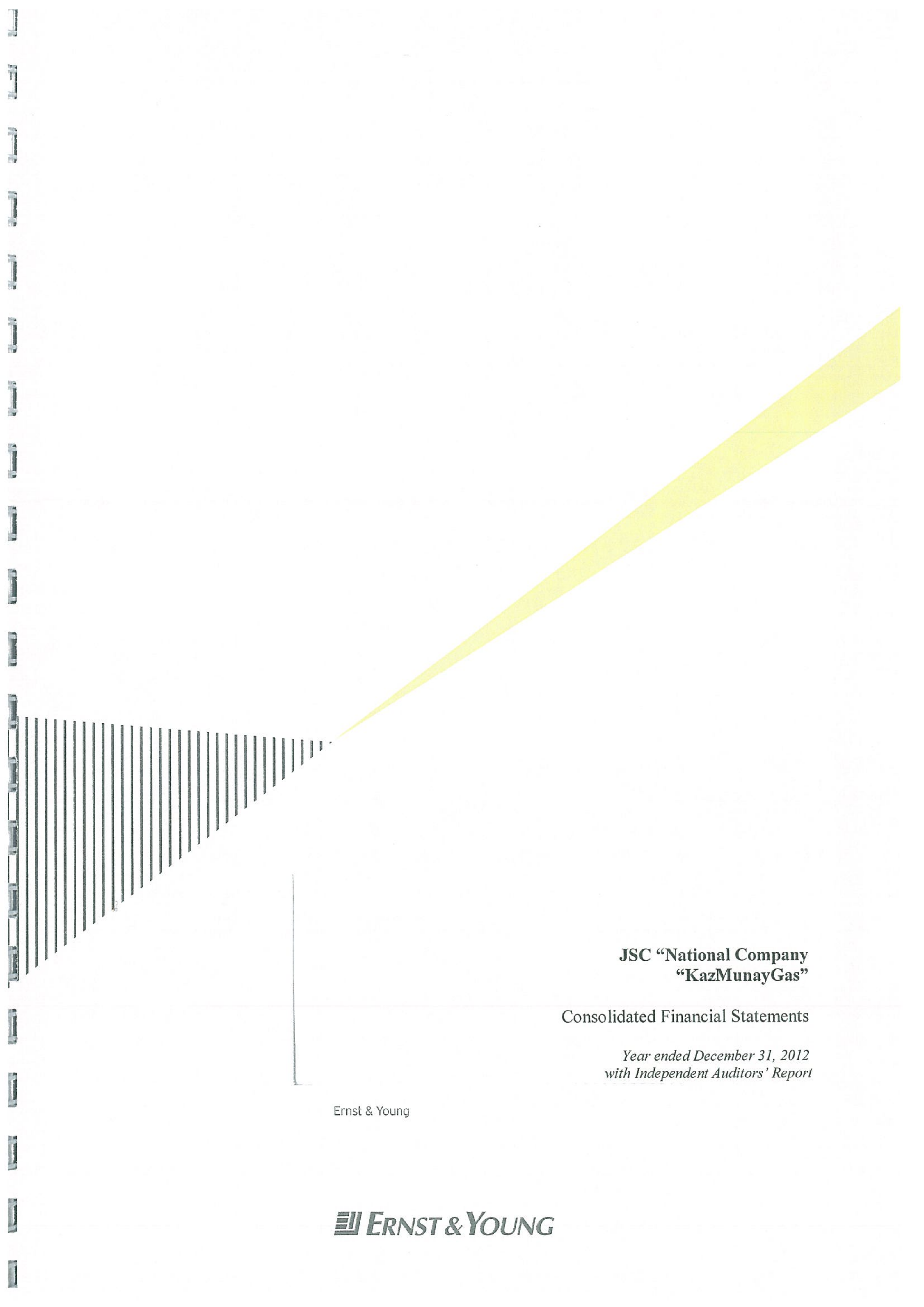

JSC "National Company "KazMunayGas"

Consolidated Financial Statements

Year ended December 31, 2012
with Independent Auditors' Report

Ernst & Young

ERNST & YOUNG

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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 JSC "National Company "KazMunayGas" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012 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.

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of JSC "National Company "KazMunayGas" as of 31 December 2012, 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
Auditor

Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

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

13 March 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge		As at December 31,	
	Note	2012	2011(Restated)*
ASSETS			
Non-current assets			
Property, plant and equipment	9	**3,423,256,395**	2,837,365,765
Exploration and evaluation assets	10	**185,284,168**	160,312,469
Intangible assets	11	**201,207,926**	197,952,790
Long-term bank deposits	12	**2,487,515**	9,908,968
Investments in joint ventures and associates	13	**894,097,039**	919,155,435
Deferred income tax assets	32	**34,167,348**	10,605,619
VAT recoverable		**8,641,358**	49,328,641
Advances for non-current assets		**117,846,042**	76,785,170
Bonds receivable from related party	33	**36,725,575**	36,551,537
Note receivable from a shareholder of a joint venture	14	**14,326,455**	18,138,239
Note receivable from associate		**20,721,926**	19,220,620
Loans due from related parties	33	**16,637,532**	67,121,199
Other non-current assets		**30,347,102**	11,738,636
		4,985,746,381	4,414,185,088
Current assets			
Inventories	15	**203,281,273**	202,852,475
VAT recoverable		**123,223,688**	39,826,385
Income taxes prepaid	32	**42,555,972**	30,735,678
Trade accounts receivable	16	**219,286,785**	185,634,794
Short-term financial assets	17	**659,577,808**	503,556,091
Note receivable from a shareholder of a joint venture	14	**3,895,304**	1,361,055
Dividends receivable from associate	13	**34,820,940**	29,383,200
Other current assets	16	**135,026,188**	188,422,696
Cash and cash equivalents	18	**415,085,451**	581,952,853
		1,836,753,409	1,763,725,227
Assets classified as held for sale	6	**11,221,633**	138,459
		1,847,975,042	1,763,863,686
TOTAL ASSETS		**6,833,721,423**	6,178,048,774

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge		As at December 31,	
	Note	2012	2011 (Restated)*
EQUITY AND LIABILITIES			
Equity			
Share capital	19	**527,760,531**	341,393,764
Additional paid-in capital	19	**19,062,712**	17,314,366
Other equity		**2,180,382**	1,966,059
Currency translation reserve	19	**222,112,349**	188,573,100
Retained earnings		**2,241,272,475**	2,033,113,206
Attributable to equity holder of the parent		**3,012,388,449**	2,582,360,495
Non-controlling interest	19	**581,147,319**	581,657,604
Total equity		**3,593,535,768**	3,164,018,099
Non-current liabilities			
Borrowings	20	**1,593,704,304**	1,634,843,487
Payable for the acquisition of additional interest in North Caspian Project	21	**226,366,710**	320,926,724
Payable for acquisition of subsidiary		**–**	6,383,473
Provisions	22	**115,117,818**	70,309,372
Deferred income tax liabilities	32	**154,546,429**	149,590,052
Other non-current liabilities		**26,174,856**	12,672,087
		2,115,910,117	2,194,725,195
Current liabilities			
Borrowings	20	**469,943,861**	282,941,427
Provisions	22	**34,598,962**	52,606,910
Income taxes payable	32	**48,103,198**	2,246,665
Trade accounts payable	23	**227,115,792**	242,636,901
Payable for the acquisition of additional interest in North Caspian Project	21	**113,183,280**	–
Other taxes payable	24	**109,435,007**	98,897,684
Derivatives		**372,026**	179,000
Other current liabilities	23	**117,740,857**	139,796,893
		1,120,492,983	819,305,480
Liabilities directly associated with the assets classified as held for sale	6	**3,782,555**	–
Total liabilities		**3,240,185,655**	3,014,030,675
TOTAL EQUITY AND LIABILITIES		**6,833,721,423**	6,178,048,774

** Certain numbers shown here do not correspond to the 2011 consolidated financial statements and reflect adjustments made as detailed in Note 8.*

Deputy Chairman of the Board of Economy and Finance — *Kassymbek A.M.*

Finance Director — *Syrgabekova A.N.*

Chief Accountant — *Valentinova N.S.*

The accounting policies and explanatory notes on pages 8 through 72 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

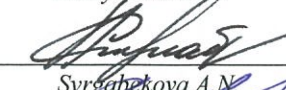
In thousands of Tenge		For the years ended December 31,	
	Note	2012	2011 (Restated)*
Revenue	25	**2,960,418,491**	2,625,255,755
Cost of sales	26	**(2,090,818,113)**	(1,836,061,124)
Gross profit		**869,600,378**	789,194,631
General and administrative expenses	27	**(163,051,472)**	(164,912,301)
Transportation and selling expenses	28	**(360,696,826)**	(350,706,706)
Impairment of goodwill	11	**–**	(2,371,431)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets other than goodwill	9, 10, 11	**(82,389,739)**	(45,456,359)
(Loss) / gain on disposal of property, plant and equipment, net		**(3,825,536)**	3,276,958
Income from sale of shares in subsidiary	7	**9,642,396**	–
Other operating income		**27,527,008**	15,370,146
Other operating expenses		**(16,846,397)**	(11,437,953)
Operating profit		**279,959,812**	232,956,985
Net foreign exchange loss		**(18,005,652)**	(8,758,894)
Finance income	29	**29,024,440**	45,583,536
Finance costs	30	**(169,183,806)**	(171,190,213)
Impairment of investments in joint ventures	13	**(2,955,515)**	–
Share of profit of joint ventures and associates, net	31	**471,086,475**	534,622,865
Profit before income tax		**589,925,754**	633,214,279
Income tax expenses	32	**(177,130,700)**	(153,147,152)
Profit for the year from continuing operations		**412,795,054**	480,067,127
Discontinued operations			
Profit / (loss) after income tax for the year from discontinued operations	6	**628,105**	(1,353,186)
Profit for the year		**413,423,159**	478,713,941
Attributable to:			
Equity holder of the parent		**369,420,373**	422,421,596
Non-controlling interest		**44,002,786**	56,292,345
		413,423,159	478,713,941
Other comprehensive income			
Exchange differences on translation of foreign operations		**34,834,228**	16,410,130
Other comprehensive income for the period, net of tax		**34,834,228**	16,410,130
Total comprehensive income for the period, net of tax		**448,257,387**	495,124,071
Attributable to:			
Equity holder of the parent		**402,959,622**	437,663,945
Non-controlling interest		**45,297,765**	57,460,126
		448,257,387	495,124,071

* *Certain numbers shown here do not correspond to the 2011 consolidated financial statements and reflect adjustments made as detailed in Note 8.*

Deputy Chairman of the Board on Economy and Finance

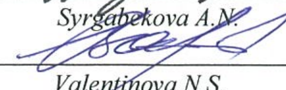
Kassymbek A.M.

Finance Director



Syrgabekova A.N.

Chief Accountant



Valentinova N.S.

The accounting policies and explanatory notes on pages 8 through 72 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Tenge		For the years ended December 31,	
	Note	2012	2011 (Restated)*
Cash flows from operating activities:			
Profit before income tax from continuing operations		**589,925,754**	633,214,279
Profit before income tax from discontinued operations	6	**611,161**	(1,370,130)
Profit before income tax		**590,536,915**	631,844,149
Adjustments for:			
Depreciation, depletion and amortization	6, 26, 27, 28	**163,920,017**	146,110,042
Share of profit of joint ventures and associates	31	**(471,086,475)**	(534,622,865)
Finance costs	6, 30	**169,265,287**	171,190,213
Finance income	6, 29	**(29,033,061)**	(45,583,536)
Income from sale of shares in subsidiaries		**(9,642,396)**	–
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets other than goodwill	9,10,11	**82,389,739**	45,456,359
Impairment of goodwill	11	**–**	2,371,431
Impairment of investments into joint ventures		**2,955,515**	–
Unrealized loss on crude oil derivative instrument		**–**	9,349,769
Loss / (gain) on disposal of property, plant and equipment, net		**3,825,536**	(3,276,958)
Provisions	22	**(3,648,057)**	9,946,022
Allowance for doubtful debts	27	**12,845,618**	3,650,396
Accrual of provision for obsolete inventory	15	**1,323,816**	4,729,414
Recognition of share based payments		**1,052,261**	541,100
Forfeiture of share based payments		**–**	(23,794)
Unrealized foreign exchange loss / (gain)		**21,719,359**	(5,096,270)
Operating profit before working capital changes		**536,424,074**	436,585,472
Change in inventory		**(16,944,951)**	(12,773,533)
Change in VAT recoverable		**(43,383,785)**	(19,608,257)
Change in trade accounts receivable		**(30,325,957)**	(19,870,525)
Change in other current assets		**40,996,409**	(21,838,808)
Change in other taxes payable		**10,537,323**	5,139,280
Change in trade accounts payable		**(112,166,982)**	(20,761,495)
Change in other liabilities		**(26,571,922)**	(8,446,952)
Cash generated from operations		**358,564,209**	338,425,182
Income taxes paid		**(158,842,295)**	(164,692,039)
Interest received		**19,484,736**	31,634,651
Interest paid		**(125,297,871)**	(121,523,451)
Cash payments for derivatives, net		**–**	(10,439,549)
Net cash flow from operating activities		**93,908,779**	73,404,794
Cash flows from investing activities:			
(Placement) / withdrawal of bank deposits		**(179,178,362)**	145,811,373
Acquisition of subsidiaries, net of cash acquired	5	**–**	(55,006,373)
Purchase of property, plant and equipment and intangible assets		**(452,827,782)**	(458,464,227)
Proceeds from sale of property, plant and equipment and intangible assets		**9,311,877**	30,328,039
Proceeds from sale of subsidiaries	7	**9,422,051**	–
Distributions received from joint ventures and associates	13, 14	**504,177,416**	405,604,974
Acquisition of and contribution to joint ventures	5, 13	**(8,793,659)**	(98,473,907)
Repayment of loan given to Shareholder		**95,874,180**	41,381,049
Acquisition of interest in Karachaganak	5	**(150,035,141)**	–
Repayment of loan given to related party		**4,149,281**	309,554
Payment of debt on acquisition of KPV		**–**	(3,532,756)
Cash of subsidiary classified as assets held for sale		**(539,668)**	–
Loan given to related party		**–**	(4,641,899)
Net cash flow (used in) / from investing activities		**(168,439,807)**	3,315,827

