenge</i>	<b>Fair values recognized on acquisition</b>
Cash	1,968
Current assets	2,502
Non-current assets	5,474,983
	<b>5,479,453</b>
Current liabilities	194,401
Non-current liabilities	875,052
	<b>1,069,453</b>
<b>Net assets</b>	<b>4,410,000</b>
<b>Total acquisition cost</b>	<b>4,410,000</b>
Less: deferred payment	(441,000)
<b>Net cash outflow</b>	<b>3,969,000</b>

The results of operations of SBS for the period from the acquisition date to the yearend were included into the consolidated financial statements of the Group for 2010 and comprised a loss of 480,000 thousand Tenge. If the acquisition has taken place as of January 1, 2010, the net profit of the Group for 2010 would have not changed significantly.

#### *Finalization of provisional accounting for acquisition of MangistauMunayGas JSC ("MMG")*

On November 25, 2009, MIBV, a 50% joint venture of the Group, acquired 100% of the shares of MMG for US\$ 2,606,462 thousand (or 387,711,223 thousand Tenge at the transaction date exchange rate). MMG is engaged in crude oil production in Western Kazakhstan. The acquisition was fully financed by a US\$ 3 billion (or 446,250,000 thousand Tenge at the transaction date exchange rate) facility agreement concluded by MIBV with Export Import Bank of China, which is pledged with 100% of the MMG shares acquired.

The 50% interest in MIBV is accounted for using equity method of accounting in the consolidated financial statements of the Group. The acquisition of MMG was accounted under purchase method in the consolidated financial statements of MIBV.

The valuation of the assets, liabilities and contingent liabilities of MMG was completed in November 2010.

#### *Change in the ownership of The Rompetrol Group ("TRG") subsidiaries during 2011*

In November 2011, Group increased its ownership in Rompetrol Georgia by 1%, increasing it to 99%. As a result of the change in ownership the difference of 1,858,084 thousand Tenge between the carrying values of the net assets attributable to the acquired interests in the subsidiary of 1,778,407 thousand Tenge and the consideration paid of 79,677 thousand Tenge was recorded in the retained earnings in 2011.

#### *2010 acquisition of non-controlling interests in subsidiaries of TRG*

In 2010, the Group acquired additional shares in Rompetrol Rafinare S.A., Rompetrol Well Services S.A. and Rompetrol Bulgaria o.o.d. Details of these additional acquisitions are discussed below.

On January 27, 2010 the Group initiated the mandatory public offer for the acquisition from non-controlling shareholders of 132.77 million Rompetrol Well Services S.A. shares available on stock exchange, for a price of RON 0.43 per share. On February 23, 2010 the Group acquired additional 20.74% shares of Rompetrol Well Services S.A. for a total amount of RON 24.8 million (equivalent to 1,211,843 thousand Tenge at an average rate of currency exchange for 2010). After the public offer, the Group controls 73.01% of Rompetrol Well Services S.A.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 5. ACQUISITIONS (continued)

#### *2010 acquisition of non-controlling interests in subsidiaries of TRG (continued)*

On February 8, 2010, the Group initiated the mandatory public offer for the acquisition from non-controlling shareholders of 5,062.17 million Rompetrol Rafinare S.A. shares available on stock exchange, for a price of RON 0.0751 per share. After the closing of the offer period, on March 26, 2010, the Group acquired an additional 22.6% of the share capital of Rompetrol Rafinare S.A., for an amount of RON 358 million (equivalent to 16,740,023 thousand Tenge at an average rate for twelve-month period ended December 31, 2010). After the public offer, the Group controlled 98.6% of Rompetrol Rafinare S.A.

As a result of the above-mentioned acquisitions:

- Non-controlling interest decreased by 65,334,906 thousand Tenge; and
- 47,302,003 thousand Tenge relating to the difference between the carrying values of the net assets attributable to acquired interests in these subsidiaries and the consideration paid for such increases was allocated to the retained earnings.

The interest in Rompetrol Rafinare S.A. decreased as of September 2010 to 54.62% through the conversion of the convertible debt instrument (Note 17).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of Tenge</i>	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Net book value as at December 31, 2009	1,108,416,365	203,161,397	453,771,202	202,376,679	177,920,771	46,047,588	32,061,850	73,792,371	2,297,548,223
Foreign currency translation	(8,102,924)	(67,234)	(1,975,619)	(1,594,480)	(313,629)	(190,275)	(129,674)	(214,737)	(12,588,572)
Additions	178,152,846	1,549,058	3,858,260	2,785,987	3,510,447	7,256,552	7,729,050	207,582,340	412,424,640
Disposals	(7,492,587)	(1,449,843)	(1,789,006)	(2,722,874)	(2,108,248)	(3,544,171)	(1,735,018)	(2,678,956)	(23,520,703)
Depreciation charge	(30,005,013)	(10,832,652)	(34,577,427)	(12,458,425)	(22,825,598)	(7,170,591)	(7,375,702)	—	(125,245,408)
Accumulated depreciation on disposals	4,046,787	1,380,012	768,264	603,925	554,084	1,954,248	1,401,626	—	11,008,926
(Impairment provision) / reversal of impairment provision	(364,183)	8	19,158	(3,485,266)	(4,054,803)	20,953	(520,210)	(1,507,997)	(9,892,340)
Transfers to intangible assets	—	—	—	—	—	—	(299,698)	(670,604)	(970,302)
Transfers and reclassifications	91,989,288	19,251,480	25,078,466	(354,356)	41,824,041	13,241,849	(1,669,330)	(189,361,468)	—
<b>Net book value as at December 31, 2010</b>	<b>1,336,640,559</b>	<b>212,992,236</b>	<b>445,153,318</b>	<b>185,151,190</b>	<b>194,807,065</b>	<b>57,616,253</b>	<b>29,462,894</b>	<b>86,940,949</b>	<b>2,548,764,464</b>
Foreign currency translation	14,407,453	—	1,860,191	(561,143)	(866,244)	1,071,065	84,676	111,050	16,107,048
Additions	154,631,069	4,386,118	4,530,676	4,946,860	5,705,900	22,563,168	6,225,099	224,509,234	427,488,124
Acquisitions through business combinations	996,433	—	—	12,687,196	8,103,275	11,385,148	188,981	75,790	33,438,833
Disposals	(19,569,485)	(553,325)	(1,539,831)	(4,024,882)	(3,841,321)	(3,479,878)	(2,623,713)	(3,844,174)	(39,476,409)
Depreciation charge	(35,099,010)	(10,315,370)	(38,677,358)	(14,089,594)	(25,519,526)	(8,088,198)	(7,748,278)	—	(139,537,334)
Accumulated depreciation on disposals	8,595,453	518,388	754,761	958,200	2,698,591	2,310,108	1,838,778	—	17,674,279
Impairment provision	(9,948,186)	(150,497)	(2,722,980)	(9,235,574)	(4,222,873)	(16,524)	(144,335)	(5,274,467)	(31,715,436)
Transfers from exploration and evaluation assets	1,407,070	—	—	—	—	—	—	—	1,407,070
Transfers to intangible assets	—	—	—	—	(40,798)	—	(3,773)	(496,837)	(541,408)
Transfers and reclassifications	72,331,126	11,932,983	22,148,218	15,697,764	12,714,371	1,453,597	2,730,312	(139,008,371)	—
<b>Net book value as at December 31, 2011</b>	<b>1,524,394,482</b>	<b>218,810,533</b>	<b>431,506,995</b>	<b>191,530,217</b>	<b>189,538,440</b>	<b>84,814,739</b>	<b>30,010,651</b>	<b>163,013,174</b>	<b>2,833,619,231</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of Tenge</i>	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
At cost	1,739,895,397	275,472,476	560,244,737	271,392,432	298,653,695	119,795,393	60,212,321	171,486,124	3,497,152,575
Accumulated depreciation and impairment	(215,500,915)	(56,661,943)	(128,737,742)	(79,882,215)	(109,115,255)	(34,980,854)	(30,201,670)	(8,472,950)	(663,533,344)
<b>Net book value as at December 31, 2011</b>	<b>1,524,394,482</b>	<b>218,810,533</b>	<b>431,506,995</b>	<b>191,510,217</b>	<b>189,538,440</b>	<b>84,814,739</b>	<b>30,010,651</b>	<b>163,013,174</b>	<b>2,833,619,231</b>
At cost	1,514,280,997	259,485,550	585,994,559	258,459,330	291,083,484	81,595,712	62,395,647	90,141,350	3,143,416,629
Accumulated depreciation and impairment	(177,640,436)	(46,493,314)	(140,841,241)	(73,308,140)	(96,276,419)	(23,969,459)	(32,922,753)	(3,200,401)	(594,652,165)
<b>Net book value as at December 31, 2010</b>	<b>1,336,640,561</b>	<b>212,992,236</b>	<b>445,153,318</b>	<b>185,151,190</b>	<b>194,807,065</b>	<b>57,616,253</b>	<b>29,462,894</b>	<b>86,940,949</b>	<b>2,548,764,464</b>

In 2011, the Group capitalized borrowing costs at the average capitalization rate of 5.81% (2010: 4.68%) in the amount of 5,796,730 thousand Tenge relating to the construction of new assets (2010: 2,719,046 thousand Tenge).

As at December 31, 2011, items of property, plant and equipment with the net book value of 946,839,813 thousand Tenge (2010: 554,427,519 thousand Tenge) were pledged as collateral to secure borrowings and payables of the Group (Notes 17 and 18).

#### *Impairment of property, plant and equipment*

In 2011, the Group recorded net impairment of 31,715,436 thousand Tenge which is mainly attributable to impairment of property, plant and equipment of KTO for the total amount 13,469,618 thousand Tenge, TRG for the total amount of 10,344,398 thousand Tenge and KMG-Service for the total amount of 5,220,193 thousand Tenge (2010: 9,892,340 thousand Tenge mainly attributable to impairment of property, plant and equipment of Kazakhstan Petrochemical Industries JSC for the total amount of 7,689,868 thousand Tenge and KMG RM for the total amount of 2,094,536 thousand Tenge).

In 2011, KTO recognized an impairment loss of 13,469,618 thousand Tenge relating to the assets of Batumi Oil Terminal and Batumi Sea Port. The recoverable amount of the CGUs of these assets was determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a ten-year period. Cash flows beyond the ten-year timeframe are extrapolated by applying a flat growth rate of 1.77%. The Group used WACC of 16.19% to discount cash flows. Further details are provided in Note 8.

In 2011, TRG recognized an impairment loss of 10,576,355 thousand Tenge relating to the construction in progress and warehouses due to the suspension of construction plans and absence of market for sale of such assets. Management assessed that the assets are not recoverable through normal operating activity or sale.