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge		For the years ended December 31,	
	Note	2012	2011
Cash flows from financing activities:			
Proceeds from borrowings		**563,266,802**	284,669,372
Repayment of borrowings		**(473,073,217)**	(341,456,691)
Acquisition of non-controlling interest		**–**	(185,247)
Dividends paid to non-controlling interest		**(34,322,200)**	(22,167,123)
Dividends paid to shareholder	19	**(143,201,087)**	(45,796,384)
Issuance of shares	19	**2,000,004**	12,135,394
Purchase of subsidiary's treasury shares		**(36,202,658)**	(15,762,657)
Proceeds from share issue of KTO	19	**27,320,363**	–
Change in ownership of subsidiaries without loss of control		**304,084**	–
Other distributions to Shareholder		**–**	(8,863,662)
Net cash flow used in financing activities		**(93,907,909)**	(137,426,998)
Effects of exchange rate changes on cash and cash equivalents		**1,571,535**	4,741,847
Net change in cash and cash equivalents		**(166,867,402)**	(55,964,530)
Cash and cash equivalents at the beginning of the year	18	**581,952,853**	637,917,383
Cash and cash equivalents at the end of the year	18	**415,085,451**	581,952,853

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

- As of December 31, 2012, the payables for purchases of property, plant and equipment increased by 77,781,745 thousand Tenge (2011: 6,492,797 thousand Tenge).

**Certain numbers shown here do not correspond to the 2011 consolidated financial statements and reflect adjustments made as detailed in Note 8*

Deputy Chairman of the Board on Economy and Finance ____ *Kassymbek A.M.*

Finance Director ____ *Syrgabekova A.N.*

Chief Accountant ____ *Valentinova N.S.*

The accounting policies and explanatory notes on pages 8 through 72 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Company							
In thousands of Tenge	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total
Note	19	19		19			19	
As at December 31, 2010 (As previously reported)	**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**
Restatements (Note 8)	–	2,741,006	–	–	(140,163)	2,600,843	–	2,600,843
As at December 31, 2010 (Restated)*	**326,435,861**	**5,007,586**	**5,176,205**	**173,330,751**	**1,664,638,071**	**2,174,588,474**	**559,364,977**	**2,733,953,451**
Profit for the year (Restated)*	–	–	–	–	422,421,596	**422,421,596**	56,292,345	**478,713,941**
Other comprehensive income	–	–	–	15,242,349	–	**15,242,349**	1,167,781	**16,410,130**
Total comprehensive income for the year (Restated)*	–	–	–	**15,242,349**	**422,421,596**	**437,663,945**	**57,460,126**	**495,124,071**
Charter contribution (Note 19) (Restated)*	14,957,903	1,335,366	–	–	–	16,293,269	–	**16,293,269**
Dividends (Note 19)	–	–	–	–	(45,796,384)	(45,796,384)	(22,167,123)	**(67,963,507)**
Discount on loans received from Shareholder (Note 19)	–	10,971,414	–	–	–	10,971,414	–	**10,971,414**
Distributions to the Parent Company (Note 19)	–	–	–	–	(8,930,001)	(8,930,001)	–	**(8,930,001)**
Recognition of share based payments at subsidiaries	–	–	249,952	–	–	249,952	291,148	**541,100**
Forfeiture of share based payments at subsidiaries	–	–	(23,794)	–	–	(23,794)	–	**(23,794)**
Acquisition of treasury shares by subsidiary (Note 19)	–	–	–	–	(867,183)	(867,183)	(14,895,474)	**(15,762,657)**
Reclassifications	–	–	(3,436,304)	–	3,436,304	–	–	–
Change in ownership of subsidiaries – acquisition of non-controlling interest	–	–	–	–	68,887	68,887	(174,457)	**(105,570)**
Change in ownership of subsidiaries of Rompetrol Group N.V.	–	–	–	–	(1,858,084)	(1,858,084)	1,778,407	**(79,677)**
As at December 31, 2011 (Restated)*	**341,393,764**	**17,314,366**	**1,966,059**	**188,573,100**	**2,033,113,206**	**2,582,360,495**	**581,657,604**	**3,164,018,099**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity holder of the Company							
In thousands of Tenge	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total
As at December 31, 2011 (Restated)*	**341,393,764**	**17,314,366**	**1,966,059**	**188,573,100**	**2,033,113,206**	**2,582,360,495**	**581,657,604**	**3,164,018,099**
Profit for the year	–	–	–	–	369,420,373	369,420,373	44,002,786	413,423,159
Other comprehensive income	–	–	–	33,539,249	–	**33,539,249**	1,294,979	**34,834,228**
Total comprehensive income for the year	**–**	**–**	**–**	**33,539,249**	**369,420,373**	**402,959,622**	**45,297,765**	**448,257,387**
Charter contribution (Note 19)	186,366,767	(2,939,756)	–	–	–	183,427,011	–	**183,427,011**
Dividends (Note 19)	–	–	–	–	(143,201,087)	(143,201,087)	(34,322,200)	**(177,523,287)**
Contribution from the Parent Company (Note 19)	–	4,688,102	–	–	–	4,688,102	–	4,688,102
Distributions to the Parent Company (Note 19)	–	–	–	–	(21,805,594)	(21,805,594)	–	**(21,805,594)**
Recognition of share based payments at subsidiaries	–	–	214,323	–	(603,361)	(389,038)	1,441,299	**1,052,261**
Change in ownership of subsidiaries without loss of control	–	–	–	–	(1,857,818)	(1,857,818)	29,178,181	**27,320,363**
Acquisition of treasury shares by subsidiary (Note 19)	–	–	–	–	6,309,241	6,309,241	(42,511,899)	**(36,202,658)**
Change in ownership of subsidiaries	–	–	–	–	(102,485)	(102,485)	406,569	**304,084**
As at December 31, 2012	**527,760,531**	**19,062,712**	**2,180,382**	**222,112,349**	**2,241,272,475**	**3,012,388,449**	**581,147,319**	**3,593,535,768**

**Certain numbers shown here do not correspond to the 2011 consolidated financial statements and reflect adjustments made as detailed in Note 8*

Deputy Chairman of the Board on Economy and Finance — *Kassymbek A.M.*

Finance Director — *Syrgabekova A.N.*

Chief Accountant — *Valentinova N.S.*

The accounting policies and explanatory notes on pages 8 through 72 form an integral part of these consolidated financial statements.

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", "Shareholder" or "Parent Company"). The Government is the sole shareholder of Samruk-Kazyna.

In 2012, the Company has an interest in 37 operating companies (2011: 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 35).

These consolidated financial statements of the Group were approved for issue by the Deputy Chairman of Management Board, the Finance Director and the Chief Accountant on March 13, 2013.

2. BASIS OF PREPARATION

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

Statement of compliance

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

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

2. BASIS OF PREPARATION (continued)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT"), which is 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, 2012 was 150.74 Tenge to 1 US Dollar. This rate was used to translate monetary assets and liabilities denominated in United States Dollars ("US Dollar") as at December 31, 2011 (2011: 148.40 Tenge to 1 US Dollar). The currency exchange rate of KASE as at March 13, 2013 was 150.79 Tenge to 1 US Dollar.

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, 2012:

- IAS 12 *Income Taxes* (amendment) – Deferred Taxes: recovery of underlying assets
- IFRS 1 First-Time adoption of International Financial Reporting Standards (amendment) – Severe Hyperinflation and Removal of Fixed dates For First-Time Adopters IFRS7 Financial Instruments: Disclosures (amendments)
- IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The adoption of the standards or interpretations is described below:

IAS 12 Income Taxes (amendment) – Deferred Taxes: recovery of underlying assets

The amendment clarifies the determination of deferred tax on investment property measured at fair value and 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. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

IAS 1 First-Time adoption of International Financial Reporting Standards (amendment) – Severe Hyperinflation and Removal of Fixed dates For First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statement when its currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2012. 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

- 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.

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 has acquisition of subsidiaries from parties under common control in 2012 (Note 5).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Undivided interest in jointly controlled operations

The Group has undivided interest in jointly controlled operations.

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

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

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

Joint ventures and associates

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. 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. The Group recognizes its interests in the joint ventures and associates using the equity method of accounting. Under the equity method, the investment in joint ventures and associates 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 or associate. Goodwill relating to the joint venture or associate 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 or associate, 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 or associates are eliminated to the extent of the interest in the joint venture or associate.

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

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

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and natural gas exploration and development expenditure (continued)

Exploration and evaluation costs

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include expenditure on acquiring 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in 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 of trade and other receivables are recognized in general and administrative expenses. The losses arising from impairment of trade and other receivables are recognised in general and administrative expenses. The losses arising from impairment of loans receivable are recognized in finance costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group has the positive intention and ability to hold 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.

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 maturity 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition (continued)

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.

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

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 34.

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.

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 of the Group, the expenditures on these assignments are recognized as distributions to the shareholder directly in equity.

Employee benefits

Pension Scheme

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

Long-term employee benefits

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Long-term employee benefits (continued)

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

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

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

Revenue recognition

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

Sale of goods

Revenue from the sale of crude oil, refined products, gas and other 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity (continued)

Share based payments (continued)

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.

Other distributions to shareholder

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

Subsequent events

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

Standards issued but not yet effective

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

IAS 1 *Presentation of Items of Other Comprehensive Income* – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). 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 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IAS 19 *Employee Benefits* (Revised)

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 1 January 2013.

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

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, 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 revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 *Offsetting Financial Assets and Financial Liabilities* — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off'. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 *Government Loans* – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities* — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluation the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

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 was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate 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 addresses 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 1 January 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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. The Group's accounting policy establishes equity method of accounting for interest in joint ventures. IFRS 11 will not have an impact on the Group.

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, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 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, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 *Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 *Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 *Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IAS 34 *Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 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 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 business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

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

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A. The 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.

Recoverability of oil and gas assets

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of oil and gas assets (continued)

Management of the Group has carried out a formal assessment of the recoverable amount of JSC "OzenMunaiGas", subsidiary of the Group due to the presence of impairment indicators. The main indicators were the level of production being materially lower than planned in the last two years and the increasing levels of operational and capital expenditure. The result of this assessment indicated that the carrying value of JSC "OzenMunaigas" assets exceeded the estimated recoverable amount by 75 billion Tenge, resulting in impairment charge during 2012 (Note 9). The estimated recoverable amount was based on management's estimate of its fair value, which was derived using discounted cash flow approach. The results of the assessment were most sensitive to assumptions related to production and pricing.

The assumed production profile was based on an assessment performed by an accredited third party reserve engineer that envisages growth of more than 20% in production within four years. If the production profile had been assumed to be 5% higher or lower than the assumed production profile used in the assessment, this would have had the effect of reducing impairment by more than 55 billion Tenge or increasing impairment by more than 55 billion Tenge, respectively. If production had been assumed to have remained fixed at the 2012 level, the impairment would have been over 200 billion Tenge.

Brent crude oil price assumptions were based on market expectations together with the expectations of an independent industry analysis and research organization, adjusted for the average realized historical discount on quoted price. If Brent crude oil prices had been assumed to be 5% higher or lower than the price assumptions used in the assessment, this would have had the effect of reducing impairment by more than 40 billion Tenge or increasing impairment by more than 40 billion Tenge, respectively.

The projection of cash flows was limited by the date of license expiry in 2021. Expenditure cash flows up to 2017 were obtained from the approved budget and business plan of KMG EP. Most of the projections beyond that period were inflated using Kazakhstan inflation estimates, except for capital expenditure projections, which represent management's best available estimate as at the date of impairment assessment. For the purposes of the assessment it was assumed that management would not be able to significantly reduce operational or capital expenditure in the final years before license expiry in order to make cost savings. An exchange rate of 150.45 KZT/USD, which is the official exchange rate as at the date of impairment assessment, was used to convert US Dollar denominated sales. All the derived cash flows were discounted using after tax weighted average cost of capital ("WACC") of 13.09%.

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

Assets retirement obligations

Oil production facilities

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.

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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Assets retirement obligations (continued)

Oil production facilities (continued)

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, 2012 were in the ranges from 1.9% to 5% and from 4.94% to 7.9% respectively (2011: from 1.96% to 5.0% and from 6.6% to 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 22.

Oil and gas major pipelines

According to the Law of the Republic of Kazakhstan on "major pipelines" which came into force on July 4, 2012, the Group's subsidiary KazTransOil JSC, has a legal obligation to decommission its oil pipelines at the end of their operating life and to restore the land to its original condition. This will happen when the crude oil reserves of the entities, using the pipeline of the Group, are fully depleted.

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

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

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

As of December 31, 2012 the carrying amount of the asset retirement obligation was 15,531,037 thousand Tenge (December 31, 2011: nil).

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

With respect to Intergas Central Asia JSC ("ICA"), another subsidiary of the Group, Management of the Group believes that the Law is not applicable to the entity, since the entity is not owner of the pipelines, but operates the assets under the Agreement between ICA and the Government on operation of mainline gas distribution network of the Republic of Kazakhstan, and does not have right to liquidate gas pipelines.

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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Environmental remediation (continued)

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 2013. 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 36. Movements in the provision for environmental remediation obligations are disclosed in Note 22.

Employee benefits

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

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

Taxation

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil 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 22 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 36.

Taxable income is computed in accordance with the tax legislation enacted as of January 1, 2012. 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, 2012.

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, 2012 was 34,167,348 thousand Tenge (2011: 10,605,619 thousand Tenge). Further details are contained in Note 32.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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. Further details are contained in Note 34.

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".

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 Karachaganak Project Consortium

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

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

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

The other 5% of the interest in Karachaganak was acquired from the Shareholder for 150,035,141 thousand Tenge with funds obtained under a loan agreement with the participants of Karachaganak for the total amount of 1 billion US Dollars (equivalent to 149,420,000 thousand Tenge as of June 30, 2012) (Note 20).

Share in Karachaganak assets and liabilities as of acquisition date was represented as follows:

5. ACQUISITIONS (continued)

Acquisition of share in Karachaganak Project Consortium (continued)

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

Acquisition of share in Arkagaz JSC ("Arkagaz")

In 2012, the Shareholder transferred 100% share in Arkagaz. In exchange the Company issued share capital for 4,109,246 thousand Tenge. Arkagaz is gas distribution company, which is located in the western region of Kazakhstan and supplies the region with gas.

The 100% interest in Arkagaz was recorded as acquisition of subsidiaries from parties under common control and accounted for using the pooling of interest method. The comparative statement of financial position as of December 31, 2011 has been restated accordingly (Note 8).

Acquisition of share in Ural Group Limited BVI ("UGL")

On April 15, 2011, KazMunaiGas Exploration Production JSC ("KMG EP") acquired from Exploration Venture Ltd. 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 164,497 thousand US Dollars (or 23,906,835 thousand Tenge at the transaction date exchange rate). Of the total consideration 46,687 thousand US Dollars (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 Group's share of UGL assets and liabilities of the joint venture at the acquisition date was as follows:

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

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

Acquisition of Karpovskyi Severnyi JSC ("KS JSC")

On December 23, 2011, KMG EP acquired a 100% interest in Karpovskyi Severnyi JSC ("KS JSC"). KS JSC is an oil and gas company, which has a license for the exploration of the Karpovskyi Severnyi 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 exploration license, upon fulfillment of certain conditions prior to the end of 2011, was extended to December 2014 from December 2012.

5. ACQUISITIONS (continued)

Acquisition of Karpovskyi Severnyi JSC ("KS JSC") (continued)

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

In thousands of Tenge	Fair values recognized on acquisition
Cash	16
Current assets	56,820
Non-current assets	10,049,257
	10,106,093
Current liabilities	240,519
Deferred tax liability	1,321,112
Non-current liabilities	58,616
	1,620,247
Net assets	**8,485,846**

The fair value of non-current assets includes the fair value of 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 334 million US Dollars (or 48,590,320 thousand Tenge at the transaction date exchange rate). Main activity 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:

In thousands of Tenge	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
Total assets	**53,951,550**
Borrowings	7,000,061
Deferred income tax liabilities	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
Total liabilities	**17,283,422**
Net assets	**36,668,128**
Goodwill arising on acquisition (Note 11)	11,922,192
Cash consideration	**48,590,320**
Cash paid	**(48,590,320)**
Net cash acquired with the subsidiary	**1,660,363**
Net cash outflow	**(46,929,957)**

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 had 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 cash generating units" (Note 11) and tested for impairment jointly with the Group's investment in MIBV.

6. DISCONTINUED OPERATIONS

"Aysir Turizm ve Inshaat A.S"

In 2012, the Group decided to sell its 75% interest in "Aysir Turizm ve Inshaat AS" ("Aysir").

The disposal of Aysir is due to be completed in 2013 and, as at December 31, 2012, final negotiations for the sale were in progress. At December 31, 2012 Aysir was classified as a disposal group held for sale and as a discontinued operation.

The results of Aysir for the years ended December 31, 2012 and 2011 are presented below:

In thousands of Tenge	**2012**	2011
Revenue	**2,607,719**	2,561,651
Cost of sales	**(2,712,880)**	(2,371,767)
Gross (loss) / profit	**(105,161)**	189,884
General and administrative expenses	**(150,539)**	(236,831)
Other operating income	**171,748**	12,327
Other operating expenses	**–**	(1,472)
Operating loss	**(83,952)**	(36,092)
Net foreign exchange gain / (loss)	**767,973**	(1,227,058)
Finance income	**8,621**	15,957
Finance costs	**(81,481)**	(122,937)
Profit / (loss) before income tax for the year from discontinued operation	**611,161**	(1,370,130)
Income tax benefit	**16,944**	16,944
Profit / (loss) after income tax for the year from discontinued operation	**628,105**	(1,353,186)

The major classes of assets and liabilities of Aysir, classified as held for sale as at December 31, 2012 are as follows:

In thousands of Tenge	**2012**
ASSETS	
Property, plant and equipment	**5,585,278**
Intangible assets	**3,559,560**
Inventories	**73,687**
Trade accounts receivable	**122,081**
VAT recoverable	**143,580**
Other current assets	**94,849**
Cash and cash equivalents	**539,668**
Assets classified as held for sale	**10,118,703**
Liabilities	
Borrowings	**1,404,942**
Deferred income tax liabilities	**540,540**
Trade accounts payable	**261,951**
Other non-current liabilities	**1,413,922**
Other current liabilities	**161,200**
Liabilities directly associated with the assets classified as held for sale	**3,782,555**
Net assets directly associated with the disposal group	**6,336,148**

6. DISCONTINUED OPERATIONS (continued)

«Aysir Turizm ve Inshaat A.S» (continued)

The net cash flows incurred by Aysir are as follows:

In thousands of Tenge	**2012**	2011
Operating	**459,484**	412,651
Investing	**(108,576)**	(125,905)
Financing	**(383,507)**	43,942
Net cash (outflow) / inflow	**(32,599)**	330,688

As of December 31, 2012 assets classified as held for sale include various assets of 1,102,930 thousand Tenge which are to be disposed of during twelve months after the reporting date.

7. CHANGE IN INVESTMENT OWNERSHIP INTERESTS

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

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

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

Consideration received from Karpinvest for 49% share in KS EP Investments amounted to 36,455,170 US Dollars (5,485,000 thousand Tenge). The resulting gain on disposal of investment amounted to 4,782,345 thousand Tenge. As a result of this transaction the KMG EP has derecognized the assets and liabilities of the former subsidiary, when the control was lost and recognized under the equity method its retained 51% interest in KS EP Investments at its fair value of 5,709,000 thousand Tenge.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. CHANGE IN INVESTMENT OWNERSHIP INTERESTS (continued)

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

8. RESTATEMENTS

In 2012 the Group made restatement of the consolidated statement of financial position as at December 31, 2011 and the related statement of comprehensive income for the year then ended due to recognition of Aysir as discontinued operation, as discussed in detail in Note 6 and due to contribution of share in Arkagaz by the Parent Company accounted for under pooling of interest method discussed below.

In 2012 the Parent Company transferred 100% share in Arkagaz in exchange for shares issued with nominal value of 4,109,246 thousand Tenge (Note 5). This business combination under common control was accounted for by applying the pooling of interest method.

Accordingly, the comparative statement of consolidated financial position as of December 31, 2011 and the consolidated statements of comprehensive income for the year then ended have been restated as required by IAS 1.

The effect of the change on comparative data is tabulated below.

Effect on financial position as of December 31:	**2011**
Increase in property, plant and equipment	3,746,534
Increase in non-current assets	**3,746,534**
Increase in inventories	18,763
Increase in VAT recoverable	4,473
Increase in income taxes prepaid	616
Increase in trade accounts receivable	34,848
Increase in other current assets	27,797
Increase in cash and cash equivalents	40,718
Increase in current assets	**127,215**
Increase in trade accounts payable	1,004
Increase in other current liabilities	12,922
Increase in current liabilities	**13,926**
Increase in net assets	**3,859,823**
Attributable to:	
Equity shareholder of the parent	**3,859,823**
Minority interest	–
	3,859,823

Net assets of Arkagaz as at January 1, 2011 comprised 2,600,843 thousand Tenge.

In 2011 Arkagaz recorded increase in charter capital of 1,335,366 thousand Tenge, which was accounted for as increase in additional paid in capital in 2011 by the Group.

The effect of the restatement related to the application of pooling of interest on the Group's performance for the year ended December 31, 2011 is tabulated below:

Effect on performance for the year ended December 31, 2011	
Increase in revenue	755,709
Increase in cost of sales	(714,217)
Increase in general and administrative expenses	(110,828)
Increase in transportation and selling expenses	(6,270)
Increase in other operating income	1,133
Increase in other operating expenses	(1,913)
Decrease in net profit for the year	**(76,386)**

9. PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improve-ments	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Net book value as at December 31, 2010	**1,336,640,559**	**215,523,404**	**445,153,318**	**185,153,194**	**194,819,247**	**57,678,632**	**29,465,836**	**86,940,949**	**2,551,375,139**
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	5,613,863	4,530,676	4,946,860	5,707,510	22,563,168	6,225,303	224,509,234	**428,727,683**
Acquisitions through business combinations	998,433	–	–	12,687,196	8,103,275	11,385,148	188,991	75,790	**33,438,833**
Disposals	(19,569,485)	(553,325)	(1,539,831)	(4,024,682)	(3,842,472)	(3,480,548)	(2,623,897)	(3,844,174)	**(39,478,414)**
Depreciation charge	(35,099,010)	(10,387,366)	(38,677,358)	(14,089,761)	(25,522,937)	(8,103,613)	(7,748,920)	–	**(139,628,965)**
Accumulated depreciation on disposals	8,595,453	518,388	754,761	958,200	2,698,591	2,310,059	1,838,763	–	**17,674,215**
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)	**–**
Net book value as at December 31, 2011	**1,524,394,482**	**222,497,450**	**431,506,995**	**191,532,054**	**189,547,670**	**84,860,984**	**30,012,956**	**163,013,174**	**2,837,365,765**
Foreign currency translation	40,839,045	–	4,891,706	1,649,202	376,373	363,581	57,699	(737,432)	**47,440,174**
Additions	143,071,562	53,988,108	4,949,890	2,436,759	7,381,641	10,203,637	4,358,717	280,774,482	**507,164,796**
Acquisition of interest in Karachaganak (Note 5)	294,642,852	–	–	–	–	–	–	–	**294,642,852**
Disposals	(12,084,435)	(228,602)	(2,082,281)	(4,561,680)	(2,409,089)	(2,266,836)	(2,755,402)	(4,248,355)	**(30,636,680)**
Depreciation charge	(48,809,051)	(12,040,104)	(37,285,130)	(13,641,808)	(26,664,372)	(10,534,751)	(8,854,482)	–	**(157,829,698)**
Accumulated depreciation on disposals	6,155,392	85,382	1,457,243	2,567,499	1,990,092	2,035,433	2,381,435	537,714	**17,210,190**
(Impairment provision) / reversal of impairment provision	(68,524,815)	–	186,238	(3,370,888)	(1,427,416)	(3,203,201)	(655,428)	(5,394,229)	**(82,389,739)**
Discontinued operation (Note 6)				(5,302,453)				(282,825)	**(5,585,278)**
Transfers from exploration and evaluation assets	2,770,340	–	–	–	–	–	–	–	**2,770,340**
Transfers to intangible assets	(769,679)	–	–	–	(45,877)	–	(58,431)	(3,369,302)	**(4,243,289)**
Transfers to assets classified as held for sale	(81,181)	–	(287,613)	–	(250,083)	(42,986)	(280,599)	(1,710,576)	**(2,653,038)**
Transfers and reclassifications	78,424,504	28,483,953	57,160,326	27,676,963	21,077,084	7,597,893	2,757,611	(223,178,334)	**–**
Net book value as at December 31, 2012	**1,960,029,016**	**292,786,187**	**460,497,374**	**198,985,648**	**189,576,023**	**89,013,754**	**26,964,076**	**205,404,317**	**3,423,256,395**

9. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improve-ments	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
At cost	2,287,091,863	361,850,426	625,876,778	291,210,707	324,938,523	135,270,824	56,607,869	216,886,899	4,299,733,889
Accumulated depreciation and impairment	(327,062,847)	(69,064,239)	(165,379,404)	(92,225,059)	(135,362,500)	(46,257,070)	(29,643,793)	(11,482,582)	(876,477,494)
Net book value as at December 31, 2012	**1,960,029,016**	**292,786,187**	**460,497,374**	**198,985,648**	**189,576,023**	**89,013,754**	**26,964,076**	**205,404,317**	**3,423,256,395**
At cost	1,739,895,397	279,478,404	560,244,737	271,395,201	298,671,010	119,874,312	60,216,493	171,486,124	3,501,261,678
Accumulated depreciation and impairment	(215,500,915)	(56,980,954)	(128,737,742)	(79,863,147)	(109,123,340)	(35,013,328)	(30,203,537)	(8,472,950)	(663,895,913)
Net book value as at December 31, 2011	**1,524,394,482**	**222,497,450**	**431,506,995**	**191,532,054**	**189,547,670**	**84,860,984**	**30,012,956**	**163,013,174**	**2,837,365,765**

In 2012, the Group capitalized borrowing costs at the average capitalization rate of 8.47% in the amount of 6,790,893 thousand Tenge relating to the construction of new assets (2011: 5,796,730 thousand Tenge at the average rate of capitalization of 5.81%).