In 2010, Kazakhstan Petrochemical Industries JSC, a 100% subsidiary of the Group, recognized an impairment loss of 7,689,868 thousand Tenge due to the suspension of production activities and absence of market for sale of such assets. Management assessed that the assets are not recoverable through normal operating activity or sale.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 7. EXPLORATION AND EVALUATION ASSETS

<i>In thousands of Tenge</i>	Tangible	Intangible	Total
<b>Net book value as at December 31, 2009</b>	108,241,752	8,364,753	116,606,505
Foreign currency translation	(514,318)	–	(514,318)
Additions	25,998,484	1,421,159	27,419,643
Acquisition of subsidiaries (Note 5)	5,474,983	6,161,767	11,636,750
Impairment	(931,317)	–	(931,317)
Transfer to non-current assets held-for-sale	(1,261,185)	–	(1,261,185)
Disposals	(2,156,925)	–	(2,156,925)
<b>Net book value as at December 31, 2010</b>	134,851,474	15,947,679	150,799,153
Foreign currency translation	609,659	–	609,659
Additions	19,888,368	6,878,749	26,767,117
Acquisition of subsidiaries (Note 5)	–	10,049,257	10,049,257
Impairment	(15,155,014)	(5,703,535)	(20,858,549)
Transfer to property, plant and equipment	(1,407,070)	–	(1,407,070)
Disposals	(5,307,717)	(339,381)	(5,647,098)
<b>Net book value as at December 31, 2011</b>	133,479,700	26,832,769	160,312,469

In 2011, the Group recognized impairment of exploration and evaluation assets relating to Kurmangazy, Tyub-Karagan and other fields in the amounts of 13,021,094 thousand Tenge, 7,435,589 thousand Tenge and 401,866 thousand Tenge, respectively, which was reduced by the amount of derecognized loan (Note 4).

### 8. INTANGIBLE ASSETS

<i>In thousands of Tenge</i>	Goodwill	Marketing related intangible assets	Software	Other	Total
<b>Net book value as at December 31, 2009</b>	125,501,777	27,208,272	10,213,363	23,027,827	185,951,239
Foreign currency translation	(267,082)	(184,066)	(120,709)	(236,048)	(807,905)
Additions	–	–	3,278,586	1,808,749	5,087,335
Disposals	–	–	(222,545)	(117,622)	(340,167)
Amortization charge	–	(192,127)	(3,243,468)	(2,840,995)	(6,276,590)
Accumulated amortization on disposals	–	–	136,996	82	137,078
Transfer from construction in progress	–	–	766,206	204,096	970,302
Transfers and adjustments	–	–	233,820	(233,820)	–
<b>Net book value as at December 31, 2010</b>	125,234,695	26,832,079	11,042,249	21,612,269	184,721,292
Foreign currency translation	276,199	192,651	267,462	(231,701)	504,611
Additions	–	–	6,954,794	4,312,228	11,267,022
Acquisitions through business combinations (Note 5)	11,922,192	–	14,420	2,346	11,938,958
Disposals	–	(2,107)	(476,997)	(458,171)	(937,275)
Amortization charge	–	(18,411)	(3,703,099)	(4,010,320)	(7,731,830)
Accumulated amortization on disposals	–	–	410,565	252,547	663,112
Impairment	(2,371,431)	–	(307)	(642,770)	(3,014,508)
Transfer from construction in progress	–	–	541,408	–	541,408
Transfers	–	–	125,386	(125,386)	–
<b>Net book value as at December 31, 2011</b>	135,061,655	27,004,212	15,175,881	20,711,042	197,952,790

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 8. INTANGIBLE ASSETS (continued)

At cost	165,446,556	27,562,193	29,706,453	33,075,410	255,790,612
Accumulated amortization and impairment	(30,384,901)	(557,981)	(14,530,572)	(12,364,368)	(57,837,822)
<b>Net book value as at December 31, 2011</b>	<b>135,061,655</b>	<b>27,004,212</b>	<b>15,175,881</b>	<b>20,711,042</b>	<b>197,952,790</b>
At cost	153,167,908	27,703,099	23,707,164	30,452,747	235,030,918
Accumulated amortization and impairment	(27,933,213)	(871,020)	(12,664,915)	(8,840,478)	(50,309,626)
<b>Net book value as at December 31, 2010</b>	<b>125,234,695</b>	<b>26,832,079</b>	<b>11,042,249</b>	<b>21,612,269</b>	<b>184,721,292</b>

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

Cash-generating unit	2011	2010
Refining	14,683,550	16,528,698
Downstream Romania	6,231,168	6,189,179
Dyneff	5,178,122	3,882,369
Other	5,420,763	4,980,793
<b>Total TRG</b>	<b>31,513,603</b>	<b>31,581,039</b>
Batumi Oil Terminal and Batumi Sea Port	–	2,355,452
Kazakhstan Petrochemical Industries JSC	1,622,222	1,622,222
Group of cash-generating units acquired in Refinery	88,553,296	88,553,296
Other	13,372,534	1,122,686
<b>Total goodwill</b>	<b>135,061,655</b>	<b>125,234,695</b>

#### *Refining, Downstream Romania and Dyneff*

The recoverable amount of Refining and Downstream Romania units was determined based on the value in use using discounted cash flows from financial budgets approved by senior management covering a five-year period. In 2011, the discount rate applied to cash flow projections is 10.4% (2010: 10.5%) and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2010: 1.5%) that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 8.9% (2010: 9%).

The recoverable amount of Dyneff unit was determined based on the value in use using discounted cash flows from financial budgets approved by senior management covering a five-year period. In 2011, the discount rate applied to cash flow projections is 6.7% (2010: 7.9%) and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2010: 1.5%) that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 5.2% in 2011 (2010: 6.4%).

#### *Key assumptions used in fair value less costs to sell calculations of Refining, Downstream Romania and Dyneff*

The key assumptions used in the fair value less costs to sell calculations for the above-mentioned are:

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 8. INTANGIBLE ASSETS (continued)

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

With regard to the assessment of the fair value less costs to sell and value-in-use for cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, other than as disclosed below.

As at December 31, 2011, the break-even point for the current model is achieved under the decrease of operating profits by 65% for Refining, 82% for Downstream Romania and 65% for Dyneff units.

#### *Batumi Oil Terminal and Batumi Sea Port*

In 2011, goodwill impairment of 2,371,431 thousand Tenge, of which 15,979 thousand Tenge was related to the 2011 translation differences, was recognized on Batumi Oil Terminal and Batumi Sea Port (2010: nil). The recoverable amount was determined based on a value in use calculation using cash flow projections covering a ten-year period and cash flows beyond the ten-year period are extrapolated using a 1.77% growth rate. The discount rate applied to cash flow projections in 2011 is 19.98% (2010: 19.11%).

#### *Key assumptions used in value-in-use calculations*

The calculation of value-in-use for cash-generating unit is most sensitive to the following assumptions:

- Discount rates;
- Tariffs;
- Oil and cargo shipment volumes.

Discount rates – discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rate was estimated as a weighted average cost of capital.

Tariffs – Batumi Sea Port and Batumi Oil Terminal set tariffs for shipment of cargo and oil individually for each customer based on volumes of shipment, relationships history and market trends at the date of conclusion of shipment contract.

Oil and cargo shipment volumes – shipment volumes are based on the industry data.

#### *Goodwill on acquisition of Refinery Company RT LLP (“Refinery”), a 100% subsidiary of KMG RM*

The recoverable amount of Refinery was determined based on the value-in-use using budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 12.8% (2010: 12.8%) and cash flows beyond the five-year period are extrapolated using a 3.3% growth rate (2010: 3.3%). The capitalization rate used for residual values is 9.5% (2010: 9.5%).

Based on the tests no impairment has been identified in 2011 and 2010.

#### *Key assumptions used in value-in-use calculations*

The key assumptions used in the fair value less costs to sell calculations for the above-mentioned are:

- Gross margins;
- Discount rates;
- Growth rate estimates;
- Capital expenditures for 2012 – 2017.

Gross margins – gross margins are based on the budgeted level of profitability for each type of oil product for 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 8. INTANGIBLE ASSETS (continued)

*Goodwill on acquisition of Refinery Company RT LLP (“Refinery”), a 100% subsidiary of KMG RM (continued)*

*Key assumptions used in fair value-in-use calculations (continued)*

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

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

Capital expenditures – capital expenditures represent expenditures required to maintain the existing conditions of the assets, no modernization or restructuring of the assets were planned.

*Sensitivity to changes in assumptions*

With regard to the assessment of fair value-in-use of the Refinery unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

### 9. LONG-TERM BANK DEPOSITS

<i>In thousands of Tenge</i>	2011	2010
Denominated in US Dollar	186,255	261,221
Denominated in KZT	9,680,853	4,259,974
Denominated in EUR	41,860	–
	<b>9,908,968</b>	<b>4,521,195</b>

As at December 31, 2011, long-term bank deposits included 2,751,811 thousand Tenge placed in Halyk Bank JSC (2010: 2,556,622 thousand Tenge placed in Halyk Bank JSC) (Note 30).

As at December 31, 2011, the weighted average interest rate for long-term bank deposits was 5.0% in US Dollars, 3.01% in Tenge and 4.00% in EUR (2010: 4.5% in US Dollars and 4.6% in Tenge).

<i>In thousands of Tenge</i>	2011	2010
Maturities between 1 and 2 years	7,917,541	2,440,352
Maturities over 2 years	1,991,427	2,080,843
	<b>9,908,968</b>	<b>4,521,195</b>

Long-term bank deposits as at December 31, 2011, include cash collateral pledge of 1,662,649 thousand Tenge (2010: 1,044,583 thousand Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

<i>In thousands of Tenge</i>	2011		2010	
	Book value	Ownership share	Book value	Ownership share
<i>Joint Ventures:</i>				
TengizchevrOil LLP	236,733,082	20.00%	235,339,724	20.00%
KazRosGas JSC	164,437,515	50.00%	130,733,347	50.00%
Mangistau Investments B.V.	112,313,687	50.00%	31,454,453	50.00%
KazGerMunay LLP	83,827,856	50.00%	79,997,895	50.00%
Beineu-Shymkent Pipeline LLP	70,348,225	50.00%	–	–
Kazakhoil-Aktobe LLP	60,765,521	50.00%	45,246,206	50.00%
Ural Group Limited BVI (“UGL”) (Note 5)	17,703,117	50.00%	–	–
Valsera Holdings B.V.	17,654,144	50.00%	16,039,729	50.00%
MunayTas JSC	6,121,357	51.00%	5,426,453	51.00%
JV Caspi Bitum LLP	3,305,185	50.00%	3,621,028	50.00%
Kazakhtan-China Pipeline JSC	3,431,884	50.00%	–	–
Other	20,081,464		14,376,130	
<i>Associates:</i>				
PetroKazakhstan Inc. (“PKI”)	99,671,202	33.00%	112,605,531	33.00%
Caspian Pipeline Consortium	16,810,919	20.75%	16,279,500	20.75%
Other	5,950,277		5,761,036	
	<b>919,155,435</b>		<b>696,881,032</b>	

On January 18, 2011, in accordance with the agreement between the Republic of Kazakhstan and the People’s Republic of China on the cooperation in construction and operation of gas pipeline Kazakhstan-China, a new joint venture was established, Beineu-Shymkent Pipeline LLP. The Group has 50% interest in this new joint venture. The Group contributed cash of 71,329,389 thousand Tenge in 2011.