As at December 31, 2012, items of property, plant and equipment with the net book value of 1,029,828,785 thousand Tenge (2011: 946,839,813 thousand Tenge) were pledged as collateral to secure borrowings and payables of the Group (Notes 20 and 21).

In 2012 the Group received from its Parent high, medium and low pressure gas pipelines and accompanying constructions, located in Mangistau, Kyzylorda and South-Kazakhstan regions for the total amount of 30,222,376 thousand Tenge (Note 19).

Impairment of property, plant and equipment

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

In 2011 the Group recognized net impairment of 31,715,436 thousand Tenge which is mainly attributable to impairment of property, plant and equipment of KazTransOil JSC ("KTO") for the total amount 13,469,618 thousand Tenge, the Rompetrol group ("TRG") for the total amount of 10,344,398 thousand Tenge and KMG-Service for the total amount of 5,220,193 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.

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.

10. EXPLORATION AND EVALUATION ASSETS

In thousands of Tenge	Tangible	Intangible	Total
Net book value as at December 31, 2010	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)**
Net book value as at December 31, 2011	133,479,700	26,832,769	**160,312,469**
Foreign currency translation	–	(135,909)	**(135,909)**
Additions	327,581	36,077,558	**36,405,139**
Transfer to property, plant and equipment	(2,770,340)	–	**(2,770,340)**
Loss of control in subsidiaries	(7,097,643)	(1,092,660)	**(8,190,303)**
Disposals	–	(336,888)	**(336,888)**
Net book value as at December 31, 2012	**123,939,298**	**61,344,870**	**185,284,168**

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 of 7,760,703 thousand Tenge relating to financing of exploration and evaluation activities at Tyub-Karagan field (2012: nil).

11. INTANGIBLE ASSETS

In thousands of Tenge	Goodwill	Marketing related intangible assets	Software	Other	Total
Net book value as at December 31, 2010	**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)	**–**
Net book value as at December 31, 2011	**135,061,655**	**27,004,212**	**15,175,881**	**20,711,042**	**197,952,790**
Foreign currency translation	(35,421)	429,865	58,570	286,846	**739,860**
Additions	–	–	4,564,214	2,914,932	**7,479,146**
Acquisition of interest in Karachaganak (Note 5)	–	–	–	1,130,800	**1,130,800**
Disposals	–	–	(308,035)	(487,889)	**(795,924)**
Amortization charge	–	–	(4,136,340)	(2,296,277)	**(6,432,617)**
Accumulated amortization on disposals	–	–	208,516	238,654	**447,170**
Discontinued operations (Note 6)	–	–	–	(3,559,560)	**(3,559,560)**
Transfer from construction in progress	–	–	742,581	3,500,708	**4,243,289**
Transfer from inventory	–	–	2,031	941	**2,972**
Transfers	–	–	3,837,665	(3,837,665)	**–**
Net book value as at December 31, 2012	**135,026,234**	**27,434,077**	**20,145,083**	**18,602,532**	**201,207,926**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. INTANGIBLE ASSETS (continued)

In thousands of Tenge	Goodwill	Marketing related intangible assets	Software	Other	Total
At cost	165,747,928	28,014,773	38,937,207	32,893,451	**265,593,359**
Accumulated amortization and impairment	(30,721,694)	(580,696)	(18,792,124)	(14,290,919)	**(64,385,433)**
Net book value as at December 31, 2012	**135,026,234**	**27,434,077**	**20,145,083**	**18,602,532**	**201,207,926**
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)**
Net book value as at December 31, 2011	**135,061,655**	**27,004,212**	**15,175,881**	**20,711,042**	**197,952,790**

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

Cash-generating unit	2012	2011
Refining	**11,091,084**	14,683,550
Downstream Romania	**6,680,222**	6,231,168
Dyneff	**5,198,138**	5,178,122
Other	**8,508,738**	5,420,763
Cash generating units of the Rompetrol group N.V.	**31,478,182**	31,513,603
Cash-generating units of Refinery Company RT LLP	**88,553,296**	88,553,296
Other	**14,994,756**	14,994,756
Total goodwill	**135,026, 234**	135,061, 655

Refining, Downstream Romania and Dyneff

In 2012 and 2011, no impairment was recognized on Refining, Downstream Romania, Dyneff and other cash generating units of TRG.

The recoverable amount of Refining and Downstream Romania units was determined based on the value in use using discounted cash flows from financial budgets approved by senior management covering a five-year period. In 2012, the discount rate applied to cash flow projections is 10.1% (2011: 10.4%) and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2011: 1.5%) that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 8.6% (2011: 8.9%).

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 2012, the discount rate applied to cash flow projections is 6.6% (2011: 6.7%) and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2011: 1.5%) that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 5.1% in 2012 (2011: 5.2%).

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

The key assumptions used in value in use 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 was applied to 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.

11. INTANGIBLE ASSETS (continued)

Refining, Downstream Romania and Dyneff (continued)

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

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

As at December 31, 2012, the break-even point for the current model is achieved under the decrease of operating profits by 67% for Refining, 80% for Downstream Romania and 23.6% for Dyneff units.

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 11.8% (2011: 12.8%) and cash flows beyond the five-year period are extrapolated using a 3.67% growth rate (2011: 3.3%). The capitalization rate used for residual values is 8.1% (2011: 9.5%).

Based on the tests no impairment has been identified in 2012 and 2011.

Key assumptions used in value-in-use calculations

The key assumptions used in value in use calculations for the above-mentioned are:

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

Volumes of crude oil and oil products output – are the forecasts of the Group with respect to the output of oil products during processing 1 ton of crude oil before and after modernization of Pavlodar Oil Chemistry JSC ("PNHZ").

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

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

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

Sensitivity to changes in assumptions

Results of the assessment of the recoverable amount of goodwill allocated to Refinery are sensitive to changes in key assumptions, including assumptions related to the change in the discount rate, as well as the value of the planned EBITDA in the terminal period.

Increase in the discount rate by 1% from 11.8% to 12.8% would result in the excess of the carrying amount of cash-generating unit over its recoverable amount by 21,708 million Tenge.

Lowering planned, in the terminal period, EBITDA values by 3% from 14.8% to 11.8% would result in the excess of the carrying amount of cash-generating unit over its recoverable amount by 107,810 million Tenge.

12. LONG-TERM BANK DEPOSITS

In thousands of Tenge	**2012**	2011
Denominated in US Dollar	**215,391**	186,255
Denominated in KZT	**2,272,124**	9,680,853
Denominated in EUR	**–**	41,860
	2,487,515	9,908,968

As at December 31, 2012, the weighted average interest rate for long-term bank deposits was 2.75% in US Dollars and 2.20% in Tenge (2011: 5.0% in US Dollars, 3.01% in Tenge and 4.00% in EUR).

In thousands of Tenge	**2012**	2011
Maturities between 1 and 2 years	**153,261**	7,917,541
Maturities over 2 years	**2,334,254**	1,991,427
	2,487,515	9,908,968

Long-term bank deposits as at December 31, 2012, include cash collateral pledge of 1,141,416 thousand Tenge (2011: 1,662,649 thousand Tenge).

13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	2012		2011	
In thousands of Tenge	**Book value**	**Ownership share**	Book value	Ownership share
Joint Ventures:				
Tengizchevroil LLP	**264,698,959**	**20.00%**	236,733,082	20.00%
Mangistau Investments B.V.	**176,949,392**	**50.00%**	112,313,687	50.00%
Kazakhoil-Aktobe LLP	**72,085,480**	**50.00%**	60,765,521	50.00%
Beineu-Shymkent Pipeline LLP	**71,959,310**	**50.00%**	70,348,225	50.00%
KazRosGas LLP	**63,423,836**	**50.00%**	164,437,515	50.00%
KazGerMunay LLP	**55,315,780**	**50.00%**	83,827,856	50.00%
Ural Group Limited BVI	**19,066,237**	**50.00%**	17,703,117	50.00%
Valsera Holdings B.V.	**18,511,433**	**50.00%**	17,654,144	50.00%
Kazakhtan-China Pipeline JSC	**12,011,596**	**50.00%**	3,431,884	50.00%
MunayTas JSC	**7,505,315**	**51.00%**	6,121,357	51.00%
JV Caspi Bitum LLP	**–**	**50.00%**	3,305,185	50.00%
Other	**28,368,047**		20,081,464	
Associates:				
PetroKazakhstan Inc. ("PKI")	**80,909,217**	**33.00%**	99,671,202	33.00%
Caspian Pipeline Consortium	**17,274,707**	**20.75%**	16,810,919	20.75%
Other	**6,017,730**		5,950,277	
	894,097,039		919,155,435	

As of December 31, 2012, the Group's share in unrecognized losses of joint ventures and associates amounted to 30,912,569 thousand Tenge (2011: 61,147,432 thousand Tenge).

As of December 31, 2012 the Group recognized impairment of investments to JV Caspi Bitum LLP in the amount of 2,944,216 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 14).

13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

As at December 31, 2012, dividends receivable from PKI amounted to 34,820,940 thousand Tenge (2011: 29,383,200 thousand Tenge).

The following table summarizes the movements in investments in 2012 and 2011:

In thousands of Tenge	**2012**	2011
At January 1,	**919,155,435**	696,881,032
Contributions	**8,793,659**	91,689,870
Share of profits	**471,086,475**	534,622,865
Dividends received	**(504,177,416)**	(401,000,520)
Change in dividends receivable	**(5,437,740)**	(9,926,400)
Impairment of investments	**(2,955,515)**	(51,796)
Foreign currency translation	**7,632,141**	6,940,384
At December 31,	**894,097,039**	919,155,435

The following table shows the dividends declared by associates and joint ventures in 2012 and 2011:

In thousands of Tenge	**2012**	2011
Joint Ventures:		
Tengizchevroil LLP	**243,858,102**	303,606,034
KazRosGas LLP	**142,995,621**	7,058,943
KazGerMunay LLP	**67,170,000**	36,627,000
Other	**2,143**	379,730
Associates:		
PetroKazakhstan Inc.	**55,238,136**	63,093,995
Other	**351,154**	161,218
	509,615,156	410,926,920

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

In thousands of Tenge	**2012**	2011
Aggregated assets and liabilities of joint ventures and associates as of December 31		
Current assets	**371,050,032**	429,111,574
Non-current assets	**1,751,008,602**	1,184,289,847
Current liabilities	**(280,200,185)**	(220,564,891)
Non-current liabilities	**(947,761,410)**	(473,681,095)
Net assets	**894,097,039**	919,155,435

In thousands of Tenge	**2012**	2011
Aggregated revenue and net profit of joint ventures and associates for the year		
Revenue	**1,558,147,264**	1,649,236,679
Net profit	**471,086,475**	534,622,865
Exchange differences on translation recognized directly in other comprehensive income	**7,632,141**	6,940,384

14. 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 KMG EP is contractually obliged to transfer any dividends received from CCEL, in excess of a Guaranteed Amount, to CITIC, up to the Total Maximum Amount, which amounts to 572.3 million US Dollars (86,273,195 thousand Tenge) as at December 31, 2012 (2011: 627.3 million US Dollars or 93,084,216 thousand Tenge). The Total Maximum Amount represents the balance of KMG EP's share of the original purchase price funded by CITIC plus accrued interest. KMG EP has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, KMG EP recognizes in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount on an annual basis until 2020, plus the right to retain any dividends in excess of the Total Maximum Guaranteed Amount. The carrying amount of this receivable at December 31, 2012, amounted to 119.7 million US Dollars (18,221,759 thousand Tenge) (2011: 129.2 million US Dollars or 19,499,294 thousand Tenge).

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 150 million US Dollars plus annual interest of 8% less the cumulative amount of the guaranteed payments received.

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

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

	2012	2011
Current assets	**26,616,427**	25,967,227
Non-current assets	**104,772,444**	112,996,459
	131,388,871	138,963,686
Current liabilities	**40,191,266**	42,148,678
Non-current liabilities	**91,197,605**	96,815,008
	131,388,871	138,963,686
Net assets	**–**	–

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

15. INVENTORIES

In thousands of Tenge	2012	2011
Materials and supplies	**86,918,791**	83,425,807
Refined products	**64,654,236**	69,241,137
Crude oil	**50,716,508**	42,219,938
Gas products	**12,865,282**	18,515,321
Less: write-down to net realizable value	**(11,873,544)**	(10,549,728)
	203,281,273	202,852,475

16. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

In thousands of Tenge	**2012**	2011
Prepaid and deferred expenses	**35,401,526**	49,129,572
Taxes recoverable	**19,805,144**	3,911,728
Other current assets	**91,817,051**	141,679,279
Less: allowance for impairment	**(11,997,533)**	(6,297,883)
Total other current assets	**135,026,188**	188,422,696

Trade accounts receivable	**238,061,651**	197,124,732
Less: allowance for impairment	**(18,774,866)**	(11,489,938)
Trade accounts receivable	**219,286,785**	185,634,794

As at December 31, 2012 and 2011 the above assets were non-interest bearing.

As at December 31, 2012 the Group has pledged trade accounts receivable of approximately 91,444,763 thousand Tenge as a collateral under its borrowings (2011: 26,832,204 thousand Tenge) (Note 20).

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

In thousands of Tenge	Individually impaired
As at December 31, 2010	**15,709,357**
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)
As at December 31, 2011	**17,787,821**
Charge for the year	13,539,891
Written off	(225,708)
Transfers to assets classified as held for sale	(771,845)
Foreign currency translation	569,919
Reinstatement	565,244
Recovered	(692,923)
As at December 31, 2012	**30,772,399**

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

			Past due but not impaired				
In thousands of Tenge	Total	Neither past due nor impaired	<30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
2012	**219,286,785**	**187,087,190**	**13,282,923**	**11,243,696**	**1,700,070**	**1,319,490**	**4,653,416**
2011	185,634,794	83,246,067	63,771,204	27,222,029	1,578,724	1,052,590	8,764,180

17. SHORT-TERM FINANCIAL ASSETS

In thousands of Tenge	**2012**	2011
Short-term bank deposits	**633,122,581**	446,515,495
Loans due from related parties	**32,262,570**	62,849,289
Less: allowance for impairment on loans to related parties	**(5,807,343)**	(5,808,693)
	659,577,808	503,556,091

17. SHORT-TERM FINANCIAL ASSETS (continued)

In thousands of Tenge	**2012**	2011
Short-term financial assets in US Dollars	**413,047,217**	321,111,501
Short-term financial assets in Tenge	**246,339,253**	176,171,505
Short-term financial assets in other foreign currencies	**191,338**	6,273,085
	659,577,808	503,556,091

As at December 31, 2012, the weighted average interest rate for short-term bank deposits was 2.21% in US Dollars, 4.06% in Tenge and 4.00% in other foreign currencies (2011: 4.09% in US Dollars, 3.29% in Tenge and 0.86% in other foreign currencies).

Loans due from related parties are stated at amortized cost.

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

In thousands of Tenge	Individually impaired
As at December 31, 2010	**5,794,542**
Charge for the year	14,151
As at December 31, 2011	**5,808,693**
Recovery of write off	(1,350)
As at December 31, 2012	**5,807,343**

18. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**2012**	2011
Term deposits with banks – Tenge	**120,933,758**	117,011,743
Current accounts with banks – Tenge	**90,815,360**	114,081,847
Term deposits with banks – US Dollars	**93,134,773**	222,109,017
Current accounts with banks – US Dollars	**86,329,779**	105,188,711
Current accounts with banks – other currencies	**12,058,545**	12,031,208
Term deposits with banks – other currencies	**7,982,589**	7,991,776
Cash-on-hand	**3,830,647**	3,538,551
	415,085,451	581,952,853

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, 2012, the weighted average interest rate for time deposits with banks was 0.7% in US Dollars and 1.95% in Tenge (2011: 1.33% in US Dollars and 1.17% in Tenge).

As of December 31, 2012, cash and cash equivalents include 33,714 thousand Tenge placed with BTA Bank JSC (2011: 189,318 thousand Tenge) and 84,666 thousand Tenge (2011: 2,024 thousand Tenge) placed with Temirbank JSC (Note 33).

19. EQUITY

Share capital

Total number of outstanding, issued and paid shares comprises:

	December 31, 2010	Issued in 2011	December 31, 2011	Issued in 2012	December 31, 2012
Number of shares issued	**388,974,019**	**26,513,508**	**415,487,527**	**102,670,272**	**518,157,799**
Par value of 500 Tenge	359,274,019	26,513,506	385,787,525	72,663,241	**458,450,766**
Par value of 5,000 Tenge	29,700,000	–	29,700,000	30,007,029	**59,707,029**
Par value of 838 Tenge	–	1	1	–	**1**
Par value of 858 Tenge	–	1	1	–	**1**
Par value of 704 Tenge	–	–	–	1	**1**
Par value of 592 Tenge	–	–	–	1	**1**
Number of shares paid	**385,571,721**	**29,915,806**	**415,487,527**	**102,670,272**	**518,157,799**
Par value of 500 Tenge	355,871,721	29,915,804	385,787,525	72,663,241	**458,450,766**
Par value of 5,000 Tenge	29,700,000	–	29,700,000	30,007,029	**59,707,029**
Par value of 838 Tenge	–	1	1	–	**1**
Par value of 858 Tenge	–	1	1	–	**1**
Par value of 704 Tenge	–	–	–	1	**1**
Par value of 592 Tenge	–	–	–	1	**1**
Share capital (000'Tenge)	**326,435,861**	**14,957,903**	**341,393,764**	**186,366,767**	**527,760,531**
Par value of 500 Tenge	177,935,861	14,957,901	192,893,762	36,331,620	**229,225,382**
Par value of 5,000 Tenge	148,500,000	–	148,500,000	150,035,145	**298,535,145**
Par value of 838 Tenge	–	1	1	–	**1**
Par value of 858 Tenge	–	1	1	–	**1**
Par value of 704 Tenge	–	–	–	1	**1**
Par value of 592 Tenge	–	–	–	1	**1**

As of January 1, 2011, 3,402,298 common shares were unpaid. In 2011, the 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 of 858 Tenge. In 2011, the Shareholder 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 31 December 2011, all authorized and issued shares were paid.

In 2012, the Company authorized for issue 106,663,243 common shares, of which 102,670,272 common shares were issued and paid, which comprised 72,663,241 common shares with par value of 500 Tenge per common stock, one common share with par value of 704 Tenge, one common share with par value of 592 Tenge and 30,007,029 common shares with par value of 5,000 Tenge for the total amount of 186,366,767 thousand Tenge. Additionally, 3,992,971 common shares were authorized but not issued. As consideration for these common shares, the Company received high, medium and low pressure gas pipelines and accompanying constructions, located in Mangistau, Kyzylorda and South-Kazakhstan regions for the total amount of 30,222,376 thousand Tenge, cash in the amount of 2,000,004 thousand Tenge, as well as 100% share of Arkagaz for the total amount of 4,109,246 thousand Tenge and 50% share of Final production sharing agreement interest managing company LLP ("FPSAIMC") for the total amount of 150,035,141 thousand Tenge.

As of December 31, 2012, 3,992,971 common shares were authorized but unissued.

Transactions with Parent Company

In 2011, the Company recognized 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 33).

In 2012, the Group recognised additional paid in capital in the amount of 4,688,102 thousand Tenge, which represents the fair value of gas pipelines contributed by the Parent Company in exchange for 5.615% share in Samruk-Energo JSC, the remaining interest of 94.385% share was owned by the Parent Company. In prior periods, the shares were fully impaired by the Group, and accordingly at the date of acquisition the carrying amount of shares was nil.

19. EQUITY (continued)

Transactions with Parent Company (continued)

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

Distributions to shareholder

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 in connection to the costs to be incurred with respect to the reconstruction of the Expo-Center in Moscow and increased provision with respect to costs to be incurred on construction of the History Museum by 1,070,562 thousand Tenge. Both provisions were recorded by the Group based on the Decree of the Government of the Republic of Kazakhstan, accordingly, the provisions were recognized as distribution to the Shareholder (Note 4).

In 2012, the Group increased the provision for the Expo-Center by 2,451,225 thousand Tenge and provision with respect to costs to be incurred on construction of the History Museum by 5,179,475 thousand Tenge and recognized distribution to the Shareholder accordingly. Additionally, in 2012, the Group recognized distribution to the shareholder in the amount of 13,537,062 thousand Tenge related to the Group's obligations on the transfer of the North-Caspian ecological base for oil spill response to the Ministry of Emergency Situations of the Republic of Kazakhstan.

Decrease in retained earnings of 637,832 thousand Tenge represents other distributions to the Parent.

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

Dividends

In 2012, Company accrued and paid dividends to its shareholder of 293.35 Tenge per common share totaling to 143,201,087 thousand Tenge (2011: 117.68 Tenge per common share totaling to 45,796,384 thousand Tenge).

In 2012, the Group paid dividends of 34,322,200 thousand Tenge to the holders of non-controlling interest in KMG EP (2011: 22,167,123 thousand Tenge).

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.

Non-controlling interest

In thousands of Tenge	**2012**	2011
KazMunaiGas Exploration Production JSC	**492,114,355**	502,935,028
Subsidiaries of Cooperative KazMunaiGaz U.A.	**59,322,890**	78,251,099
KazTransOil JSC	**29,178,181**	–
Subsidiaries of KazMunayGaz – refining and marketing JSC	**288,568**	277,074
Other	**243,325**	194,403
	581,147,319	581,657,604

In 2012, KMG EP, in accordance with the share repurchase program, increased its treasury stock by 2,205,813 preferred shares repurchased for 36,202,658 thousand Tenge (2011: 938,479 common shares repurchased for 15,762,657 thousand Tenge). The carrying value of the acquired non-controlling interest was 42,511,899 thousand Tenge as of December 31, 2012 (2011: 14,895,474 thousand Tenge). The difference of 6,309,241 thousand Tenge between the amount paid and the carrying value of acquired non-controlling interest was recognized in retained earnings in 2012 (2011: 867,183 thousand Tenge).

19. EQUITY (continued)

Non-controlling interest (continued)

As part of People's IPO program, KTO sold on Kazakhstan Stock Exchange on December 25, 2012 common shares of 38,463,559 at 725 Tenge per share for 27,886,080 thousand Tenge, and incurred consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge. The carrying value of minority interest recognized as a result of the transaction totaled 29,178,181 thousand Tenge. The difference between proceeds from issuance of shares and increase in minority interest in the amount of 1,857,818 thousand Tenge was charged to retained earnings.

20. BORROWINGS

In thousands of Tenge	2012	2011
Fixed interest rate borrowings	**1,560,512,307**	1,363,436,347
Weighted average interest rates	**8.01%**	8.13%
Variable interest rate borrowings	**503,135,858**	554,348,567
Weighted average interest rates	**4.89%**	8.92%
	2,063,648,165	1,917,784,914

In thousands of Tenge	2012	2011
US Dollar - denominated borrowings	**1,760,318,824**	1,631,878,747
Tenge - denominated borrowings	**265,733,278**	250,491,821
Euro - denominated borrowings	**36,642,633**	35,263,082
Other currency - denominated borrowings	**953,430**	151,264
	2,063,648,165	1,917,784,914

In thousands of Tenge	2012	2011
Current portion	**469,943,861**	282,941,427
Non-current portion	**1,593,704,304**	1,634,843,487
	2,063,648,165	1,917,784,914

The major changes in borrowings are discussed below:

In June 2012 for the purpose of acquisition of 5% share in Karachaganak (Note 5) through 50% in FPSAIMC, the Group, Agip Karachaganak B.V., BG Karachaganak Limited, Chevron International Petroleum Company, Lukoil Overseas Karachaganak B.V (further – Consortium) and FPSAIMC concluded a loan agreement for the total the amount of 1 billion US Dollars with the interest rate 1.25 times (Libor+3%) per annum. The principal is repaid in equal monthly installments from cash inflows from the project maturing within 3 years. Under this agreement the Group has undertaken to provide the collateral in the form of 5% share in the Project to the Consortium. The loan is also guaranteed by Samruk-Kazyna. As of 31 December 2012 the loan payable to the Consortium amounted to 130,193,957 thousand Tenge.

In 2010, the subsidiary of KMG RM, Atyrau Oil Refinery LLP ("ANPZ") entered in a credit line agreement in the amount of 1,063,660 thousand US Dollars with JSC Development Bank of Kazakhstan ("DBK"). The credit line is being used to finance the construction of the aromatic hydrocarbon complex. During 2012 ANPZ received 217,957 thousand US Dollars (equivalent to 32,689,859 thousand Tenge) (in 2011: 50,944,583 thousand Tenge). In 2012 ANPZ repaid interest accrued for 3,746,956 thousand Tenge (in 2011: 3,254,138 thousand Tenge). As at December 31, 2012 ANPZ's liabilities with respect to the principal amount and accrued interest payable under this credit line were equal to 82,704,877 thousand Tenge and 1,552,783 thousand Tenge, respectively (December 31, 2011: 50,226,083 thousand Tenge and 1,230,341 thousand Tenge, respectively). Repayments of principal amount will start in 2014.

20. BORROWINGS (continued)

In 2012 ANPZ concluded a loan agreement with DBK for the amount of 251,982 thousand US Dollars (equivalent to 37,936,173 thousand Tenge) for financing of construction of oil advanced processing plant. As at December 31, 2012 liabilities with respect to the principal amount and accrued interest payable under this credit line were equal to 37,636,020 thousand Tenge and 63,307 thousand Tenge respectively. In December 2012 ANPZ paid the commission for providing of loan for 347,284 thousand Tenge.

As at December 31, 2012 the total liabilities with respect to the principal amount and accrued interest payable on the loans from DBK were equal to 120,340,897 thousand Tenge and 1,616,090 thousand Tenge respectively (December 31, 2011: 50,226,083 thousand Tenge and 1,230,341 thousand Tenge, respectively).