In 2011, the Group acquired 50% of common shares of UGL (Note 5) for 17,122,798 thousand Tenge.

As of December 31, 2011, the Group’s share in unrecognized losses of joint ventures and associates amounted to 61,147,432 thousand Tenge (2010: 85,877,870 thousand Tenge).

The Group holds 50% interest in CITIC Canada Energy Limited (“CCEL”, joint venture). Net assets of CCEL equal to nil as it is contractually obliged to distribute all income to its participants, therefore, classifying all distributable income as a liability in the CCEL financial statements (Note 11).

33% interest in PetroKazakhstan Inc. (“PKI”) is pledged as collateral for a loan, which was obtained for its acquisition. However, the share pledge may not be exercised within the first seven years from the acquisition date (July 4, 2006) (Note 17).

As at December 31, 2011, dividends receivable from PKI amounted to 29,383,200 thousand Tenge (2010: 19,456,800 thousand Tenge).

The following table summarizes the movements in investments in 2011:

<i>In thousands of Tenge</i>	2011
At January 1,	696,881,032
Contributions	91,689,870
Share of profits	534,622,865
Dividends received	(401,000,520)
Change in dividends receivable	(9,926,400)
Impairment of investments	(51,796)
Foreign currency translation	6,940,384
<b>At December 31,</b>	<b>919,155,435</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following table shows the dividends received from associates and joint ventures in 2011 and 2010:

<i>In thousands of Tenge</i>	2011	2010
<i>Joint Ventures:</i>		
TengizchevrOil LLP	303,606,034	183,703,560
KazGerMunay LLP	36,627,000	47,782,250
KazRosGas JSC	7,058,943	6,668,671
Other	379,730	382,194
<i>Associates:</i>		
PetroKazakhstan Inc.	63,093,995	46,676,268
Other	161,218	24,440
	<b>410,926,920</b>	<b>285,237,383</b>

The following tables illustrate summarized financial information of joint ventures and associates (the Group's proportional share):

<i>In thousands of Tenge</i>	2011	2010
<b>Aggregated assets and liabilities of joint ventures and associates as of December 31</b>		
Current assets	429,111,574	348,221,546
Non-current assets	1,184,289,847	1,004,365,645
Current liabilities	(220,564,891)	(200,143,281)
Non-current liabilities	(473,681,095)	(455,562,878)
<b>Net assets</b>	<b>919,155,435</b>	<b>696,881,032</b>

<i>In thousands of Tenge</i>	2011	2010
<b>Aggregated revenue and net profit of joint ventures and associates for the year</b>		
Revenue	1,649,236,679	435,758,350
Net profit	534,622,865	343,175,752
<b>Exchange differences on translation recognized directly in other comprehensive income</b>	<b>6,940,384</b>	<b>(6,096,272)</b>

### 11. NOTE RECEIVABLE FROM A SHAREHOLDER OF A JOINT VENTURE

In 2007, the Group 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, and listed on the Hong Kong Stock Exchange.

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 E&P KMG 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 627.3 million US dollars (93,084,216 thousand Tenge) as at December 31, 2011 (2010: 753.2 million US dollars or 111,019,849 thousand Tenge). The Total Maximum Amount represents the balance of E&P KMG's share of the original purchase price funded by CITIC plus accrued interest. E&P KMG has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, E&P KMG 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, 2011, amounted to 129.2 million US dollars (19,499,294 thousand Tenge) (2010: 135.9 million US dollars or 20,356,923 thousand Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 11. NOTE RECEIVABLE FROM A SHAREHOLDER OF A JOINT VENTURE (continued)

Additionally, the Group has the right, subject to certain conditions precedent, to exercise a put option and return the investment to CITIC in exchange for US\$ 150 million 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 US\$ 26.2 million to US\$ 26.9 million, payable in two equal installments not later than June 12 and December 12. After the above amendment the effective interest rate on the receivable from CCEL is 15% per annum.

The Group's share of the jointly controlled entity's assets and liabilities as of December 31 is as follows:

	2011	2010
Current assets	25,967,227	25,459,836
Non-current assets	112,996,459	119,535,632
	138,963,686	144,995,468
Current liabilities	42,148,678	23,498,775
Non-current liabilities	96,815,008	121,496,693
	138,963,686	144,995,468
<b>Net assets</b>	-	-

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

### 12. INVENTORIES

<i>In thousands of Tenge</i>	2011	2010
Materials and supplies	83,407,044	67,658,455
Refined products	69,241,137	51,993,855
Crude oil	42,219,938	44,376,971
Gas products	18,515,321	26,895,446
Less: write-down to net realizable value	(10,549,728)	(5,820,314)
	202,833,712	185,104,413

### 13. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

<i>In thousands of Tenge</i>	2011	2010
Prepaid and deferred expenses	49,103,110	53,727,061
Taxes recoverable	3,910,440	7,828,094
Other current assets	141,679,232	106,015,908
Less: allowance for impairment	(6,297,883)	(5,743,686)
<b>Total other current assets</b>	<b>188,394,899</b>	<b>161,827,377</b>
Trade accounts receivable	197,089,984	174,699,081
Less: allowance for impairment	(11,489,938)	(9,965,671)
<b>Trade accounts receivable</b>	<b>185,599,946</b>	<b>164,733,410</b>

As at December 31, 2011 and 2010 the above assets were non-interest bearing.

As at December 31, 2011 the Group has pledged trade accounts receivable of approximately 26,832,204 thousand Tenge (2010: 16,770,355 thousand Tenge) (Note 17).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 13. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS (continued)

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

<i>In thousands of Tenge</i>	Individually impaired
<b>As at December 31, 2009</b>	<b>15,419,072</b>
Charge for the year	4,311,239
Written off	(1,786,724)
Foreign currency translation	(1,136,570)
Recovered	(1,097,660)
<b>As at December 31, 2010</b>	<b>15,709,357</b>
Charge for the year	4,269,951
Written off	(1,111,406)
Transfers to assets classified as held for sale	(217,269)
Foreign currency translation	(229,106)
Recovered	(633,706)
<b>As at December 31, 2011</b>	<b>17,787,821</b>

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

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
2011	185,599,946	83,211,219	63,771,204	27,222,029	1,578,724	1,052,590	8,764,180
2010	164,733,410	94,033,785	47,868,264	6,588,943	5,473,459	1,893,855	8,875,104

### 14. SHORT-TERM FINANCIAL ASSETS

<i>In thousands of Tenge</i>	2011	2010
Short-term bank deposits	446,515,495	597,714,641
Loans due from related parties	62,849,289	34,445,052
Less: allowance for impairment	(5,808,693)	(5,794,542)
	<b>503,556,091</b>	<b>626,365,151</b>

<i>In thousands of Tenge</i>	2011	2010
Short-term financial assets in US Dollars	321,111,501	459,391,511
Short-term financial assets in Tenge	176,171,505	166,973,640
Short-term financial assets in other foreign currencies	6,273,085	-
	<b>503,556,091</b>	<b>626,365,151</b>

As of December 31, 2011, short-term bank deposits include 141,236,183 thousand Tenge placed with Halyk Bank JSC (2010: 172,950,554 thousand Tenge) (Note 30).

As at December 31, 2011, the weighted average interest rate for short-term bank deposits was 4.09% in US Dollars, 3.29% in Tenge and 0.86% in other foreign currencies (2010: 6.1% in US Dollars and 6.0% in Tenge).

As at December 31, 2011 short-term financial assets in US Dollars include cash of 31,147,066 thousand Tenge (2010: 27,639,860 thousand Tenge) kept in the blocked account as the security for the payment of loan interest and principal obtained for acquisition of 33% interest in PKI (Note 10).

Loans due from related parties are stated at amortized cost.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 14. SHORT-TERM FINANCIAL ASSETS (continued)

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

<i>In thousands of Tenge</i>	Individually impaired
As at December 31, 2009	4,674,905
Charge for the year	1,119,637
As at December 31, 2010	5,794,542
Charge for the year	14,151
As at December 31, 2011	5,808,693

### 15. CASH AND CASH EQUIVALENTS

<i>In thousands of Tenge</i>	2011	2010
Term deposits with banks – US Dollars	222,109,017	197,264,760
Current accounts with banks – US Dollars	105,188,711	268,423,928
Term deposits with banks – Tenge	117,011,743	39,773,809
Current accounts with banks – Tenge	114,055,662	114,840,078
Term deposits with banks – other currencies	7,991,776	6,953,201
Current accounts with banks – other currencies	12,031,208	9,273,252
Cash-on-hand	3,524,018	1,388,355
	<b>581,912,135</b>	<b>637,917,383</b>

Term deposits with banks are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. As of December 31, 2011, the weighted average interest rate for time deposits with banks was 1.33% in US Dollars and 1.17% in Tenge (2010: 0.9% in US Dollars and 1.6% in Tenge).

As of December 31, 2011, cash and cash equivalents include 187,880,992 thousand Tenge placed with BTA Bank JSC and Halyk Bank (2010: 131,373,846 thousand Tenge) JSC (Note 30).

### 16. EQUITY

#### Share capital

Total number of outstanding, issued and paid shares comprises:

	December 31, 2009	Issued in 2010	December 31, 2010	Issued in 2011	December 31, 2011
<b>Number of shares authorized</b>	<b>320,141,249</b>	<b>68,832,770</b>	<b>388,974,019</b>	<b>26,513,508</b>	<b>415,487,527</b>
Par value of 500 Tenge	320,141,249	39,132,770	359,274,019	26,513,506	385,787,525
Par value of 5,000 Tenge	–	29,700,000	29,700,000	–	29,700,000
Par value of 838 Tenge	–	–	–	1	1
Par value of 858 Tenge	–	–	–	1	1
<b>Number of shares paid</b>	<b>319,294,976</b>	<b>66,276,745</b>	<b>385,571,721</b>	<b>29,915,806</b>	<b>415,487,527</b>
Par value of 500 Tenge	319,294,976	36,576,745	355,871,721	29,915,804	385,787,525
Par value of 5,000 Tenge	–	29,700,000	29,700,000	–	29,700,000
Par value of 838 Tenge	–	–	–	1	1
Par value of 858 Tenge	–	–	–	1	1
<b>Share capital (000 Tenge)</b>	<b>159,647,488</b>	<b>166,788,373</b>	<b>326,435,861</b>	<b>14,957,903</b>	<b>341,393,764</b>
Par value of 500 Tenge	159,647,488	18,288,373	177,935,861	14,957,901	192,893,762
Par value of 5,000 Tenge	–	148,500,000	148,500,000	–	148,500,000
Par value of 838 Tenge	–	–	–	1	1
Par value of 858 Tenge	–	–	–	1	1

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 16. EQUITY (continued)

#### Share capital (continued)

In 2010, Company authorized for issue 68,832,770 common shares which comprised 39,132,770 common shares with par value of 500 Tenge per common stock and 29,700,000 common shares with par value of 5,000 Tenge per common stock. In 2010, the Parent Company acquired and paid for 66,276,745 common shares. As the consideration for these common shares the Company received: cash of 160,500,000 thousand Tenge; project documentation for construction of gas pipeline "Beineu-Shymkent" with the fair value of 2,162,705 thousand Tenge; 42% of shares of Pavlodar Oil Chemistry JSC with the fair value of 3,654,788 thousand Tenge and 1.4241% of shares of Kazakhstan-British Technical University JSC with the fair value of 47,743 thousand Tenge.

As of December 31, 2010, 3,402,298 common shares were unpaid.

In 2011, Company authorized for issue 26,513,508 common shares which comprised 26,513,506 common shares with par value of 500 Tenge per common stock, one common share with par value of 838 Tenge and one common share with par value 858 Tenge. In 2011, the Parent Company acquired and paid for 29,915,806 common shares. As the consideration for these common shares the Company received: cash of 12,135,394 thousand Tenge; gas pipelines with fair value of 2,822,509 thousand Tenge.

As of December 31, 2011, all authorized and issued shares were paid.

#### Currency translation reserves

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

#### Distributions to shareholder

##### *Transaction with Parent Company*

In July 2009, the Company issued bonds on KASE, which were acquired by Samruk-Kazyna, for a total amount of 190 billion Tenge. The bonds had interest rate of 5% per annum and maturity of 35 years. At the same time Samruk-Kazyna issued bonds on KASE acquired by the Company for the total amount of 190 billion Tenge bearing interest at 4% per annum and maturing in 35 years. Both bonds receivable and bonds payable were recognized at fair value using discounted cash flows. The Company used a discount rate of 12.5%, which approximated the market interest rate applicable to the Company and the Parent Company as of the date of these transactions. The resulting difference of 14,992,000 thousand Tenge between discount of 112,593,515 thousand Tenge on bonds payable and the discount of 127,585,515 thousand Tenge on bonds receivable was accounted for as distribution to the Parent Company. On September 21, 2010, KazMunayGas fully redeemed its bonds which were acquired by Samruk-Kazyna. On September 22, 2010, Samruk-Kazyna partially redeemed its bonds which were acquired by KazMunayGas and paid 79 billion Tenge for these redeemed bonds. The net unamortized discount on such bonds in the amount of 59,681,261 thousand Tenge was recognized as distribution to the Parent Company.

In 2010, KazMunayGas recognized distribution to the shareholder in the amount of 25,560,141 thousand Tenge relating to the Group's obligations on the construction of the History Museum.

In 2011, KazMunayGas recognized an additional paid in capital in the amount of 10,971,414 thousand Tenge relating to the difference between the par value and fair value of the loan received from the Parent Company (Note 30).

In 2011, in accordance with the Resolution of the Government the Group financed rebuilding of houses and engineering and social infrastructure in the western part of Kazakhstan suffered from the 2011 spring floods. The total amount of financing provided by the Group amounted to 3,900,000 thousand Tenge and was recorded within the distribution to the shareholder. Additionally, in 2011, the Group made a provision of 3,959,439 thousand Tenge for the reconstruction of the Expo-Center and increased provision for History Museum by 1,070,562 thousand Tenge which were recognized as distribution to the shareholder (Note 4).

Other movements in retained earnings resulting from acquisition of non-controlling interests are discussed in Note 5.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 16. EQUITY (continued)

#### Distributions to shareholder (continued)

##### Dividends

In 2011, KazMunayGas accrued and paid dividends to its shareholder of 117.68 Tenge per common share totaling to 45,796,384 thousand Tenge (2010: 52.91 Tenge per common share totaling to 16,940,104 thousand Tenge).

In 2011, the Group paid dividends of 22,167,123 thousand Tenge to the holders of non-controlling interest in E&P KMG (2010: 20,589,632 thousand Tenge).

#### Non-controlling interest

<i>In thousands of Tenge</i>	2011	2010
Exploration and Production KazMunayGas JSC	502,935,028	458,076,359
Subsidiaries of Cooperative KazMunayGas U.A.	78,251,099	100,391,152
Subsidiaries of KazMunayGas Refinery and Marketing JSC	277,074	308,721
Other	194,403	588,745
	<b>581,657,604</b>	<b>559,364,977</b>

In 2011, E&P KMG, in accordance with the share repurchase program, increased its treasury stock by 938,479 preferred shares repurchased for 15,762,657 thousand Tenge (2010: 1,346,213 common shares repurchased for 24,531,975 thousand Tenge). The carrying value of the acquired non-controlling interest was 14,895,474 thousand Tenge as of December 31, 2011 (2010: 20,534,818 thousand Tenge). The difference of 867,183 thousand Tenge between the amount paid and carrying value of acquired non-controlling interest was recognized in retained earnings in 2011 (2010: 3,997,157 thousand Tenge).

### 17. BORROWINGS

<i>In thousands of Tenge</i>	2011	2010
Fixed interest rate borrowings	1,363,436,347	1,214,539,225
Weighted average interest rates	8.13%	8.32%
Variable interest rate borrowings	554,348,567	743,028,112
Weighted average interest rates	8.92%	6.36%
	<b>1,917,784,914</b>	<b>1,957,567,337</b>

<i>In thousands of Tenge</i>	2011	2010
US Dollar - denominated borrowings	1,631,878,747	1,712,489,397
Tenge - denominated borrowings	250,491,821	216,308,956
Euro - denominated borrowings	35,263,082	28,612,420
Other currency - denominated borrowings	151,264	158,564
	<b>1,917,784,914</b>	<b>1,957,567,337</b>

<i>In thousands of Tenge</i>	2011	2010
Current portion	282,941,427	479,138,938
Non-current portion	1,634,843,487	1,478,428,399
	<b>1,917,784,914</b>	<b>1,957,567,337</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 17. BORROWINGS (continued)

As at December 31, 2011, fixed interest rate borrowings included bonds issued by the Group as detailed below.

The Group placed bonds on the London Stock Exchange (LSE) in 2008, 2009 and 2010 on the following terms:

- US\$ 1.4 billion bearing interest at 8.4% per annum maturing in 2013;
- US\$ 1.6 billion bearing interest at 9.2% per annum maturing in 2018;
- US\$ 3.1 million bearing interest at 8.4% per annum maturing in 2018;
- US\$ 1.5 billion bearing interest at 11.8% per annum maturing in 2015.
- US\$ 1.25 billion bearing interest at 6.4% per annum maturing in 2021;
- US\$ 1.5 billion bearing interest at 7% per annum maturing in 2020.

The amortized costs of the Group's bonds including interest payable was 1,077,639,369 thousand Tenge as at December 31, 2011 (2010: 1,059,487,226 thousand Tenge).

KTG, a 100% subsidiary of the Group, placed bonds on the LSE in 2004 and 2007 on the following terms:

- US\$ 250.0 million bearing interest at 6.875% per annum maturing in 2011;
- US\$ 600.0 million bearing interest at 6.375% per annum maturing in 2017;

In February 2009, KTG partially redeemed its obligation under US\$ 600.0 million bonds in the amount of US\$ 60,000 thousand.

In November 2011, KTG fully redeemed its obligation under US\$ 250.0 million bonds issue by repayment of remaining balance in the amount of US\$ 178,948 thousand (or 26,443,146 thousand Tenge at the transaction date exchange rate).

The amortized costs of the KTG's bonds including interest payable was 80,158,005 thousand Tenge as at December 31, 2011 (2010: 106,135,399 thousand Tenge).

These bonds have various financial and non-financial covenants. Management believes that the Group is in compliance with all terms of the bonds.

As of December 31, 2011, the Group's borrowings were pledged with property, plant and equipment with carrying value of 323,914,786 thousand Tenge, (2010: 189,055,015 thousand Tenge), long-term bank deposits of 1,662,649 thousand Tenge (2010: 1,044,583 thousand Tenge), investment in PKI of 99,671,202 thousand Tenge (2010: 112,605,531 thousand Tenge), trade accounts receivable of 26,832,204 thousand Tenge (2010: 16,770,355 thousand Tenge) and short-term bank deposits of 32,136,130 thousand Tenge (2010: 28,093,075 thousand Tenge).

As at December 31, 2011 and 2010, borrowings included the amounts due to the related parties as further detailed in Note 30.

#### *Convertible debt instrument and related litigations*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 17. BORROWINGS (continued)

#### *Convertible debt instrument and related litigations (continued)*

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

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

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

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

Constanta Tribunal dismissed the Romanian State request: (a) for some of the annulment reasons considering that the Romanian State lacks the capacity to stand trial, arguing that same did not have the capacity of shareholder when such acts were adopted, (b) for some of the annulment reasons considering that there were not grounded. MFP submitted a final appeal which is pending with Constanta Court of Appeal, having the next hearing on May 14, 2012. If the Romanian State prevails and the increase in share capital is rejected in the court, the Group would lose control over Rompetrol Rafinare S.A.

Furthermore, on November 17, 2010 the Ministry of Public Finance of the Romanian State issued a Summons and Forced Execution Title for the amount of RON 2,205,592,436 (for presentation purposes EUR 516.3 million and, at the exchange rate as of December 31, 2010 is 100,797,249 thousand Tenge) as a result of the Romanian Authorities disagreement with the decision of the Group to partially settle the instrument by issuance of shares. Rompetrol Rafinare S.A. filed a claim against a forced execution requesting cancelation of the Summons and Forced Execution Title. On January 14, 2011, the Constanta Court of Appeal suspended the enforcement and any effects of the Forced Execution Title. The next hearings with respect to the annulment of the Forced Execution Title are scheduled in April 2012.