During 2012, within the framework of the credit line agreement with fixed interest rate concluded between KMG RM and Halyk Bank JSC in 2011, KMG RM's subsidiary, Eurasia Munai Impex LLP ("EMI"), received 493,000 thousand US Dollars (equivalent to 73,511,230 thousand Tenge) of loan proceeds for recharge of working capital. As for December 31, 2012 the liability with respect to principal amount was fully repaid (December 31, 2011: 170,000 thousand US Dollars or 25,228,000 thousand Tenge).

In 2012 PNHZ, subsidiary of KMG RM, received 40,461,570 thousand Tenge of loan proceeds under the same credit line agreement between KMG RM and Halyk Bank JSC. As at December 31, 2012, KMG RM's liability with respect to principal and interest accrued were 32,100,108 thousand Tenge (December 31, 2011: nil).

During 2012, TRG entered into a loan agreement with 4 banks (JP Morgan, Citibank, Unicredit and RBS) for the total amount of 250,000 thousand US Dollars (equivalent to 37,277,500 thousand Tenge). As at December 31, 2012, TRG's liability with respect to principal and interest accrued amounted to 38,040,409 thousand Tenge (December 31, 2011: nil).

21. 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 1.78 billion US Dollars plus annual compound interest at LIBOR + 3%. This payable was pledged by the 8.48% interest acquired. As at December 31, 2012 the amortized cost of this payable was 339,549,990 thousand Tenge (2011: 320,926,724 thousand Tenge). As at December 31, 2012, the carrying value of pledged assets (property, plant and equipment and exploration and evaluation assets) was 694,500,483 thousand Tenge (2011: 622,925,027 thousand Tenge).

22. PROVISIONS

In thousands of Tenge	Asset retirement obligations	Provision for environment-tal liability	Provision for taxes	Other	Total
Provision as at December 31, 2010	**28,007,852**	**28,677,421**	**24,933,398**	**41,292,954**	**122,911,625**
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)**
Provision as at December 31, 2011	**27,336,165**	**27,332,206**	**22,936,104**	**45,311,807**	**122,916,282**
Foreign currency translation	784,107	257,302	2,975	(436,904)	**607,480**
Change in estimate	5,801,030	(1,342,439)	–	(315,899)	**4,142,692**
Unwinding of discount	1,957,837	1,669	–	20,767	**1,980,273**
Provision for the year	16,726,631	8,144,907	2,929,446	27,924,048	**55,725,032**
Acquisition of interest in KPO	7,500,461	–	–	–	**7,500,461**
Unused amounts reversed	–	(298,376)	(17,095,822)	(2,426,159)	**(19,820,357)**
Use of provision	(662,862)	(452,470)	(68,896)	(22,150,855)	**(23,335,083)**
Provision as at December 31, 2012	**59,443,369**	**33,642,799**	**8,703,807**	**47,926,805**	**149,716,780**

As of December 31, 2012 other provisions include provisions for construction of the History Museum in the amount of 6,349,501 thousand Tenge (2011: 19,786,849 thousand Tenge), provision for employee benefits in the amount of 18,423,207 thousand Tenge (2011: 15,497,387 thousand Tenge) for reconstruction of the Expo-Center in the amount of 6,191,005 thousand Tenge (2011: 3,799,020 thousand Tenge).

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

According to the Law of the Republic of Kazakhstan "On major pipelines", which came into force on July 4, 2012 KTO has a legal obligation to decommission the major pipeline (oil pipeline) at the end of its exploitation and perform activities to restore the environment, including land rehabilitation.

During 2012 KTO recognized provision on asset retirement obligation in the amount of 15,084,384 thousand Tenge. In 2012 unwinding of discount amounted to 446,653 thousand Tenge. As of 31 December 2012 the carrying value of the asset retirement obligation was equal to 15,531,037 thousand Tenge (31 December 2011: nil)

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

In thousands of Tenge	Asset retirement obligations	Provision for environmen-tal liability	Provision for taxes	Other	Total
As at December 31, 2012					
Current portion	971,466	3,489,231	8,703,807	21,434,458	**34,598,962**
Long-term portion	58,471,903	30,153,568	–	26,492,347	**115,117,818**
Provision as at December 31, 2012	**59,443,369**	**33,642,799**	**8,703,807**	**47,926,805**	**149,716,780**
As at December 31, 2011					
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**
Provision as at December 31, 2011	**27,336,165**	**27,332,206**	**22,936,104**	**45,311,807**	**122,916,282**

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

23. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

In thousands of Tenge	**2012**	2011
Advances received	**31,214,807**	82,909,494
Due to employees	**25,917,030**	19,740,194
Other	**60,609,020**	37,147,205
Total other current liabilities	**117,740,857**	139,796,893
Trade accounts payable	**227,115,792**	242,636,901

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

In thousands of Tenge	**2012**	2011
US Dollars	**86,573,645**	122,703,890
Tenge	**95,226,067**	81,993,003
Euro	**19,473,742**	10,408,567
Other currency	**25,842,338**	27,531,441
Total	**227,115,792**	242,636,901

As at December 31, 2012 and 2011, trade accounts payable and other current liabilities were not interest bearing.

24. OTHER TAXES PAYABLE

In thousands of Tenge	**2012**	2011
Rent tax on export of crude oil	**38,775,752**	34,583,219
VAT	**24,421,260**	9,605,120
Mineral extraction tax	**11,644,041**	16,330,085
Excise tax	**10,563,717**	14,056,049
Special fund on petroleum products	**1,237,425**	8,950,228
Other	**22,792,812**	15,372,983
	109,435,007	98,897,684

25. REVENUE

In thousands of Tenge	**2012**	2011
Sales of refined products	**1,984,033,304**	1,873,607,319
Sales of crude oil	**597,598,338**	470,620,218
Transportation fee	**221,792,093**	223,979,824
Sales of gas and gas products	**210,190,734**	192,157,149
Other revenue	**187,872,097**	155,856,829
Less: sales taxes and commercial discounts	**(241,068,075)**	(290,965,584)
	2,960,418,491	2,625,255,755

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. COST OF SALES

In thousands of Tenge	2012	2011
Materials and supplies	**1,511,873,610**	1,334,285,089
Payroll	**190,843,087**	157,294,367
Depreciation, depletion and amortization	**137,048,479**	118,666,714
Mineral extraction tax	**71,894,037**	78,693,473
Repair and maintenance	**31,455,163**	46,321,275
Electricity	**40,672,562**	35,579,646
Taxes other than on income	**16,120,832**	10,024,276
Other	**90,910,343**	55,196,284
	2,090,818,113	1,836,061,124

27. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	2012	2011
Payroll	**55,001,378**	54,043,585
Charitable donations	**15,108,428**	17,260,813
Depreciation and amortization	**13,793,293**	16,170,284
Fines and penalties	**8,926,661**	13,180,365
Taxes other than on income	**11,854,281**	11,893,158
Consulting services	**10,344,516**	11,807,457
Allowance for impairment of financial assets (Notes 16 and 17)	**12,845,618**	3,650,396
Other	**35,177,297**	36,906,243
	163,051,472	164,912,301

28. TRANSPORTATION AND SELLING EXPENSES

In thousands of Tenge	2012	2011
Rent tax on export of crude oil	**159,821,524**	149,771,267
Transportation	**110,787,751**	101,523,300
Customs duty	**43,676,023**	51,652,884
Payroll	**14,542,102**	17,107,169
Depreciation and amortization	**12,791,280**	11,595,903
Other	**19,078,146**	19,056,183
	360,696,826	350,706,706

29. FINANCE INCOME

In thousands of Tenge	2012	2011
Interest income on bank deposits and bonds	**22,746,233**	31,095,167
Interest income on loans given	**4,818,384**	8,239,335
Other	**1,459,823**	6,249,034
	29,024,440	45,583,536

30. FINANCE COSTS

In thousands of Tenge	**2012**	2011
Interest on loans and debt securities issued	**142,870,980**	153,741,549
Net loss on derivatives	**7,569,210**	6,552,302
Unwinding of discount on asset retirement obligations	**1,957,837**	1,949,720
Other	**16,785,779**	8,946,642
	169,183,806	171,190,213

31. SHARE OF PROFIT OF JOINT VENTURES AND ASSOCIATES, NET

In thousands of Tenge	**2012**	2011
Tengizchevroil LLP	**267,829,086**	303,405,253
Mangistau Investments B.V.	**64,635,705**	80,859,234
PetroKazakhstan Inc.	**34,564,355**	48,591,409
KazGerMunay LLP	**38,357,881**	40,117,425
KazRosGas LLP	**40,891,107**	39,395,621
Kazakhoil-Aktobe LLP	**11,319,959**	15,519,315
Share of profit of other joint ventures and associates	**13,488,382**	6,734,608
	471,086,475	534,622,865

32. INCOME TAX EXPENSE

Income taxes prepaid as at December 31, 2012 of 42,555,972 thousand Tenge (2011: 30,735,678 thousand Tenge) represent corporate income tax.

Income tax payable as at December 31, 2012 of 48,103,198 thousand Tenge (2011: 2,246,665 thousand Tenge) represents mainly corporate income tax.

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

In thousands of Tenge	**2012**	2011
Current Income tax:		
Corporate income tax	**123,816,147**	85,916,496
Excess profit tax	**31,138,908**	20,829,413
Withholding tax on dividends and interest income	**40,164,384**	46,973,636
Deferred Income Tax:		
Corporate income tax	**(18,397,961)**	(988,895)
Excess profit tax	**(3,785,659)**	207,498
Withholding tax on dividends and interest income	**4,194,881**	209,004
Income Tax Expense	**177,130,700**	153,147,152

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, joint ventures and associates registered in the Republic of Kazakhstan, which was provided for in prior years. However, during 2007-2012 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 has not managed to convince Tengizchevroil LLP and the tax authorities that withholding tax should not be applied. Therefore, management of the Group recognizes the deferred 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.

32. INCOME TAX EXPENSE (continued)

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate (20% in 2012 and 2011) to income tax expense was as follows for the years ended December 31:

In thousands of Tenge	2012	2011
Profit before income tax from continuing operations	**589,925,754**	633,214,279
Profit / (loss) before income tax from discontinued operation	**611,161**	(1,370,130)
Statutory tax rate	**20%**	20%
Income tax expense on accounting profit	**118,107,383**	126,368,830
Share of profit in associates and joint ventures	**(54,042,932)**	(61,383,668)
Other non-deductible expenses and non-taxable income	**42,600,944**	39,940,284
Other effects		
Excess profit tax	**31,138,908**	20,829,413
Withholding tax on interest income	**(9,979)**	1,432,731
Effect of different corporate income tax rates	**13,693,093**	1,393,840
Effect of change in income tax rates	**–**	(785,418)
Change in unrecognized deferred tax assets	**25,626,339**	25,334,196
	177,113,756	153,130,208
Income tax expense reported in the consolidated statement of comprehensive income	**177,130,700**	153,147,152
Income tax benefit attributable to a discontinued operation	**(16,944)**	(16,944)
	177,113,756	153,130,208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. 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:

In thousands of Tenge	2012 Corporate Income Tax	2012 Excess Profit Tax	2012 Withholding Tax	2012 Total	2011 Corporate Income Tax	2011 Excess Profit Tax	2011 Withholding Tax	2011 Total
Deferred tax assets								
Property, plant and equipment	15,159,014	2,419,596	–	**17,578,610**	(392,652)	–	–	(392,652)
Tax loss carryforwards	78,811,700	–	–	**78,811,700**	55,938,591	–	–	55,938,591
Employee related accruals	3,325,422	364,807	–	**3,690,229**	2,456,732	646,147	–	3,102,879
Impairment of financial assets	–	–	–	**–**	1,044,406	–	–	1,044,406
Environmental liability	70,739	–	–	**70,739**	3,927	–	–	3,927
Other	23,986,837	3,884,607	–	**27,871,444**	21,971,068	3,033,791	–	25,004,859
Less: unrecognized deferred tax assets	(80,012,140)	–	–	**(80,012,140)**	(54,385,801)	–	–	(54,385,801)
Less: deferred tax assets offset with deferred tax liabilities	(12,623,623)	(1,219,611)	–	**(13,843,234)**	(17,887,525)	(1,823,065)	–	(19,710,590)
Deferred tax asset	**28,717,949**	**5,449,399**	**–**	**34,167,348**	**8,748,746**	**1,856,873**	**–**	**10,605,619**
Deferred tax liabilities								
Property, plant and equipment	124,034,386	3,033,683	–	**127,068,069**	124,995,267	1,823,065	–	126,818,332
Undistributed earnings of joint venture	–	–	39,704,843	**39,704,843**	–	–	35,509,962	35,509,962
Other	1,616,751	–	–	**1,616,751**	4,965,143	2,007,205	–	6,972,348
Less: deferred tax assets offset with deferred tax liabilities	(12,623,623)	(1,219,611)	–	**(13,843,234)**	(17,887,525)	(1,823,065)	–	(19,710,590)
Deferred tax liability	**113,027,514**	**1,814,072**	**39,704,843**	**154,546,429**	**112,072,885**	**2,007,205**	**35,509,962**	**149,590,052**
Net deferred tax liability / (asset)	**84,309,565**	**(3,635,327)**	**39,704,843**	**120,379,081**	**103,324,139**	**150,332**	**35,509,962**	**138,984,433**

32. 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 80,012,140 thousand Tenge as at December 31, 2012 (2011: 54,385,801 thousand Tenge).

Tax losses carryforwards as at December 31, 2012 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, 2012 expire for tax purposes in 2022.

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

In thousands of Tenge	**2012 Corporate Income Tax**	**2012 Excess Profit Tax**	**2012 Withholding Tax**	**2012 Total**	2011 Corporate Income Tax	2011 Excess Profit Tax	2011 Withholding Tax	2011 Total
Net deferred tax liability / (asset) as at January 1,	**103,324,139**	**150,332**	**35,509,962**	**138,984,433**	**99,282,016**	**(57,166)**	**35,079,339**	**134,304,189**
Foreign currency translation	(76,073)			(76,073)	454,680	–	221,619	676,299
Discontinued operations (Note 6)	(540,540)			(540,540)	(557,484)			(557,484)
Additions through business combinations (Note 5)	–	–	–	–	5,133,822	–	–	5,133,822
Charge to consolidated statement of comprehensive income	(18,397,961)	(3,785,659)	4,194,881	(17,988,739)	(988,895)	207,498	209,004	(572,393)
Net deferred tax liability / (asset) as at December 31,	**84,309,565**	**(3,635,327)**	**39,704,843**	**120,379,081**	**103,324,139**	**150,332**	**35,509,962**	**138,984,433**

33. 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, 2012 and 2011:

In thousands of Tenge		Due from related parties	Due to related parties	Cash and deposits placed with related parties (Notes 17 and 18)	Borrowings payable to related parties (Notes 20)
Samruk-Kazyna entities	**2012**	**47,594,452**	**784,243**	**15,322,862**	**259,891,388**
	2011	149,674,570	1,343,514	364,818,457	260,618,595
Associates	**2012**	**55,542,866**	**1,321,554**	**–**	**–**
	2011	48,829,707	1,077	2,000,000	–
Joint ventures in which the Group is a venturer	**2012**	**53,899,492**	**38,836,399**	**–**	**–**
	2011	16,088,718	62,507,607	–	–

Due from related parties

As at December 31, 2012, due from related parties included bonds from the Parent Company at the amortized cost of 36,725,575 thousand Tenge (2011: 36,551,537 thousand Tenge). Bonds receivable with interest of 4% per annum mature in 2044. Effective interest rate on these bonds is 12.5% per annum. In addition, at December 31, 2011 due from Samruk-Kazyna entities included loan receivable from Samruk-Kazyna for the total amount of 108,102,483 thousand Tenge, which was fully repaid in 2012 and was included in current and non-current loans due from related parties in the statement of financial position as at December 31, 2011.

As at December 31, 2012 and 2011 due from associates mainly include dividends receivable from an associate - PKI.

At at December 31, 2012 and 2011 due from joint ventures mainly include trade accounts receivable originated in the normal course of business.

In addition, as at December 31, 2012 and 2011 due from associates and joint ventures include loans receivable, which are presented within long-term and short-term loans receivable in the statement of financial position.

Due to related parties

As at December 31, 2011 due to joint ventures include advances received of 34,873,488 thousand Tenge from KazRosGas LLP for supply of natural gas in 2012. As at December 31, 2012 due to joint ventures include payable to Asia Gas Pipeline LLP in the amount of 18,649,497 thousand Tenge.

Cash and deposits placed with related parties

Alliance Bank JSC, BTA Bank JSC and Temirbank JSC are controlled by Samruk-Kazyna. The Group placed its cash and cash equivalents at current bank accounts, term and demand deposits in these banks as disclosed in Notes 12, 17 and 18.

Halyk Bank JSC is not considered as a related party from January 6, 2012 as the ultimate controlling party of Halyk Bank JSC resigned from the key management position within the Group.

Borrowings payable to related parties

As at December 31, 2012, borrowings payable to related parties included bonds payable to Development Bank of Kazakhstan JSC, a subsidiary of Samruk-Kazyna, at the amortized cost of 103,208,006 thousand Tenge with interest charged at six-month LIBOR+8.35% per annum and maturing in 2019 (2011: 124,873,644 thousand Tenge).

As at December 31, 2012, borrowings payable to related parties included loans payable to Development Bank of Kazakhstan JSC at the amortized cost of 122,598,187 thousand Tenge with interest charged at LIBOR+4.5% to 9% per annum (2011: 51,456,424 thousand Tenge).

33. RELATED PARTY DISCLOSURES (continued)

Borrowings payable to related parties (continued)

As at December 31, 2011, borrowings payable to related parties included loans 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. 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.

The following table provides the total amount of transactions, which have been entered into with related parties during 2012 and 2011:

In thousands of Tenge		Sales to related parties	Purchases from related parties	Interest earned from related parties	Interest incurred to related parties
Samruk-Kazyna entities	**2012**	**46,727,806**	**26,164,521**	**9,162,905**	**12,193,687**
	2011	26,998,656	20,898,778	23,364,278	21,368,299
Associates	**2012**	**63,947,312**	**66**	**405,902**	**529,342**
	2011	428,019	10,431	12,667	–
Joint ventures in which the Group is a venturer	**2012**	**315,394,718**	**176,344,402**	**3,182,110**	**1,412,361**
	2011	121,980,624	172,652,631	114,480	–

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), KEGOC 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 4,308,944 thousand Tenge and 4,347,745 thousand Tenge for the years ended December 31, 2012 and 2011, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

34. 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, 2012 and 2011.

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.

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

Market risk (continued)

Currency risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant, of the Group's profit before income tax 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.

In thousands of Tenge	Increase / decrease in US Dollar rate	Effect on profit before tax
2012	**+1.57%**	**(26,203,450)**
	-1.57%	**26,203,450**
2011	+10.72%	(66,229,801)
	-10.72%	66,229,801

Interest rate risk

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

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

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

In thousands of Tenge	Increase / decrease in basis points	Effect on profit before tax
2012		
LIBOR	**+0.05%**	**(548,928)**
	-0.05%	**548,928**
2011		
LIBOR	**+0.15%**	**(768,652)**
	-0.15%	**768,652**

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 18. 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, trade accounts receivable, bonds receivable, loans and notes receivable and other financial assets, the Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

Credit risk (continued)

The table below shows the balances of major subsidiaries' cash and cash equivalents, short-term and long-term deposits (Notes 12, 17 and 18) held in banks at the reporting date using the Standard and Poor's and Fitch's credit ratings.

Banks	Location	Rating[1] 2012	Rating[1] 2011	2012	2011
Halyk Bank	Kazakhstan	BB- (stable)	BB (stable)	**328,749,165**	361,833,295
Kazkommertsbank	Kazakhstan	B+ (stable)	B+ (stable)	**168,238,877**	96,353,973
BNP Paribas	United Kingdom	A+ (negative)	AA- (negative)	**79,531,603**	42,464,110
HSBC	United Kingdom	AA-(stable)	AA-(stable)	**75,062,011**	81,842,866
Deutsche Bank	Netherlands	A+ (negative)	A+ (negative)	**72,117,709**	21,843,144
ATF Bank[2]	Kazakhstan	BBB (negative)	BBB (negative)	**49,001,255**	97,014,896
ING Bank	The Netherlands	A+ (stable)	A+ (stable)	**48,701,109**	6,887,287
Citibank	Kazakhstan	A (negative)	A (negative)	**34,758,912**	20,994,756
Citibank	United Kingdom	A (negative)	A (negative)	**21,992,597**	73,605,146
RBS Kazakhstan	Kazakhstan	A (stable)	A (stable)	**14,754,244**	35,300,912
Credit Suisse	British Virgin Islands	A (negative)	A+ (negative)	**12,366,246**	5,749,514
HSBC	Kazakhstan	BBB (stable)	BBB (stable)	**9,245,191**	15,485,614
BankCenterCredit	Kazakhstan	B+ (stable)	B (stable)	**7,141,721**	6,673,171
KazInvestBank	Kazakhstan	B-(negative)	B-(negative)	**4,907,507**	2,041,537
SberBank of Russia	Kazakhstan	BBB- (stable)	BBB- (stable)	**3,654,524**	19,654,445
BTA Bank	Kazakhstan	Caa2 (negative)	C (negative)	**33,713**	246,023
Deutsche Bank	Germany	A+ (negative)	A+ (negative)	**–**	19,523,872
Kaspi Bank	Kazakhstan	B- (stable)	B- (stable)	**31,278**	–
Other banks				**119,848,161**	129,946,259
Cash on hand				**559,724**	916,496
				1,050,695,547	1,038,377,316

Liquidity risk

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

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

[1] Source: Interfax – Kazakhstan, Factivia, official sites of the banks as at December 31 of the respective year
[2] ATF Bank is a member of UniCredit Group

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

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2012 and 2011 based on contractual undiscounted payments.

In thousands of Tenge	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after 5 years	Total
As at December 31, 2012						
Borrowings	33,343,532	97,572,373	559,409,024	988,871,761	986,711,844	**2,665,908,534**
Payable for the acquisition of additional interest in North Caspian Project and payable for acquisition of subsidiary	–	760,031	123,506,558	244,051,979	–	**368,318,568**
Trade accounts payable	52,964,583	68,988,334	105,162,875	–	–	**227,115,792**
Other liabilities	97,089,833	5,848,291	37378489	–	3,660,198	**143,976,811**
	183,397,948	**173,169,029**	**825,456,946**	**1,232,923,740**	**990,372,042**	**3,405,319,705**
As at December 31, 2011						
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	51,235,052	43,284,662	148,117,187	–	–	**242,636,901**
Other liabilities	2,562,047	14,746,572	30,630,623	2,747,520	99,302,602	**149,989,364**
	71,122,871	**152,942,078**	**372,430,870**	**1,189,566,282**	**1,223,166,435**	**3,009,228,536**

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 20 and equity, comprising issued capital, additional paid-in capital, other reserves and retained earnings as disclosed in Note 19.

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

The ratio at the year-end was as follows:

In thousands of Tenge	2012	2011* (restated)
Borrowings	**2,063,648,165**	1,917,784,914
Payable for the acquisition of additional interest in North Caspian Project and Payable for acquisition of subsidiary	**339,549,990**	327,310,197
Other liabilities composing net debt	**1,872,717**	2,507,349
Debt	**2,405,070,872**	2,247,602,460
Less: Cash and cash equivalents and short-term bank deposits	**1,048,208,032**	1,028,468,348
Net debt	**1,356,862,840**	1,219,134,112
Net capitalization *	**4,369,251,289**	3,801,494,607
Net debt to net capitalization	**31%**	32%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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:

In thousands of Tenge	Carrying amount		Fair value	
	2012	2011	**2012**	2011
Financial assets				
Cash and cash equivalents	**415,085,451**	581,952,583	**415,085,451**	581,952,583
Short-term financial assets	**659,577,808**	503,556,091	**659,577,808**	503,556,091
Dividends receivable from associate	**34,820,940**	29,383,200	**34,820,940**	29,383,200
Trade accounts receivable	**219,286,785**	185,634,794	**219,286,785**	185,634,794
Note receivable from the shareholder of joint venture (current and non-current portions)	**18,221,759**	19,499,294	**18,221,759**	19,499,294
Note receivable from associate	**20,721,926**	19,220,620	**20,721,926**	19,220,620
Bonds receivable from related party	**36,725,575**	36,551,537	**55,288,271**	54,961,922
Loans due from related parties	**16,637,532**	67,121,199	**16,637,532**	67,121,199
Long-term bank deposits	**2,487,515**	9,908,968	**2,487,515**	9,908,968
Financial liabilities				
Borrowings	**2,063,648,165**	1,917,784,914	**2,264,397,146**	2,095,975,945
Payable for the acquisition of additional interest in North Caspian Project	**339,549,990**	320,926,724	**339,549,990**	320,926,724
Payable for acquisition of subsidiary	**–**	6,383,473	**–**	6,383,473
Trade accounts payable	**227,115,792**	242,639,901	**227,115,792**	242,639,901
Other current and-noncurrent liabilities (excluding advances received)	**112,700,906**	69,559,486	**112,700,906**	69,559,486

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.

35. CONSOLIDATION

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

Significant entities	Percentage ownership	
	2012	2011
KazMunaiGas Exploration Production JSC and subsidiaries	**61.30%**	61.30%
KazTransGas JSC and subsidiaries ("KTG")	**100.00%**	100.00%
KazTransOil JSC and subsidiaries	**100.00%**	100.00%
KazMunayGaz – refining and marketing JSC and subsidiaries	**100.00%**	100.00%
KazMunayTeniz JSC and subsidiaries ("KMT")	**100.00%**	100.00%
KazMunayGas-Service LLP and subsidiaries	**100.00%**	100.00%
KMG Kashagan B.V. ("Kashagan")	**100.00%**	100.00%
Cooperative KazMunaiGaz 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 LLC and associate	**100.00%**	100.00%
Final production sharing agreement interest managing company LLP	**100.00 %**	–
KazMorTransFlot JSC	**100.00%**	100.00%

36. 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 22 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 cyclicality in industries.

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

A substantial or extended decline in commodity prices would materially and adversely affect the Group's business and the 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.

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, 2012.

As at December 31, 2012, 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.

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Transfer pricing control (continued)

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, 2012.