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

Management believes the legal actions against the Group have no legal grounds and the Group will prevail.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 18. PAYABLE FOR THE ACQUISITION OF ADDITIONAL INTEREST IN NORTH CASPIAN PROJECT (“NCP”)

On October 31, 2008, all participants of NCP signed an agreement according to which all project participants except for KMG Kashagan B.V., 100% subsidiary of the Group, agreed to partially sell their interest in this project on proportional basis in order to increase the interest of KMG Kashagan B.V. in NCP from 8.33% to 16.81% retrospectively from January 1, 2008. The acquisition cost consisted of US\$ 1.78 billion plus annual compound interest at LIBOR + 3%. This payable was pledged by the 8.48% interest acquired. As at December 31, 2011 the amortized cost of this payable was 320,926,724 thousand Tenge (2010: 314,566,180 thousand Tenge). As at December 31, 2011, the carrying value of pledged assets (property, plant and equipment and exploration and evaluation assets) was 622,925,027 thousand Tenge (2010: 530,100,516 thousand Tenge).

### 19. PROVISIONS

<i>In thousands of Tenge</i>	Asset retirement obligations	Provision for environmental liability	Provision for taxes	Other	Total
<b>Provision as at December 31, 2009</b>	<b>25,164,427</b>	<b>30,834,376</b>	<b>30,708,425</b>	<b>10,986,250</b>	<b>97,691,478</b>
Foreign currency translation	–	(43,306)	(52,897)	(12,550)	(108,753)
Change in estimate	(273,489)	21,246	(1,339,612)	183,300	(1,408,555)
Unwinding of discount	2,052,767	13,545	859	–	2,067,171
Provision for the year	2,478,335	1,005,816	8,414,131	31,761,238	43,659,520
Unused amounts reversed	–	(942,085)	(4,835,885)	–	(5,777,970)
Use of provision	(1,414,188)	(2,212,171)	(7,959,623)	(1,625,284)	(13,211,266)
<b>Provision as at December 31, 2010</b>	<b>28,007,852</b>	<b>28,677,421</b>	<b>24,933,398</b>	<b>41,292,954</b>	<b>122,911,625</b>
Foreign currency translation	58,928	(70,543)	218,394	1,588	208,367
Change in estimate	(2,598,212)	–	–	18,443	(2,579,769)
Unwinding of discount	1,949,720	–	–	23,003	1,972,723
Provision for the year	697,363	564,441	15,314,652	15,279,338	31,855,794
Unused amounts reversed	(8,952)	(555,177)	(11,717,967)	–	(12,282,096)
Additions through business combination	–	–	–	579,546	579,546
Use of provision	(770,534)	(1,283,936)	(5,812,373)	(11,883,065)	(19,749,908)
<b>Provision as at December 31, 2011</b>	<b>27,336,165</b>	<b>27,332,206</b>	<b>22,936,104</b>	<b>45,311,807</b>	<b>122,916,282</b>

As of December 31, 2011 other provisions include provisions for construction of the History Museum in the amount of 19,786,849 thousand Tenge (2010: 25,560,141 thousand Tenge), provision for employee benefits in the amount of 15,497,387 thousand Tenge (2010: 10,784,547 thousand Tenge), for reconstruction of the Expo-Center in the amount of 3,799,020 thousand Tenge (2010: nil).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 19. PROVISIONS (continued)

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

<i>In thousands of Tenge</i>	Asset retirement obligations	Provision for environmental liability	Provision for taxes	Other	Total
<b>As at December 31, 2011</b>					
Current portion	748,184	1,966,747	22,344,507	27,547,472	52,606,910
Long-term portion	26,587,981	25,365,459	591,597	17,764,335	70,309,372
<b>Provision as at December 31, 2011</b>	<b>27,336,165</b>	<b>27,332,206</b>	<b>22,936,104</b>	<b>45,311,807</b>	<b>122,916,282</b>
<b>As at December 31, 2010</b>					
Current portion	695,423	3,170,068	23,886,409	28,838,162	56,590,062
Long-term portion	27,312,429	25,507,353	1,046,989	12,454,792	66,321,563
<b>Provision as at December 31, 2010</b>	<b>28,007,852</b>	<b>28,677,421</b>	<b>24,933,398</b>	<b>41,292,954</b>	<b>122,911,625</b>

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

### 20. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

<i>In thousands of Tenge</i>	2011	2010
Advances received	82,900,875	57,150,896
Due to employees	19,738,407	14,963,897
Other	37,144,689	39,682,712
<b>Total other current liabilities</b>	<b>139,783,971</b>	<b>111,797,505</b>
<b>Trade accounts payable</b>	<b>242,635,897</b>	<b>255,592,177</b>

Trade accounts payable and other current liabilities are denominated in the following currencies as of December 31:

<i>In thousands of Tenge</i>	2011	2010
US Dollars	122,703,890	186,482,341
Tenge	81,991,999	34,717,661
Euro	10,408,567	10,769,780
Other currency	27,531,441	23,622,395
<b>Total</b>	<b>242,635,897</b>	<b>255,592,177</b>

As at December 31, 2011 and 2010, trade accounts payable and other current liabilities were not interest bearing.

### 21. OTHER TAXES PAYABLE

<i>In thousands of Tenge</i>	2011	2010
Rent tax on export of crude oil	34,583,219	27,568,432
Mineral extraction tax	16,330,085	18,487,106
Excise tax	14,056,049	12,914,353
VAT	9,605,120	10,792,140
Special fund on petroleum products	8,950,228	9,537,111
Other	15,372,983	8,343,854
	<b>98,897,684</b>	<b>87,642,996</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 22. REVENUE

<i>In thousands of Tenge</i>	2011	2010
Sales of refined products	1,873,607,319	1,407,133,589
Sales of crude oil	470,620,218	461,781,607
Transportation fee	223,979,824	261,864,669
Sales of gas and gas products	192,157,149	158,092,066
Other revenue	157,662,771	73,643,980
Less: sales taxes and commercial discounts	(290,965,584)	(263,573,287)
	<b>2,627,061,697</b>	<b>2,098,942,624</b>

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

### 23. COST OF SALES

<i>In thousands of Tenge</i>	2011	2010
Materials and supplies	1,334,111,917	980,972,687
Payroll	157,985,714	121,834,529
Depreciation, depletion and amortization	118,941,124	102,516,496
Mineral extraction tax	78,693,473	70,932,591
Repair and maintenance	46,376,617	42,518,640
Electricity	35,713,911	32,118,873
Taxes other than on income	10,022,867	10,140,332
Other	55,873,051	47,967,271
	<b>1,837,718,674</b>	<b>1,409,001,419</b>

### 24. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of Tenge</i>	2011	2010
Payroll	54,065,061	50,835,864
Charitable donations	17,260,813	12,046,069
Depreciation and amortization	16,171,078	15,470,080
Fines and penalties	13,180,365	4,696,867
Taxes other than on income	11,894,009	8,023,003
Consulting services	11,817,115	10,769,617
Allowance for impairment of financial assets (Notes 13 and 14)	3,650,396	13,135,998
Obsolete inventory expenses / (recovery)	4,729,414	(801,961)
Other	32,270,053	24,971,186
	<b>165,038,304</b>	<b>139,146,723</b>

Fines and penalties include 6,608,072 thousand Tenge (fine of 5,356,704 thousand Tenge and late payment interest of 1,251,368 thousand Tenge) expensed during 2011 following the decision of the Supreme Court of the Republic of Kazakhstan in favor of the tax authority on the 2004-2005 tax inspection case and 2,314,714 thousand Tenge of the late payment interest for unpaid export customs duty.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 25. TRANSPORTATION AND SELLING EXPENSES

<i>In thousands of Tenge</i>	2011	2010
Rent tax on export of crude oil	149,771,267	98,005,875
Transportation	101,517,030	84,941,657
Customs duty	51,652,884	7,541,788
Payroll	17,107,169	16,508,944
Depreciation and amortization	11,595,903	13,156,118
Other	19,056,183	18,583,958
	<b>350,700,436</b>	<b>238,738,340</b>

Effective January 1, 2011, the customs duties paid by the Kazakhstani crude oil production subsidiaries increased to US\$ 40 per ton from US\$ 20 per ton of crude oil.

### 26. FINANCE INCOME

<i>In thousands of Tenge</i>	2011	2010
Interest income on bank deposits and bonds	31,111,124	53,256,427
Interest income on loans given	8,239,335	3,980,969
Other	6,249,034	1,433,978
	<b>45,599,493</b>	<b>58,671,374</b>

### 27. FINANCE COSTS

<i>In thousands of Tenge</i>	2011	2010
Interest on loans and debt securities issued	147,978,353	141,387,969
Net loss on derivatives	6,552,302	470,162
Loss on early redemption	5,885,609	–
Unwinding of discount on asset retirement obligations	2,681,809	2,389,165
Other	8,215,077	8,330,184
	<b>171,313,150</b>	<b>152,577,480</b>

### 28. SHARE OF PROFIT OF JOINT VENTURES AND ASSOCIATES, NET

<i>In thousands of Tenge</i>	2011	2010
TengizchevrOil LLP	303,405,253	192,854,657
Mangistau Investments B.V.	80,859,234	23,734,898
PetroKazakhstan Inc.	48,591,409	47,732,221
KazGerMunay LLP	40,117,425	23,523,104
KazRosGas LLP	39,395,621	46,372,371
Kazakhoil-Aktobe LLP	15,519,315	8,014,962
Share of profit / (loss) of other joint ventures and associates	6,734,608	943,539
	<b>534,622,865</b>	<b>343,175,752</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 29. INCOME TAX EXPENSE

Income taxes prepaid as at December 31, 2011 of 30,735,062 thousand Tenge (2010: 21,498,642 thousand Tenge) represent corporate income tax.

Income taxes liabilities as at December 31, 2011 of 2,246,665 thousand Tenge (2010: 2,402,176 thousand Tenge) represent corporate income tax.

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

<i>In thousands of Tenge</i>	2011	2010
<b>Current Income tax:</b>		
Corporate income tax	85,916,496	70,670,923
Excess profit tax	20,829,413	12,119,201
Withholding tax on dividends and interest income	46,973,636	40,699,142
<b>Deferred Income Tax:</b>		
Corporate income tax	(1,005,839)	8,000,155
Excess profit tax	207,498	48,904
Withholding tax on dividends and interest income	209,004	1,136,934
<b>Income Tax Expense</b>	<b>153,130,208</b>	<b>132,675,259</b>

According to the 2006 amendments to the tax legislation, which were effective starting from the fiscal years beginning on January 1, 2007, dividends received from Kazakhstan taxpayers were exempt from withholding tax withheld at the source of payment. Therefore, in 2006 the Group reversed the deferred tax liability on undistributed profits of subsidiaries registered in Republic of Kazakhstan, which were provided for in prior years. However, during 2007-2011 the Group was receiving dividends from Tengizchevroil LLP (20% joint venture of the Group, a Kazakhstan tax payer) net of withholding tax since there is uncertainty whether the withholding tax exemption is applicable for the stable tax regime of Tengizchevroil LLP. The Group was challenging withholding of the tax on those dividends, but as of December 31, 2009 has not managed to convince Tengizchevroil LLP and the tax authorities that withholding tax should not be applied. Therefore, management of the Group recognized the deferred withholding tax on undistributed dividends of Tengizchevroil LLP since it believes that the best estimate is that the Group will continue to receive dividends net of withholding tax in future years.