As at December 31, 2012 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Tax audit of KMG RM

On June 5, 2012, the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan completed a comprehensive tax audit of KMG RM for the period from 2006 through 2010 and assessed additional: a) CIT of 2,980,118 thousand Tenge with corresponding penalty for late payment of 1,599,317 thousand Tenge and; b) VAT of 693,464 thousand Tenge with corresponding penalty for late payment of 332,106 thousand Tenge. In addition, 1,490,059 thousand Tenge of administrative fine for CIT and 346,732 thousand Tenge for VAT might also be assessed. Additional CIT and VAT were assessed based on the article 82 of the Tax Code of the Republic of Kazakhstan effective as at January 1, 2008 and related to calculation of gain on disposal of KazMunaiGaz PKOP Investment B.V. and KazMunaiGaz PKOP Finance B.V. On July 17, 2012 KMG RM appealed the results of the tax audit to the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan. In November 2012, the KMG RM filed a lawsuit in Specialized Interdistrict Economic Court of Astana (SIEC) to appeal against the tax audit results. The SIEC issued a preliminary decision to reject the claim of, but KMG RM appealed the decision in February 20, 2013.

Management believes that the tax liability and late payment interest were assessed as a result of an incorrect interpretation of laws in force and it is not probable that the outflow of resources will be required to settle the obligation and therefore no tax provision has been made in these interim condensed consolidated financial statements.

Tax audit of KMG EP

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

KMG EP disagreed with the above assessments and filed an appeal to the Ministry of Finance. The management believes its interpretations of the tax legislation were appropriate. However, as management believes the outcome of the dispute is uncertain and further believes that it is more likely than not that the KMG EP may not be entirely successful in its appeals, due to the ambiguity contained in the tax legislation and a history of varying interpretations and inconsistent opinions of the authorities and courts, management has accrued for certain matters that arose in the assessment. As at December 31, 2012, existing provision for tax contains 9,619 million Tenge in respect of this matter, including principal of 4,158 million Tenge, fines of 2,307 million Tenge and late payment interest of 3,154 million Tenge. The management believes that the company will be successful in appealing the remaining balances of principal, fines, and late payment interest of the assessments.

In addition KMG EP has revised its previously estimated tax provisions in respect of 2006-2008 to bring them in line with the actual assessments made by the tax authorities. As a result the tax provision was also reversed by 8,801 million Tenge.

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Tax contingencies of Georgian entities (KTO)

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

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

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 2012, in accordance with their obligations, the Group delivered 2,936,917 tons of crude oil (2011: 2,811,271 tons) on the Kazakhstan market.

Commitments under oilfield licenses and contracts

As at December 31, 2012 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
2013	193,001,466	11,443,754
2014	153,777,707	4,357,627
2015	2,511,000	3,234,848
2016	61,309	3,276,886
2017-2024	–	12,620,780
Total	**349,351,482**	**34,933,895**

Other contractual commitments

As at December 31, 2012, the Group had other capital commitments of approximately 153 billion Tenge (2011: 214 billion Tenge) related to acquisition and construction of property, plant and equipment.

Cost recovery audit (Kashagan)

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

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

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Cost recovery audit (Kashagan) (continued)

Group considers that all recoverable expenditures are appropriately classified in accordance with the NCPSA and that those identified as recoverable expenditures are eligible for recovery as at 31 December 2012.

However, certain expenditures have not been approved by the ManCom in accordance with Sections 13 and 14 of the NCPSA. These expenditures are deemed to be non-recoverable costs for Kashagan until the ManCom approves them. Negotiations continue with the Authorized body to resolve these issues.

As a result of cost recovery audits performed for the period from 2001 to 2008 expenditures in the amount of 7,974,680 thousand US Dollars (1,202,103 million Tenge at December 31, 2012 exchange rate) were disallowed from cost recovery. Kashagan's share in the expenditures was 1,340,336 thousand US Dollars (202,042 million Tenge at December 31, 2012 exchange rate). As a result of the work performed by the contractors to resolve the comments, on 28 November 2011 the Authority body (PSA LLP) and the contractors signed the resolution, according to which the disallowed for recovery costs were reduced to 2,958,634 thousand US Dollars (445,984 million Tenge at December 31, 2012 exchange rate) with the Group's share amounting to 497,249 thousand US Dollars (74,955 million Tenge at December 31, 2012 exchange rate).

Within the framework of the Settlement Agreement signed on 17 May 2012 further negotiations with the Authorited body were concluded and resulted in the downward revision of the costs disallowed for recovery to 229,900 thousand US Dollars (34,655 million Tenge at December 31, 2012 exchange rate) with the Group's share amounting to 38,639 thousand US Dollars (5,824 million Tenge at December 31, 2012 exchange rate).

Cost recovery audit for the year 2009 was completed in 2012. As a result of the audit performed costs in amount of 875,000 thousand US Dollars (131,898 million Tenge at December 31, 2012 exchange rate) were disallowed for recovery, with Group's share amounting to 147,060 thousand US Dollars (22,168 million Tenge at December 31, 2012 exchange rate). Further negotiations are conducted to resolve the issue in favour of the contractors.

Convertible debt instrument and related litigations (TRG)

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 Euros. The instrument had seven years maturity and expired on September 30, 2010. Fair value of the debt component at the initial recognition was determined as the discounted future contractual cash payments under the instrument. Under the share ownership as of December 31, 2009 the Group would have lost control over Rompetrol Rafinare S.A., if the entire debt instrument was settled at September 30, 2010 by issuance of new shares to the Romanian State, without any further action by TRG and/or Rompetrol Rafinare S.A.

During the first half of 2010 in order to increase its interest in Rompetrol Rafinare S.A. the Group was required to make a public offer to all shareholders. In August 2010 Rompetrol Rafinare S.A. increased its share capital by issuance of new shares amounting to RON 329.4 million (equivalent of 78 million 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 Euros (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 retained earnings by 113,467,108 thousand Tenge and increase of non-controlling interest by 103,003,330 thousand Tenge in 2010.

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

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

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.

Furthermore, on November 17, 2010 the Ministry of Public Finance of the Romanian State issued a Summons and Forced Execution Title for the amount of RON 2,205,592,436 (for presentation purposes 516.3 million Euro 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. The hearing of the case had been suspended in June 2012 and can be resumed during one year period, until June 6, 2013.

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

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

- OPSPI will sell and the Rompetrol Rafinare S.A. will acquire shares owned by OPSPI and representing 26.6959% of Rompetrol Rafinare S.A.'s share capital for a cash consideration of 200 million US Dollars;
- TRG will invest in energy project related to its core activities an amount estimated at 1 billion US Dollars over 7 years;
- Ministry of Public Finance will drop all cases against the General Meeting of Shareholders decisions related to the conversion and will cancel the forced execution title.

The agreement is subject to proper approvals of each party's governing bodies.

As a result of the memorandum, the parties agreed the suspension of the court proceedings, in order to allow the time to implement the memorandum, which was acknowledged by the court on February 18, 2013.

Changes to Concession Agreement (ICA)

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

In July 30, 2012 the Committee and ICA signed the additional agreement to the Agreement, reflecting the arrangements achieved on additional Agreement charges for 2011 in the amount of 3,058,651 thousand Tenge to be paid in 2012 and additional Agreement charges for 2012 to be paid in 2013 in the amount of the difference between 25% of ICA's net income for the year ended 2012 and the fixed amount of 2,082,287 thousand Tenge agreed earlier. Additional Agreement charges for 2011 in the amount of 3,058,651 thousand Tenge and for 2012 in the amount of 1,242,266 thousand Tenge were recognized in the consolidated statement of comprehensive income within 'cost of sales' line. Additional charges for 2012 were outstanding as at December 31, 2012.

Prior to December 31, 2005, ICA 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 ICA signed the contract for amendments (the "Amendments") to the Agreement. According to the 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, ICA shall pay 2,082,287 thousand Tenge per annum.

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Investment and other obligations under the Agreement (ICA)

Investments for the improvements of gas transportation assets

Under the terms of the Agreement, the Group has an obligation to invest 30 million US Dollars each year (4,452,000 thousand Tenge at 150.74 Tenge to 1 US Dollar as at December 31, 2012) for the improvement and repair of the gas transportation assets transferred and for investments in new gas transportation assets. As at December 31, 2012 the Group had approximately 52,329,902 thousand Tenge in contractual commitments related to this investment obligation (2011: 34,101,866 thousand Tenge).

This investment obligation is contingent upon the fulfillment of certain conditions. One of them is that the physical throughput of gas remains stable or increases from its 1996 level and, that the ongoing business conditions of gas transport contracts with foreign customers remains on as favorable terms as they were prior to establishment of the Agreement. If gas tariffs and cash payment defaults by customers make it impractical to carry out improvement and investment, the Group is entitled to apply to the Government of Republic of Kazakhstan for an adjustment of the domestic tariff or an adjustment to the level of its investment obligations. As at December 31, 2012 the Group complied with these conditions.

Royalty (ICA)

From July 17, 1997, the Group is obliged to pay a royalty to the Republic of Kazakhstan amounting to approximately 2% of the throughput of gas in the Western System. However, in accordance with the Agreement, this payment is only due and payable for the Western System after the issue of the Government of Republic of Kazakhstan Resolution or order of the Ministry of Finance advising the customers of the Western System of their obligation to pay the royalty to the Group. As at December 31, 2012, no such decree had been issued. Due to the uncertainty surrounding the implementation of the royalty, the Group has to date not been charging royalty to its customers.

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

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

Kyrgyz By-Pass (ICA)

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

Management believes that they have taken all necessary steps to fulfill the Group's obligations in this respect, as well as considering the issue of taking into management a part of gas-pipeline belonging to the Kyrgyz Republic. However, the new domestic tariffs which, per the Agreement, are a precondition for the commencement of construction of the Kyrgyz By-Pass have not been published as at December 31, 2012.

The Government of the Republic of Kazakhstan reviews the Group's compliance with its obligations under the Agreement, including the fulfillment of the investment commitments. The review of the Group's compliance with its obligations under the Agreement for 2012 will be performed in 2013. The management believes that as at December 31, 2012 the Group is in compliance with investment requirements.

Borrowed gas (KTG)

During 2012 and 2011 KTG, the subsidiary of the Group, borrowed gas from PetroChina International Company Limited for provision of Almaty city with gas during winter season. According to the agreement in the case the Group does not return borrowed gas in defined time, the Group will pay for the gas the amount of 340 US Dollars per thousand m3. As of December 31, 2012, potential commitment of the Group equalled to 30,401,257 thousand Tenge.

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Litigations related to TRG

As of December 31, 2012 TRG was engaged in litigations against Competition Council of the European Union and SC Bioromoil SRL for a total amount of 7.6 billion Tenge and 4.7 billion Tenge, respectively. Per representation obtained from lawyers of TRG, Management of the Group believes that it has a strong basis to win the mentioned litigations and assessed the risks relating to these issues as possible.

37. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. SEGMENT REPORTING (continued)

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2012:

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

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.

37. SEGMENT REPORTING (continued)

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

In thousands of Tenge	Exploration and production of oil and gas	Transportation of oil	Transportation of gas	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	10,914,737	135,211,776	251,507,308	2,175,650,269	51,971,665	–	**2,625,255,755**
Revenues from sales to other segments	710,279,432	25,056,829	192,277	26,159,084	26,866,816	(788,554,438)	–
Total revenue	**721,194,169**	**160,268,605**	**251,699,585**	**2,201,809,353**	**78,838,481**	**(788,554,438)**	**2,625,255,755**
Gross profit	**486,028,968**	**56,672,275**	**79,647,611**	**186,274,953**	**16,971,609**	**(36,400,785)**	**789,194,631**
Finance income	28,970,818	4,850,728	4,127,194	2,216,493	105,171,824	(99,753,521)	**45,583,536**
Finance costs	(20,480,195)	(1,666,925)	(9,583,796)	(33,744,854)	(137,673,168)	31,958,725	**(171,190,213)**
Depreciation, depletion and amortization	(38,975,229)	(19,630,391)	(19,617,405)	(62,385,062)	(5,824,814)	–	**(146,432,901)**
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)	(58,911,399)	–	**(153,147,152)**
Net profit for the year	**284,173,194**	**29,231,829**	**71,483,360**	**(35,674,775)**	**201,957,877**	**(72,457,544)**	**478,713,941**
Other segment information							
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	52,639,477	51,719,208	74,254,840	51,494,776	(3,809,416)	**498,982,890**
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)**
Assets of the segment	**2,333,593,180**	**347,222,289**	**590,770,320**	**683,722,253**	**3,064,680,311**	**(841,939,579)**	**6,178,048,774**
Liabilities of the segment	**715,553,134**	**91,552,256**	**201,875,969**	**793,461,468**	**1,925,768,971**	**(714,181,123)**	**3,014,030,675**

38. SUBSEQUENT EVENTS

In relation to a credit facility provided by BNP Paribas (Suisse) SA of 865 million US Dollars to co-borrowers Vector Energy AG and TH KMG AG, an applicable financial covenant was not complied with as of December 31, 2012. In February 2013 an amount of 19.5 million US Dollars was provided by The Rompetrol Group NV as a hybrid loan to Vector Energy SA, and this reduced the amount to resolve the non-compliance with effect from January 1, 2013. On March 6, 2013 BNP Paribas (Suisse) SA sent a notification to Vector Energy AG / TH KMG AG requesting, in accordance with agreed terms and conditions, that resolution of the remaining 5.2 million US Dollars for compliance with the financial covenant should be reached by April 6, 2013 (one month from notification). Group management is taking action to resolve this matter by the required date.