In November 2009, the Government approved amendments to the tax code effective January 1, 2009, in accordance to which the statutory income tax rates are further changed to 20% in 2009-2012, 17.5% in 2013 and 15% in 2014 and onwards. The mechanism for calculating EPT was also changed in 2009. In November 2010, the Government approved amendments to the tax code effective January 1, 2011, in accordance with such changes the statutory income tax rates are changed to 20% for future periods. The Group's calculations of deferred tax and income tax expense as at December 31, 2010 for the year then ended reflect these changes in the tax code.

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate (20% in 2011 and 2010) to income tax expense was as follows for the years ended December 31:

<i>In thousands of Tenge</i>	2011	2010
Profit before income tax	631,920,535	529,710,114
Statutory tax rate	20%	20%
<b>Income tax expense on accounting profit</b>	<b>126,384,107</b>	<b>105,942,023</b>
Income taxed at different rates	(61,383,868)	(41,088,784)
Other non-deductible expenses and non-taxable income	42,078,812	24,515,663
<b>Other effects</b>		
Excess profit tax	20,829,413	12,119,201
Withholding tax on interest income	1,432,731	13,152,776
Effect of different corporate income tax rates	(763,354)	(3,480,208)
Effect of change in income tax rates	(782,029)	7,419,682
Change in unrecognized deferred tax assets	25,334,196	14,094,906
<b>Income tax expense reported in the consolidated statement of comprehensive income</b>	<b>153,130,208</b>	<b>132,675,259</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****29. INCOME TAX EXPENSE (continued)**

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

<i>In thousands of Tenge</i>	2011		2011		2010		2010	
	Corporate Income Tax	Excess Profit Tax	Withholding Tax	Total	Corporate Income Tax	Excess Profit Tax	Withholding Tax	Total
<b>Deferred tax assets</b>								
Property, plant and equipment	—	—	—	—	1,527,850	—	—	1,527,850
Tax loss carryforwards	55,938,591	—	—	55,938,591	30,405,109	—	—	30,405,109
Employee related accruals	2,456,732	846,147	—	3,102,879	3,390,962	547,627	—	3,938,589
Impairment of financial assets	1,044,406	—	—	1,044,406	—	—	—	—
Environmental liability	3,927	—	—	3,927	34,949	3,149	—	38,098
Other	21,578,416	3,033,791	—	24,612,207	16,813,363	2,873,543	—	19,686,906
Less: unrecognized deferred tax assets	(54,385,801)	—	—	(54,385,801)	(29,051,605)	—	—	(29,051,605)
Less: deferred tax assets offset with deferred tax liabilities	(17,887,525)	(1,823,065)	—	(19,710,590)	(14,167,193)	(1,772,287)	—	(15,939,480)
<b>Deferred tax asset</b>	<b>8,748,746</b>	<b>1,856,873</b>	<b>—</b>	<b>10,605,619</b>	<b>8,953,435</b>	<b>1,652,032</b>	<b>—</b>	<b>10,605,467</b>
<b>Deferred tax liabilities</b>								
Property, plant and equipment	124,995,267	1,823,065	—	126,818,332	119,109,079	3,367,153	—	122,476,232
Undistributed earnings of joint venture	—	—	35,509,962	35,509,962	—	—	35,079,339	35,079,339
Other	4,965,143	2,007,205	—	6,972,348	3,293,585	—	—	3,293,565
Less: deferred tax assets offset with deferred tax liabilities	(17,887,525)	(1,823,065)	—	(19,710,590)	(14,167,193)	(1,772,287)	—	(15,939,480)
<b>Deferred tax liability</b>	<b>112,072,885</b>	<b>2,007,205</b>	<b>35,509,962</b>	<b>149,590,052</b>	<b>108,235,451</b>	<b>1,594,866</b>	<b>35,079,339</b>	<b>144,909,656</b>
<b>Net deferred tax liability / (asset)</b>	<b>103,324,139</b>	<b>150,332</b>	<b>35,509,962</b>	<b>138,984,433</b>	<b>99,282,016</b>	<b>(57,166)</b>	<b>35,079,339</b>	<b>134,304,189</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 29. INCOME TAX EXPENSE (continued)

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

Deferred corporate income tax and excess profit tax are determined with reference to individual subsoil contracts. Deferred corporate income tax is also determined for activities outside of the scope of subsoil contracts. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset arising mainly from tax losses carry forward amounted to 54,385,801 thousand Tenge as at December 31, 2011 (2010: 29,051,605).

Tax losses carryforwards as at December 31, 2011, in the Republic of Kazakhstan expire for tax purposes ten years from the date they are incurred. Consequently, the majority of the tax losses carryforwards of the Group as of December 31, 2011 expire for tax purposes in 2021.

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

<i>In thousands of Tenge</i>	2011		2011		2011		2010		2010	
	Corporate Income Tax	Excess Profit Tax	Withholding Tax	Total	Corporate Income Tax	Excess Profit Tax	Withholding Tax	Total		
Net deferred tax liability / (asset) as at January 1,	99,282,016	(57,166)	35,079,339	134,304,189	91,060,241	(106,070)	34,164,025	125,118,196		
Foreign currency translation	(85,860)	-	221,619	135,759	(1,594,977)	-	(221,620)	(1,816,597)		
Additions through business combinations (Note 5)	5,133,822	-	-	5,133,822	1,816,597	-	-	1,816,597		
Charge to consolidated statement of comprehensive income	(1,005,839)	207,498	209,004	(589,337)	8,000,155	48,904	1,136,934	9,185,993		
Net deferred tax liability / (asset) as at December 31,	103,324,139	180,332	35,509,962	138,984,433	99,282,016	(57,166)	35,079,339	134,304,189		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 30. RELATED PARTY DISCLOSURES

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

The following table provides the balances of transactions with related parties as at December 31, 2011 and 2010:

<i>In thousands of Tenge</i>		Due from related parties	Due to related parties	Cash and deposits placed with related parties (Notes 14 and 15)	Borrowings payable to related parties (Notes 16 and 17)
Samruk-Kazyna entities	2011	149,674,570	1,343,514	364,818,457	260,618,595
	2010	188,823,316	2,523,761	386,574,907	216,283,638
Associates	2011	225,887	1,077	2,000,000	–
	2010	–	–	–	–
Joint ventures in which the Group is a venturer	2011	16,088,718	62,507,607	–	–
	2010	3,568,691	47,635,850	–	–

#### *Due from related parties*

As at December 31, 2011, due from related parties included bonds and loans receivable from the Parent Company at the amortized costs of 144,650,917 thousand Tenge (2010: 178,871,871 thousand Tenge). Bonds receivable with interest of 4% per annum mature in 2044. Effective interest rate on these bonds is 12.5% per annum. Loans receivable with interest of 7% per annum mature in 2030. Interest earned on these bonds and loans receivable amounted to 12,809,527 thousand Tenge in 2011 (2010: 9,636,213 thousand Tenge).

#### *Due to and borrowings payable to related parties*

As at December 31, 2011, due to joint ventures included advances received of 34,873,488 thousand Tenge from KazRosGas JSC for supply of natural gas in 2012 (2010: 34,546,637 thousand Tenge).

As at December 31, 2011, borrowings payable to related parties included bonds payable to Development Bank of Kazakhstan JSC, a subsidiary of Samruk-Kazyna, at the amortized cost of 124,873,644 thousand Tenge with interest charged at six-month LIBOR+8.35% per annum and maturing in 2019 (2010: 122,297,794 thousand Tenge).

As at December 31, 2011, borrowings payable to related parties included loans payable to Development Bank of Kazakhstan JSC at the amortized cost of 51,456,424 thousand Tenge with interest charged at LIBOR+4.5% to 9% per annum (2010: 182,313,520 thousand Tenge).

As at December 31, 2011, borrowings payable to related parties included the loan payable to Halyk Bank JSC at the amortized cost of 25,531,380 thousand Tenge with interest charged at 5% per annum and maturing in 2012 (2010: nil). As at December 31, 2011, borrowings due to Halyk Bank JSC also included discounted bonds issued in 2010 with the amortized cost of 27,440,207 thousand Tenge at the 7% effective interest rate and maturing in 2017 (2010: 27,374,851 thousand Tenge).

In 2011, the Company issued bonds to Samruk-Kazyna in the amount of 23,337,295 thousand Tenge with interest charged at 2% per annum and maturing in 2024. These bonds were initially recognized at their fair value determined using the market rate of interest of 7.98% per annum. The difference of 10,971,414 thousand Tenge between the cash proceeds and fair value upon initial recognition was recorded directly in equity as additional paid in capital (Note 16). As at December 31, 2011, the amortized cost of these amount was 18,453,745 thousand Tenge (2010: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 30. RELATED PARTY DISCLOSURES (continued)

#### *Cash and deposits placed with related parties*

Halyk Bank JSC was considered to be related party as it is controlled by a member of key management personnel of the Group and Samruk-Kazyna. Alliance Bank JSC and BTA Bank JSC are controlled by Samruk-Kazyna. The Group placed its cash and cash equivalents at current accounts, term and demand deposits in these banks as disclosed in Notes 9, 14 and 15.

The following table provides the total amount of transactions, which have been entered into with related parties during 2011 and 2010:

<i>In thousands of Tenge</i>		Sales to related parties	Purchases from related parties	Interest earned from related parties	Interest incurred to related parties
Samruk-Kazyna entities	2011	26,998,656	20,898,778	23,364,278	21,388,299
	2010	23,796,600	21,802,744	28,421,437	29,053,167
Associates	2011	428,019	10,431	12,667	–
	2010	–	–	–	–
Joint ventures in which the Group is a venturer	2011	121,980,624	172,652,631	114,480	–
	2010	62,722,340	35,824,086	376,871	–

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

#### *Key management employee compensation*

Total compensation to key management personnel included in general and administrative expenses in the accompanying consolidated statement of comprehensive income amounted to 3,147,769 thousand Tenge and 2,988,328 thousand Tenge for the years ended December 31, 2011 and 2010, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

### 31. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of borrowings, cash and cash equivalents, bank deposits as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

#### **Market risk**

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

The sensitivity analyses in the following sections relate to the position as of December 31, 2011 and 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

#### Market risk (continued)

##### Currency risk

As a result of significant borrowings and accounts payable denominated in the US Dollars, the Group's consolidated statement of financial position can be affected significantly by movement in the US Dollar / Tenge exchange rates. The Group also has transactional currency exposures. Such exposure arises from revenues in the US Dollars. Approximately 72% of the Group's revenue is denominated in the US Dollars, whilst 47% of cost of sales is denominated in Tenge.

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

<i>In thousands of Tenge</i>	Increase / decrease in US Dollar rate	Effect on profit before tax
2011	+10.72%	(66,229,801)
	-10.72%	66,229,801
2010	+11.56%	(71,046,265)
	-11.56%	71,046,265

##### Interest rate risk

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

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

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

<i>In thousands of Tenge</i>	Increase / decrease in basis points	Effect on profit before tax
2011 LIBOR	+15	(768,652)
	-15	768,652
2010 LIBOR	+100	(7,848,267)
	-25	1,962,067

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

#### Credit risk

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

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

The table below shows the balances of major subsidiaries' cash and cash equivalents, short-term and long-term deposits (Notes 9, 14 and 15) held in banks at the reporting date using the Standard and Poor's and Fitch's credit ratings.

Banks	Location	Rating <sup>1</sup>		2011	2010
		2011	2010		
Halyk Bank	Kazakhstan	BB (stable)	B+/B (stable)	361,833,295	382,311,786
Kazkommertsbank	Kazakhstan	B+ (stable)	B (stable)	96,353,973	280,338,830
Citibank	United Kingdom	A (negative)	A (negative)	73,605,146	115,967,611
Citibank	Kazakhstan	A (negative)	A (negative)	20,994,756	78,319,567
BTA Bank	Kazakhstan	C (negative)	B- (stable)	246,023	330,692
ATF Bank <sup>2</sup>	Kazakhstan	BBB (negative)	B (positive)	97,014,896	101,720,536
HSBC	Kazakhstan	BBB (stable)	AA (stable)	15,485,614	80,285,604
RBS Kazakhstan	Kazakhstan	A (stable)	B (stable)	35,300,912	37,176,922
Deutsche Bank	Germany	A+ (negative)	A+ (stable)	19,523,872	37,117,350
SberBank of Russia	Kazakhstan	BBB- (stable)	B (stable)	19,654,445	12,728,947
BankCenterCredit	Kazakhstan	B (stable)	B (negative)	6,673,171	8,038,170
KazInvestBank	Kazakhstan	B-(negative)	B-(negative)	2,041,537	3,080,408
Credit Suisse	British Virgin Islands	A+ (negative)	A+ (stable)	5,749,514	4,971,970
	The				
ING Bank	Netherlands	A+ (stable)	A+ (stable)	6,887,287	937,215
Kaspi Bank	Kazakhstan	B- (stable)	B1(Negative)	-	339,853
Deutsche Bank	Netherlands	A+ (negative)	A+ (negative)	21,843,144	13,023,598
HSBC	United Kingdom	AA-(stable)	AA (stable)	81,842,866	35,552,010
BNP Paribas	United Kingdom	AA- (negative)	AA (negative)	42,464,110	-
Other banks				129,946,259	47,753,645
Cash on hand				875,778	158,505
				<b>1,038,336,598</b>	<b>1,240,153,219</b>

As the result of the current lack of liquidity caused by the global financial crisis the Group may not be able to withdraw significant cash without causing severe disruption in the banks.

<sup>1</sup> Source: Interfax – Kazakhstan, Factiva, official sites of the banks as at December 31 of the respective year

<sup>2</sup> ATF Bank is a member of UniCredit Group



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

#### Liquidity risk

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

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

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2011 and 2010 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after 5 years	Total
<b>As at December 31, 2011</b>						
Borrowings	17,325,772	94,910,844	193,683,060	831,995,502	1,123,863,833	2,261,779,011
Payable for the acquisition of additional interest in North Caspian Project and payable for acquisition of subsidiary	–	–	–	354,823,260	–	354,823,260
Trade accounts payable	51,234,048	43,284,662	148,117,187	–	–	242,635,897
Other liabilities	2,549,125	14,746,572	30,630,623	2,747,520	99,302,602	149,976,442
	<b>71,108,945</b>	<b>152,942,078</b>	<b>372,430,870</b>	<b>1,189,566,282</b>	<b>1,223,166,435</b>	<b>3,009,214,610</b>
<b>As at December 31, 2010</b>						
Borrowings	41,571,373	213,811,529	330,448,706	884,179,427	1,059,931,542	2,529,942,577
Payable for the acquisition of additional interest in North Caspian Project and payable for acquisition of subsidiary	–	–	–	352,623,262	–	352,623,262
Trade accounts payable	80,550,008	80,093,917	94,948,252	–	–	255,592,177
Other liabilities	7,617,879	4,818,952	31,807,637	2,662,391	3,105,611	50,012,470
	<b>129,739,260</b>	<b>298,724,398</b>	<b>457,204,595</b>	<b>1,239,465,080</b>	<b>1,063,037,153</b>	<b>3,188,170,486</b>

#### Capital management

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

The capital structure of the Group consists of borrowings disclosed in Note 17 and equity, comprising issued capital, additional paid-in capital, other reserves and retained earnings as disclosed in Note 16.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

#### Capital management (continued)

The ratio at the year-end was as follows:

<i>In thousands of Tenge</i>	2011	2010
Borrowings	1,917,784,914	1,957,567,337
Payable for the acquisition of additional interest in North Caspian Project and Payable for acquisition of subsidiary	327,310,197	323,702,884
Other liabilities composing net debt	2,507,349	4,455,285
Debt	2,247,602,460	2,285,725,506
Less: Cash and cash equivalents and short-term bank deposits	1,028,427,630	1,235,632,024
Net debt	1,219,174,830	1,050,093,482
Net capitalization	3,797,675,502	3,222,081,113
Net debt to net capitalization	32%	33%

#### Fair values of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments:

<i>In thousands of Tenge</i>	Carrying amount		Fair value	
	2011	2010	2011	2010
<b>Financial assets</b>				
Cash and cash equivalents	581,912,135	637,917,383	581,912,135	637,917,383
Short-term financial assets	503,556,091	626,365,151	503,556,091	626,365,151
Dividends receivable from associate	29,383,200	19,456,800	29,383,200	19,456,800
Trade accounts receivable	185,599,946	164,733,410	185,599,946	164,733,410
Note receivable from the shareholder of joint venture (current and non-current portions)	19,499,294	20,356,923	19,499,294	20,356,923
Note receivable from associate	19,220,620	17,987,259	19,220,620	17,987,259
Bonds receivable	36,551,537	36,397,864	54,961,922	59,403,667
Loans due from related parties	67,121,199	115,043,574	67,121,199	115,043,574
Long-term bank deposits	9,908,968	4,521,195	9,908,968	4,521,195
<b>Financial liabilities</b>				
Borrowings	1,917,784,914	1,957,567,337	2,095,975,945	1,819,946,740
Payable for the acquisition of additional interest in North Caspian Project	320,926,724	314,566,180	320,926,724	314,566,180
Payable for acquisition of subsidiary	6,383,473	9,136,704	6,383,473	9,136,704
Trade accounts payable	242,635,897	255,592,177	242,635,897	255,592,177
Other current and noncurrent liabilities (excluding advances received)	149,976,442	50,012,470	149,511,358	50,012,470

The fair value of fixed-rate borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The Group's variable-rate borrowings are at market rates of interest specific to those instruments and as such are stated at fair value. The fair value of other financial assets has been calculated using market interest rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 32. CONSOLIDATION

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

Significant entities	Percentage ownership	
	2011	2010
Exploration and Production KazMunayGas JSC ("E&P KMG") and subsidiaries	61.30%	60.50%
KazTransGas JSC ("KTG") and subsidiaries	100.00%	100.00%
KazTransOil JSC ("KTO") and subsidiaries	100.00%	100.00%
KazMunayGas Refinery and Marketing JSC ("KMG RM") and subsidiaries	100.00%	100.00%
KazMunayTeniz JSC ("KMT") and subsidiaries	100.00%	100.00%
KazMunayGas-Service LLP ("KMG-S") and subsidiaries	100.00%	100.00%
KMG Kashagan B.V. ("Kashagan")	100.00%	100.00%
Cooperallve KazMunayGaz PKI U.A. and subsidiaries	100.00%	100.00%
N Operating Company LLP	100.00%	100.00%
KMG Transcaspian LLP	100.00%	100.00%
Kazakhstan Pipeline Ventures and associate	100.00%	100.00%
KazMorTransFlot JSC	100.00%	100.00%

### 33. CONTINGENT LIABILITIES AND COMMITMENTS

#### Environment

Environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Other than those amounts provided for (Note 19) management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Group's consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows.

#### Commodity price risk

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

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

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

#### Insurance matters

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 33. CONTINGENT LIABILITIES AND COMMITMENTS (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. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2011.

As at December 31, 2011, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

#### *Transfer pricing control*

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

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

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest at December 31, 2011.

As at December 31, 2011 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

#### *Tax contingencies of Georgian entities (KTO)*

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

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

#### Antitrust legislation

The Group conducts transactions in refining and trading segments which are subject to antitrust and competition legislation control in the Republic of Kazakhstan and the European Union.

In 2011, the Group recorded a provision of 7,794,348 thousand Tenge (2010: nil) for losses relating to probable risks on non-compliance with the antitrust legislation in the Republic of Kazakhstan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 33. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

#### Antitrust legislation (continued)

On January 10, 2012, following the deliberation in December 2011, the Romanian Competition Council decided that Rompetrol Downstream S.R.L., a subsidiary of TRG, breached article 5 of the Competition Law and article 101 of the Treaty for the Functioning of the European Union and imposed a fine in the amount of RON 159,553,612 (US\$ 46.8 million or 6,945 million Tenge at the year-end exchange rates). The Group believes that all the charges are without any legal merit as Rompetrol Downstream S.R.L. did not take part in the meetings in which this topic was discussed, did not receive correspondence in which it was announced that other firms actually took a decision in this respect, did not answer to the questions regarding its own conduct and had an independent conduct on the market – there was therefore no illegal cooperation by removing the risks of competition by adopting a joint plan.

#### Kazakhstan local market obligation

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

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

In 2011, in accordance with their obligations, the Group delivered 2,811,271 tons of crude oil (2010: 3,159,150 tons) on the Kazakhstan market.

#### Commitments under oilfield licenses and contracts

As at December 31, 2011 the Group had the following liabilities related to minimal working program in accordance with terms of licenses, production sharing agreements and subsoil use agreements, signed with the Government:

Year	Capital expenditures	Operational expenditures
2012	147,868,179	8,391,505
2013	28,144,898	4,878,243
2014	151,124,286	25,553,352
2015	43,036	3,163,375
2016-2024	—	15,720,654
<b>Total</b>	<b>327,180,399</b>	<b>57,707,129</b>

#### Other contractual commitments

As at December 31, 2011, the Group had other capital commitments of approximately 214 billion Tenge related to acquisition and construction of property, plant and equipment.

#### Litigations related to hybrid conversion by Rompetrol Rafinare S.A.

In 2010, various legal actions have been initiated by the Romanian state represented by the Ministry of Public Finance and ANAF against or in connection with the convertible debt instrument settlement by Rompetrol Rafinare S.A. in 2010. As discussed in Note 17, management believes the legal actions against the Group have no legal grounds and the Group will prevail.

#### Royalty (KTG)

From July 17, 1997, KTG is obliged to pay a royalty to the Republic of Kazakhstan amounting to approximately 2% of the throughput of gas in the Western System. However, in accordance with the Distribution network lease agreement, this payment is only due and payable for the Western System after the issue of the Government Resolution or order of the Ministry of Finance advising the customers of the Western System of their obligation to pay the royalty to KTG. As of December 31, 2011, no such decree had been issued. Due to the uncertainty surrounding the implementation of the royalty, KTG has to date not been charging royalty to its customers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 33. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

#### Kyrgyz By-Pass

KTG is obliged, subject to certain conditions, which include tariff recovery, to design and construct the Kyrgyz By-Pass at a cost, which was estimated in the Distribution network lease agreement, of approximately US\$ 90 million to US\$ 100 million (or 13,356 million Tenge to 14,840 million Tenge at the yearend exchange rate). This asset will be transferred to the Republic of Kazakhstan at the later of the end of the term of the Distribution network lease agreement or after twenty years from the completion for US\$1. Construction of this bypass has not yet begun.

Management believes that they have taken all necessary steps to fulfil KTG's obligations in this respect, as well as considering the issue of taking into management a part of gas-pipeline belonging to the Kyrgyz Republic. However, the new domestic tariffs which, per the Distribution network lease agreement, are a precondition for the commencement of construction of the Kyrgyz By-Pass, have not been published as of December 31, 2011.

The Government annually reviews KTG's compliance with its obligations under the Distribution network lease agreement, including the fulfilment of the investment commitments. The review of KTG's compliance with its obligations under the Agreement for 2011 will be performed in 2012. Management believes that as of December 31, 2011, KTG is in compliance with investment requirements.

Prior to December 31, 2005, KTG paid to the Government 10% of its net profits under the Agreement. On March 31, 2006, the Republic of Kazakhstan, as represented by the Ministry of Finance and KTG signed the contract for amendments to the Distribution network lease agreement. According to these amendments, during the period from January 1, 2008 to December 31, 2012 and the 5-year optional extension period, the annual payment shall be agreed at the beginning of each period, in case it is not agreed, KTG shall pay 2,082,287 thousand Tenge per annum.

#### General Prosecutor Office of the Republic of Kazakhstan criminal investigation (Kashagan)

On November 9, 2007, the General Prosecutor Office of the Republic of Kazakhstan ("GPO") notified the previous operator of an ongoing criminal investigation in relation to the award of contracts in respect of the Main Onshore Constructions: contract # 2004-0504 to North Caspian Constructors N.V. ("NCC") and contract # 2005-0584 to Overseas International Constructors GmbH ("OIC"). The criminal investigation was initiated by the GPO to ascertain whether the previous operator staff unreasonably overestimated the cost of construction and installation works for the Oil and Gas Onshore Processing Facility by US\$ 336 million (or 49,862 million Tenge at the yearend exchange rate) and misused its powers to enter into a fictitious contract with OIC to facilitate the embezzlement of the Contractor's assets. In particular the GPO resolved that a criminal case be initiated against the previous operator staff on Article 177 of the Republic of Kazakhstan Criminal Code.

During 2008, a resolution was issued by the GPO for assignment of an expert judicial review due to the large scope of the contracts. On an appeal from the previous operator issued in November 2008 for withdrawing this resolution, the response received from the relevant department in early January 2009 was that currently they were evaluating the task and the resources it required to undertake the above judicial review. On July 13, 2009, the expert judicial review was completed and failed to provide sufficient information to the Finance Police to make any decision on the merits of the matter. The Finance Police then ordered that the expertise be repeated. To this end, the previous operator has supplied the relevant and requested documentation and continues to cooperate with the authorities.

Management of the Group believes that the allegations made are without merit. In the unlikely event that allegations are ultimately proved to be correct, management assessment of the potential exposure is limited to the cost recoverability of the expenses incurred in relation to the OIC contract (US\$ 112 million or 16,621 million Tenge at the yearend exchange rate, with Kashagan's share being US\$ 18.8 million or 2,790 million Tenge at the yearend exchange rate) and to the deductibility of the expenses for current income tax purposes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 34. SEGMENT REPORTING

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

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

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

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2011:

<i>In thousands of Tenge</i>	Exploration and production of oil and gas	Transportation of oil	Transportation of gas	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	10,914,737	135,211,776	250,751,599	2,175,650,269	54,533,315	–	2,627,061,697
Revenues from sales to other segments	710,279,432	25,056,829	192,277	26,159,084	26,866,817	(788,554,438)	–
<b>Total revenue</b>	<b>721,194,169</b>	<b>160,268,605</b>	<b>250,943,876</b>	<b>2,201,809,353</b>	<b>81,400,132</b>	<b>(788,554,438)</b>	<b>2,627,061,697</b>
<b>Gross profit</b>	<b>486,028,968</b>	<b>56,672,275</b>	<b>79,606,119</b>	<b>186,274,953</b>	<b>17,161,493</b>	<b>(36,400,785)</b>	<b>789,343,023</b>
Finance income	28,970,818	4,850,728	4,127,194	2,216,493	105,187,781	(99,753,521)	45,599,493
Finance costs	(20,480,195)	(1,666,925)	(9,583,796)	(33,744,854)	(137,796,105)	31,958,725	(171,313,150)
Depreciation, depletion and amortization	(38,975,229)	(19,630,391)	(19,525,751)	(62,385,062)	(6,191,672)	–	(146,708,105)
Impairment of property, plant and equipment and exploration and evaluation assets	(16,952,845)	(13,767,563)	(459,060)	(8,056,708)	(6,220,183)	–	(45,456,359)
Impairment of goodwill	–	(2,371,431)	–	–	–	–	(2,371,431)
Share of profit of joint ventures and associates, net	489,361,780	4,483,839	38,873,028	1,017,330	886,888	–	534,622,865
Income tax expenses	(66,413,144)	(10,389,252)	(10,182,453)	(7,250,904)	(58,894,455)	–	(152,132,808)
<b>Net profit for the year</b>	<b>284,173,194</b>	<b>29,231,829</b>	<b>71,559,746</b>	<b>(35,674,775)</b>	<b>201,957,877</b>	<b>(72,457,544)</b>	<b>478,790,327</b>
<b>Other segment information</b>							
Investments in joint ventures and associates	621,036,398	26,364,160	235,244,311	29,447,815	7,062,751	–	919,155,435
Capital expenditures	272,684,005	51,409,918	51,719,208	74,254,840	51,494,776	(3,809,416)	497,753,331
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(2,689,979)	(171,044)	(3,307,169)	(20,503,481)	(7,474,569)	–	(34,146,242)
<b>Assets of the segment</b>	<b>2,333,593,180</b>	<b>347,222,289</b>	<b>586,896,571</b>	<b>683,722,253</b>	<b>3,064,680,310</b>	<b>(841,939,579)</b>	<b>6,174,175,024</b>
<b>Liabilities of the segment</b>	<b>715,553,134</b>	<b>91,552,256</b>	<b>201,862,043</b>	<b>793,461,468</b>	<b>1,925,768,971</b>	<b>(714,181,123)</b>	<b>3,014,016,749</b>

Eliminations represent the exclusion of intra-group turnovers.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 34. SEGMENT REPORTING (continued)

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2010:

<i>In thousands of Tenge</i>	Exploration and production of oil and gas	Transportation of oil	Transportation of gas	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	15,773,230	135,678,670	260,732,627	1,669,846,262	16,911,835	–	2,098,942,624
Revenues from sales to other segments	593,469,188	25,401,043	75,663	21,707,076	20,658,713	(661,311,663)	–
<b>Total revenue</b>	<b>609,242,388</b>	<b>161,079,713</b>	<b>260,808,290</b>	<b>1,691,553,338</b>	<b>37,570,548</b>	<b>(661,311,663)</b>	<b>2,098,942,624</b>
<b>Gross profit</b>	<b>395,378,062</b>	<b>63,378,141</b>	<b>119,420,538</b>	<b>135,414,441</b>	<b>13,349,100</b>	<b>(36,999,077)</b>	<b>689,941,205</b>
Finance income	38,207,891	3,961,595	7,375,010	(6,006,354)	201,889,308	(186,756,076)	58,671,374
Finance costs	(20,428,966)	(2,312,341)	(11,371,750)	(40,722,555)	(190,742,019)	113,000,151	(152,577,480)
Depreciation, depletion and amortization	(34,597,638)	(19,573,005)	(16,582,554)	(57,108,826)	(3,280,671)	–	(131,142,694)
Impairment of property, plant and equipment and exploration and evaluation assets	–	–	(447,632)	(9,782,436)	(593,589)	–	(10,823,657)
Share of profit of joint ventures and associates, net	296,758,180	593,890	46,346,496	(1,584,142)	1,081,328	–	343,175,752
Income tax expenses	(58,343,384)	(12,672,494)	(21,858,178)	(3,109,368)	(36,691,835)	–	(132,675,259)
<b>Net profit for the year</b>	<b>250,340,498</b>	<b>45,093,250</b>	<b>103,250,257</b>	<b>(80,936,444)</b>	<b>156,146,984</b>	<b>(76,859,691)</b>	<b>397,034,855</b>
<b>Other segment information</b>							
Investments in joint ventures and associates	514,387,248	21,706,740	130,733,347	25,242,511	4,811,186	–	696,881,032
Capital expenditures	268,321,058	32,265,683	56,669,721	57,510,083	26,835,483	(1,757,745)	439,844,283
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(2,256,939)	(558,023)	(2,919,507)	(15,295,128)	(6,294,616)	–	(27,324,213)
<b>Assets of the segment</b>	<b>2,131,245,493</b>	<b>346,066,138</b>	<b>543,212,597</b>	<b>644,350,436</b>	<b>2,460,973,225</b>	<b>(373,448,796)</b>	<b>5,752,399,093</b>
<b>Liabilities of the segment</b>	<b>753,833,039</b>	<b>99,669,508</b>	<b>219,393,243</b>	<b>737,512,275</b>	<b>1,582,437,878</b>	<b>(371,599,458)</b>	<b>3,021,046,485</b>

### 35. SUBSEQUENT EVENTS

As part of its common share and GDR buyback program, between January 1, 2012 and March 26, 2012, E&P KMG repurchased 2,197,086 GDRs and 2,028 common shares at an aggregate value of 5,498,581 thousand Tenge.

In February 2012, the Parent Company approved the Company's decision to issue additional 18,737,011 common shares for the cash consideration in the amount of 9,368,506 thousand Tenge.